M&AInsights

Media Sector

2007

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

*connectedthinking

PRICEWATERHOUSECOOPERS

Welcome

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Welcome to the fifth edition of Media M&A Insights from PricewaterhouseCoopers. As always, in this publication 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 2007 and beyond.

Media M&A again showed itself as a healthy market in 2006, 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 175. Other key themes in 2006 included consolidation within the traditional print sector and significant growth in demand for broadcasters in emerging economies.

During 2006 the Corporate Finance team at PricewaterhouseCoopers had a very busy year, most recently advising 3i on the disposal of Precise Media Group to Phoenix Equity Partners for €63 million. We also advised Candover on its acquisition of EurotaxGlass's Guides (€450 million) and BoSIF on the MBO of Vue Entertainment (€496 million). In addition we completed the acquisition of Primelocation.com by DMGT(€68 million) and the disposal of Email4Property to Trinity Mirror.

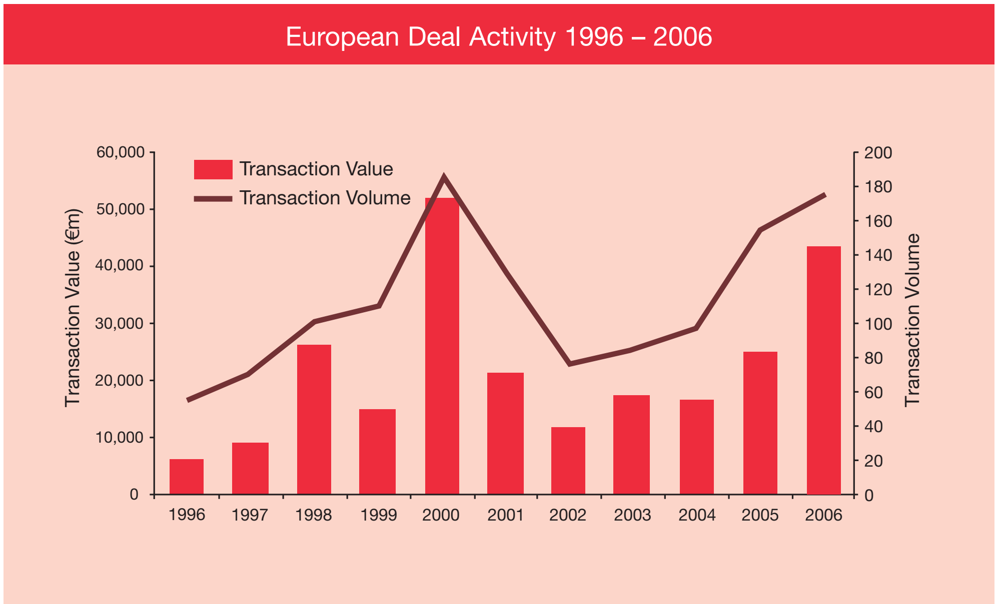
The Transaction Services media team has also been very active throughout 2006. In the publishing sector work included conducting financial due diligence for Apax and Exponent on their respective acquisitions of Incisive Media and TSL (Times Educational Supplement), additionally providing vendor, commercial and financial due diligence in relation to TPI Yellow Pages in Spain and VNU Business Media Europe. In the broadcasting sector we undertook the vendor due diligence on All3Media for Bridgepoint and provided buyside financial and commercial support for Doughty Hanson on TV3 and Setanta. We provided commercial due diligence to Carlyle in the acquisition of online Search Engine Marketing agency, Global Media and reviewed online property and other verticals for trade and Private Equity bidders.

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.

Deal values rocket

Last year saw a significant increase in M&A activity in the European media sector, continuing the upward trend begun in 2003.



This chart covers M&A transactions completed between 1996 – 2006, 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 volume of media deals completed in the UK and mainland Europe last year increased by 12 per cent to 175 transactions compared with 156 in 2005. Deal volumes were back almost to the levels seen at the market's peak in 2000 when 186 transactions were recorded.

A similar story emerged on the value front last year, with the combined value of European media deals surging to €43 billion – a 75 per cent increase on 2005 when deals totalled €25 billion.

