US entertainment, media & communications deal insights

3rd quarter 2013 update

November 2013

A publication from PwC's Deal practice

At a glance

Year-to-date Sept-13 deal announcements increased 9% versus the same prior year period as Internet related/Information services, Communications and Publishing sub-sectors saw increased deal activity.

Private Equity remains consistently focused on EMC with involvement in approximately 20% of all announced deals in both the most recent and prior year-to-date periods.

Spotlight article: With use of mobile data surging, the need for more efficient mobile networks is driving M&A and investment in mobile network technologies and operations.

pwc

Introduction

Welcome to the first issue of *US entertainment, media & communications deal trends*, a quarterly publication prepared by the entertainment, media & communications (EMC) deal professionals at PwC. With all the activity – consolidation, carve-outs and partnerships – companies are undertaking to better position for the future, we wanted to provide deal insights timelier, giving rise to this quarterly publication.

Similar to the annual report we published for nearly 10 years, we continue to focus on merger and acquisition trends in the EMC sector including domestic and outbound deals, corporate versus private equity deals, and a look at sub-sector activity. Where historically we provided a high level outlook on each sub-sector, we now offer a deeper dive into a single industry specific deal driver. Many deal drivers increasingly include technological and regulatory flavors and we need to take a closer look at those. We think this approach gets to the heart of where deal makers see opportunities and where future deal activity will emerge from.

The spotlight article in this issue, Looking Ahead: M&A opportunities for network operators and vendors, offers insight into the immediate outlook for deal-making in the telecom operations and technology sector as network operators improve efficiency of spectrum usage and optimize their network to meet customer demand. Small cell technology continues to be an attractive investment opportunity to mitigate the effects of exponentially increasing data usage. Read the full article to learn more.

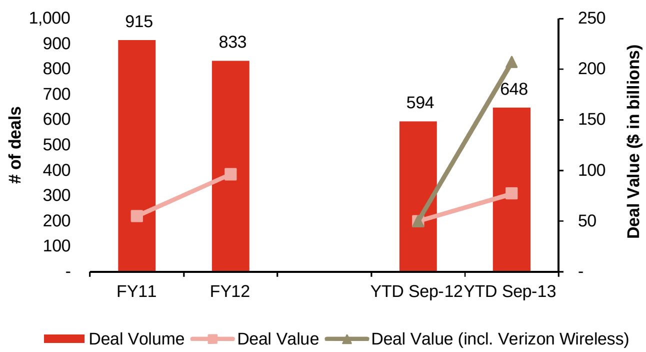
M&A historical trends – YTD 2013

Announced deal volumes and values increased versus the prior year across most sub-sectors

Following declines in deal volume between FY11 and FY12, deal volume has increased in YTD Sep-13 compared to YTD Sep-12. Consistent with the trend since FY11, disclosed deal value has also increased ~55%[1] in YTD Sep-13 compared to YTD Sep-12.

In YTD Sep-13, total announced EMC deal volume increased by approximately 53 deals or 9% compared to YTD Sep-12, driven by various subsectors including internet related/information services, publishing and telecom.

US EMC announced deals



Source: Thomson Reuters

US EMC announced deals by sub-sector

$ in billions	Deal Volume YTD Sep-12	Deal Volume YTD Sep-13	Deal Volume Variance	Deal Value* YTD Sep-12	Deal Value* YTD Sep-13	Deal Value* Variance
Advertising & Marketing	129	133	4	1.3	18.8	17.5
Internet Related/Information services	104	123	19	7.1	1.4	(5.7)
Telecommunications	103	115	12	12.1