This leap was due to a number of mega-deals in continental Europe with no fewer than seven €1 billion-plus deals completed last year (2005 – four). Leading the field was the €7.7 billion acquisition of VNU by Valcon Acquisition, followed by the purchase of an outstanding 25 per cent stake by Bertelsmann in Germany for €4.5 billion and KKR's LBO of Pages-Jaunes Groupe in France for €3.3 billion (as at 31 Dec 2006 a tender offer had been submitted for the remainder of the share capital).

Major European Deals 2006

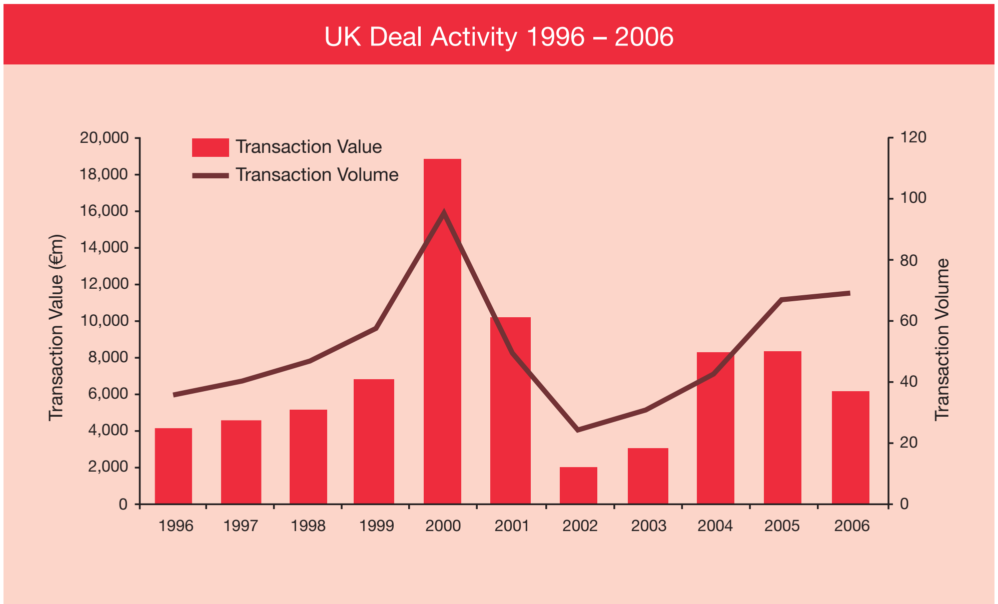
Date	Value (€m)	Target	Target Country	Acquiror	Acquiror Country
Jun 06	7,655	VNU	Netherlands	Valcon Acquisition	US
Jul 06	4,500	Bertelsmann (25%)	Germany	Bertelsmann	Germany
Oct 06	3,312	PagesJaunes Groupe*	France	Kohlberg Kravis Roberts	US
Apr 06	3,288	Telefónica Publicidad e Información	Spain	Yell Group	UK
Dec 06	3,015	ProSiebenSat.1 Media (51%)**	Germany	Permira/Kohlberg Kravis Roberts	UK/US
Nov 06	1,388	ITV (18%)	UK	British Sky Broadcasting Group	UK
Oct 06	1,130	Television Par Satellite	France	Vivendi Universal	France
Mar 06	988	Sogecable (20%)	Spain	Grupo Prisa	Spain
Oct 06	876	Orkla Media	Norway	Mecom Group	UK
Nov 06	865	Sportfive	France	Lagardere	France

Source: Dealogic, M&A Global
*Tender offer submitted for the remainder of the share capital
**Pending as at 31 Dec 2006

UK in low gear

Despite the buoyancy in the European media M&A market as a whole last year, there was a marked contrast between the growth in deal activity seen on the Continent and the situation in the UK.

The UK was far more subdued, with deal volumes increasing by just 3 per cent last year bringing the transaction total to 69 compared with 67 in 2005. The aggregate value of these deals, meanwhile, dropped by 25 per cent to €6.2 billion from €8.2 billion in 2005.



This chart covers M&A transactions completed between 1996 – 2006, involving stakes greater than 10%, where the target was from the UK and the deal value was disclosed and greater than €10 million.

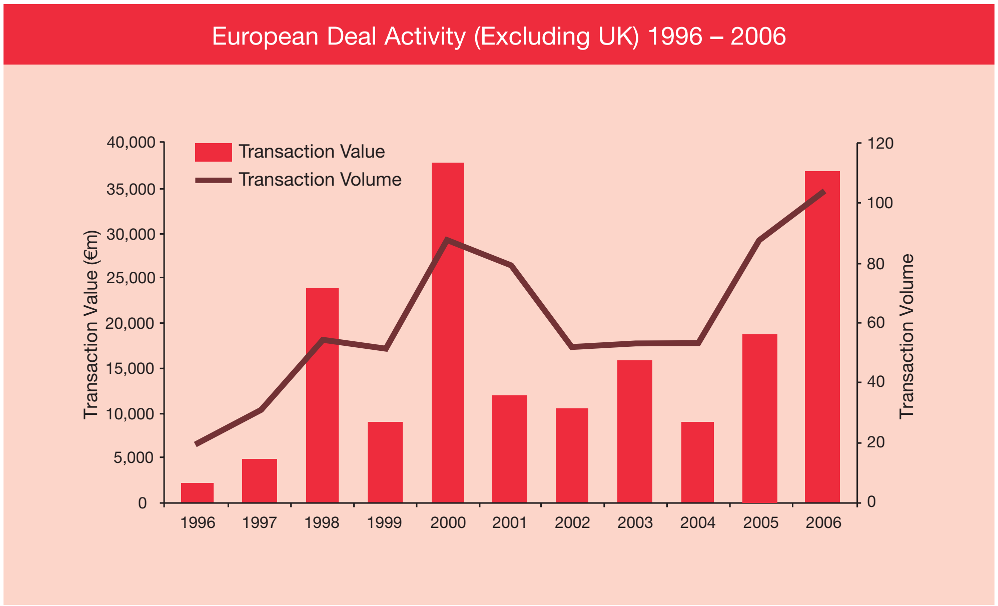
Source: Dealogic, M&A Global

Record year in continental Europe

While the UK was becalmed, deal activity in mainland Europe last year reached its highest level ever – surpassing even the boom year of 2000.

Deal volumes on the Continent increased to 104 transactions compared with 89 in 2005. The combined value of these deals rose by 123 per cent to top €37 billion, compared with €16 billion in 2005.

Encouragingly, the major deals were shared out across Europe with large – ie €500 million-plus – deals taking place in the Netherlands, Germany, Spain, France, Norway and Russia. This illustrates just how wide and deep the media M&A market in mainland Europe has now become. However, the region still remains less developed and less mature than the UK and therefore generally offers strong growth prospects.



This chart covers M&A transactions completed between 1996 – 2006, involving stakes greater than 10%, where the target was from Europe, excluding the UK, and the deal value was disclosed and greater than €10 million.

Source: Dealogic, M&A Global

Led by western European companies seeking to take stakes in central and eastern European businesses, the broadcasting segment was particularly active last year. The German publisher Axel Springer acquired a 25.1 per cent stake in Polsat – Poland's leading private television broadcaster – in a deal worth €250 million at the end of 2006 having already secured a 25 per cent stake in Dogan TV – the television arm of Turkey's largest media company, Dogan Yayin Holding – for €375 million.

Following a hectic bidding contest with rival offers from Dogan TV and Goldman Sachs, and an aborted offer from Axel Springer (following intervention by the German regulators); a majority stake in ProsiebenSat.1 Media was ultimately sold by US media tycoon Haim Saban to a PE consortium comprising Permira and KKR for some €3 billion. A public tender offer for the remaining shares is to follow in 2007.

Despite the lack of sizeable UK-target deals, UK corporates and PE firms kept themselves busy buying abroad last year, primarily in mainland Europe. Alongside Permira's stake in Prosieben, 2006 saw Yell's €3.3 billion purchase of Telefónica Publicidad e Información in Spain; the €876 million acquisition of Orkla Media in Norway by the UK-based newspaper publisher Mecom Group – the investment vehicle of former Mirror Group Chief Executive David Montgomery; and Bridgepoint's €500 million acquisition of Dorna Sports in Spain.

UK – partial eclipse?

Somewhat eclipsed by the media bid bonanza taking place on the Continent last year, the largest UK deal in 2006 was the controversial €1.4 billion acquisition by the satellite broadcaster BSkyB of an 18 per cent stake in ITV. The largest outright purchase in the UK was that of EurotaxGlass's Guides by Candover for €480 million.

The UK has been becalmed by a number of factors including concerns over the strength of the consumer media market manifested in, for example, the aborted €1.9 billion disposal of Daily Mail & General Trust's (DMGT) regional newspapers.

In addition, there were several unsuccessful attempts to buy large UK media assets such as ITV and EMI. EMI, the major worldwide music publishing business, rejected an unsolicited €3.7 billion PE takeover bid.

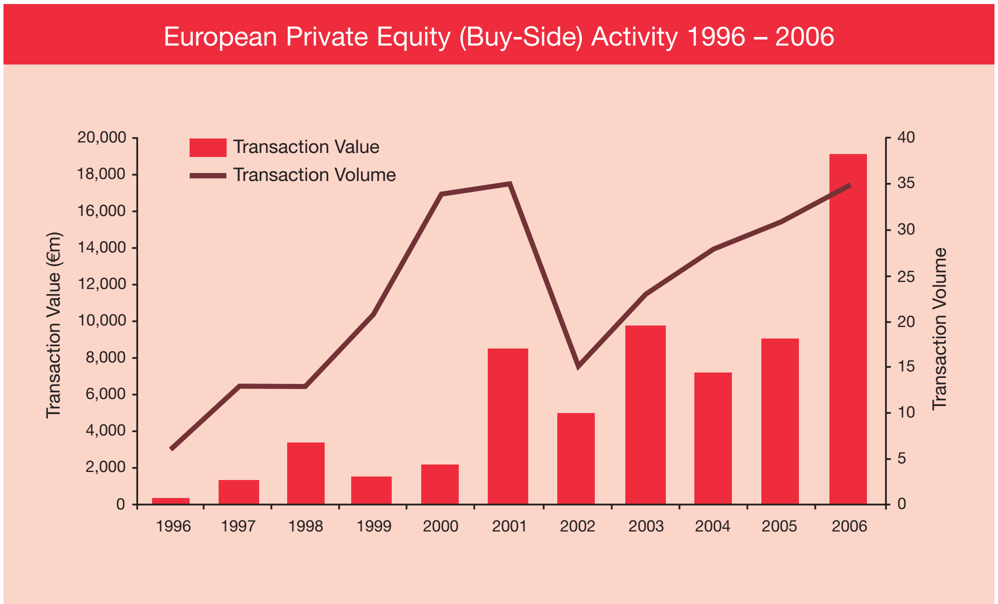
Meanwhile, BSkyB's acquisition of a significant stake in ITV was widely seen as a way of scuppering a planned €7.5 billion bid for the beleaguered broadcaster – which was under pressure having been hit by declining advertising revenue – from NTL-Telewest. Earlier reports also suggested that Germany's RTL might have been planning to make a bid for ITV.

Alongside these tantalising 'nearly' deals, the UK media market was not helped by the limited interest displayed last year by US acquirers. While the weak dollar has lately been making UK assets appear expensive, issues with dissident shareholders on the home front – such as Carl Icahn's attempt to force a break-up on Time Warner – have been focusing US corporate attention on domestic house-keeping rather than international expansion.

But with speculation continuing to surround a number of larger UK media players – including EMI, Trinity Mirror and Emap; and with a merger between UTV and Scottish Media Group (SMG) possibly back on the cards, 2007 looks set to be livelier.

Private Equity raises the bar

Private Equity (PE) investment in the European media sector continues to grow at a rapid rate with MBOs/LBOs/IBOs at their highest levels yet. Last year saw 35 transactions in the sector supported by PE capital totalling €19 billion – up 13 per cent by volume and 111 per cent by value on 2005.



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Source: Dealogic, M&A Global

PE houses accounted for 44 per cent of the aggregate value of deals in Europe's media sector during 2006 (compared with 36 per cent in 2005). PE firms were responsible for three of the four largest European media deals of the year, namely the acquisitions of VNU; Pages-Jaunes Groupe; and ProSiebenSat.1 Media.

This trend has also been reflected in the US which saw one of the largest Private Equity transactions of all time when a consortium led by Bain Capital and Thomas H Lee purchased Clear Channel for €20.6 billion. Fighting off competing attention from a Kohlberg Kravis Roberts/Blackstone Group partnership, the PE houses secured control of a company boasting 1,150 radio stations and 42 TV stations in the US, as well as Clear Channel Outdoor Holdings, the largest outside advertiser in the UK.

As PE funds grow ever larger, so PE houses have increasingly large targets in their sights. Since listed corporates are finding it difficult to justify major acquisitions to their shareholders and are having to content themselves with add-ons and in-fills, the path to the attractive assets has been clearer for the PE players. More public-to-private (PTP) deals are also expected going forward.

2006 was a strong year for Private Equity exits; eight deals over €200 million were recorded, compared to just five in the previous year. Further reinforcing the healthy appetite of the Private Equity market, it is significant to note that half of the major exits during 2006 went to secondary buyouts.

Major European Private Equity Exits 2006

Date	Value (€m)	Target	Target Country	Acquiror	Acquiror Country	Private Equity Sellers
Dec 06	3,015	ProSiebenSat.1 Media*	Germany	Permira/KKR	UK/US	Saban Capital Group
Nov 06	865	Sportfive	France	Lagardere	France	Advent International Corp/ Goldman Sachs Capital Partners
Jul 06	500	Dorna Sports	Spain	Bridgepoint Capital	UK	CVC Capital Partners
May 06	480	EurotaxGlass's Guides	UK	Candover	UK	HM Capital Partners
Aug 06	468	All3Media	UK	Permira	UK	Bridgepoint
May 06	350	Groupe Moniteur	France	Bridgepoint	UK	Sagard Private Equity Partners/Dexia
Sep 06	323	Karneval Media	Czech Republic	Liberty Global	US	Baring Private Equity/EMP Europe/ Mid Europa Partners
Sep 06	205	Financial Dynamics	UK	FTI Consulting	US	Advent International Corp
Sep 06	150	Mergermarket	UK	Pearson	UK	New Media Spark/Beringea
Jan 06	146	ClarityBlue	UK	Experian	UK	ECI Partners

Source: Dealogic, M&A Global
*Pending as at 31 Dec 2006

Online attracts attention

M&A in the online media segment continued to grow in volume terms in Europe last year with 19 transactions – one up on 2005. The combined value of these deals was €1.3 billion, compared with €4.2 billion in 2005.

Major Deals in the Online/Digital Sector 2006

Date	Value (€m)	Target	Target Country	Acquiror	Acquiror Country
Mar 06	304	uSwitch	UK	E.W. Scripps Company	US
Mar 06	196	LB Icon	Sweden	Framfab	Sweden
May 06	155	TradeDoubler AB (17%)	Sweden	Market Purchase - various investors	n/a
Sep 06	150	Mergermarket	UK	Pearson	UK
Apr 06	115	LOVEFiLM	UK	Video Island (Merger)	UK
Oct 06	70	eFinancialCareers	UK	Dice	US
May 06	68	Allegran & Data Media Retail	UK	DMGT	UK
Jul 06	50	MyHome.ie	Ireland	Irish Times	Ireland
Dec 06	50	Bigmouthmedia*	UK	Global Media	Germany
May 06	33	Directinet	France	IPT	UK

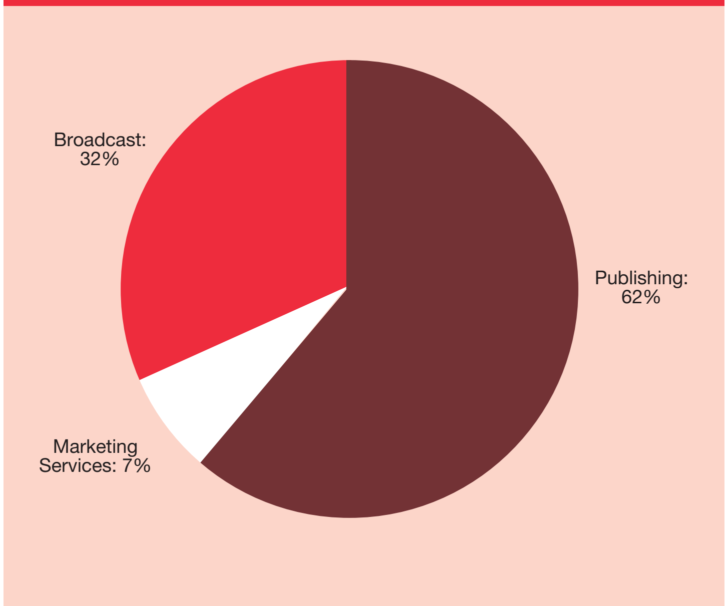
Source: Dealogic, M&A Global
*Pending as at 31 Dec 2006

Although online 'mega-deals' were in short supply – the largest was the €304 million acquisition of the UK utilities price information site uSwitch by EW Scripps of the US – the number of deals weighing in at over €100 million in 2006 increased to five from four the previous year.

Newspaper groups continue to embrace the internet through online acquisitions to counteract the threat it poses to their traditional advertising revenues. However, there is still scope for them to boost their online offerings further and more deals in the online sector are anticipated.

Sector Analysis

2006 European Deal Value per Sub-Sector



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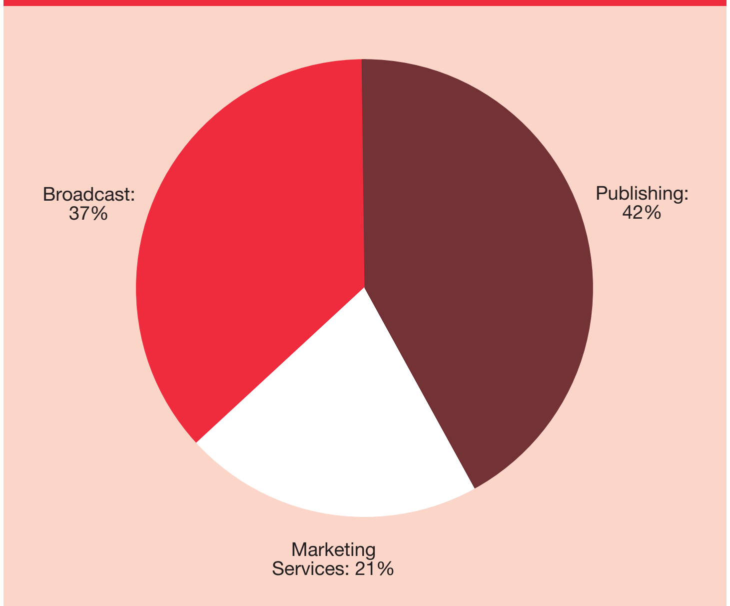
Source: Dealogic, M&A Global

2006 European Deal Volume per Sub-Sector



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Source: Dealogic, M&A Global

Broadcasting baits the bidders

Broadcasting deals continue to gain ground, particularly in emerging economies, with large media players and PE houses seeking to gain a foothold in these fast-growing markets.

This trend was exemplified last year by German publishing house, Axel Springer's acquisition of significant stakes in both Dogan TV in Turkey and Polsat in Poland, in deals worth €375 million and €250 million, respectively.

Dogan TV's holding company was itself unsuccessful last year in the bidding for ProSiebenSat.1 Media in which a 50.5 per cent stake was ultimately sold to Permira and KKR for €3 billion, following an intense auction process. The PE consortium's plan appears to be to merge ProSiebenSat.1 with the Dutch-Scandinavian SBS broadcasting group. SBS has 19 private TV channels, 20 pay-TV programmes and dozens of radio networks across Europe, but has yet to enter the German market.

Permira, in particular, has had a happy experience with German acquisitions. In 2003 it took more than 65 per cent of pay-TV channel Premiere when it was plunged into crisis by the Kirch group insolvency and has since made some substantial, and profitable, disposals.

The largest deal in UK last year was in the broadcasting sector with the controversial €1.4 billion acquisition by the satellite broadcaster BSkyB of an 18 per cent stake in ITV.

Hard going in printing and publishing

The steady rise of internet advertising is fuelling consolidation within the traditional printing and publishing sector, particularly on the Continent.

Significant deals last year included the acquisition by the UK investment vehicle Mecom Group of Orkla Media in Norway in a €876 million deal which also gave Orkla Media's parent company 20 per cent of Mecom.

Another major deal was the €580 million acquisition of selected activities of Trader Western Europe – a leader in classified advertising – by Schibsted, Norway's largest media group. The deal has made Schibsted a leading pan-European player within the classified advertising market with operations in 18 countries.

Last year also saw the €545 million acquisition of the French magazine business of the UK's Emap – Editore Emap France, which is France's third-largest magazine publisher – by the Italian publisher Arnoldo Mondadori. Mondadori is controlled by the family of Italian politician Silvio Berlusconi.

Also significant was the sale of Kommersant, the Russian publishing house, by owner Badri Patarkatsishvili for an estimated €234 million. The buyer, Alisher Usmanov, co-owner of Metalloinvest and president of Gazprominvestholding, is acquiring the firm through a series of investment structures.

In the UK, the failure of DMGT to sell its regional newspaper arm for an anticipated €1.9 billion, following a slowdown in classified advertising, dented confidence. The market is now watching to see how Trinity Mirror fares with its disposals programme. Following a strategic review, Trinity has put the Racing Post, along with the rest of its sports division, up for sale. It is also seeking buyers for its regional papers in the Midlands and Southeast England.

US corporate buyers stay away

US corporate bidders were noticeable by their absence last year with relatively few venturing into the European media market. US-Europe-target deals by corporates last year totalled just €1.1 billon.

The Far East is currently competing for US attention; the US dollar remains low, while some US companies have domestic problems dealing with the internet, consumer demand and shareholder sentiment, and there is strong competition from PE houses for assets. All of these have combined to convince many US corporates to put European expansion on the back burner.

Media stocks fall behind

Source: Dealogic, M&A Global

Following a strong start to the year, European media stocks failed to keep pace with the steadily growing FTSE Euro First 300 as the market recovered in the second half of 2006. The continuing battle against the internet for advertising spend and a cyclical downturn in the general advertising market has resulted in a subdued performance by many European media stocks.

Review

Review of last year's predictions

Last year we predicted that there would be 170 European media deals completed in 2006, with a combined value of around €30 billion. On volume we were pretty close; 175 media transactions were completed in the year, but on value we underestimated the total €43 billion deal value that was powered by the mega-deals like the acquisitions of VNU, TPI and Pages Jaunes, and the Bertelsmann buy back.

We were correct in our view that traditional marketing groups would remain on the defensive, while our prediction that Private Equity firms would move beyond the world of publishing was reflected in Permira and KKR's acquisition of ProSiebenSat.1 Media. The recently announced Publicis acquisition of Digitas in the US (not completed in 2006) is proof of last year's prediction that marketing services companies will seek to acquire pure play digital agencies.

Forecasts for 2007

Traditional media remains on the defensive

We expect mainstream media groups to continue to grapple with the challenges of the internet by acquiring on-line capabilities to compensate for their declining traditional businesses and to defend these through defensive consolidations.

Private Equity to continue to go from strength to strength

Private Equity groups will continue to be very active, particularly on the buy-side, driving deals in Europe underpinned by substantial recently raised funds. However, this dominance will continue to depend on benign conditions in the debt markets. PE firms will continue their expansion into the media territories beyond publishing, as was seen in 2006.

UK to rebound from a relatively subdued year

The UK in particular is likely to see more large deals as the major media players rebound after a relatively quiet 2006. 2006 was the year of near misses with deals for ITV, EMI and DMGT's regional papers failing, partly in the backdrop of uncertainty about the advertising market in the UK. However, with signs that the UK advertising market may be beginning to move out of the doldrums, we expect to see UK media M&A activity experience a similar lift.

Conclusion

2006 has undoubtedly been a very strong year for media M&A in Europe.

175 deals with a value of €43 billion were recorded, with deal volumes and values moving towards the peak of 2000, in which 186 deals valued at €52 billion were recorded.

We expect the media M&A market to remain very strong in Europe over the coming year and predict 175 deals with a value of around €40 billion.

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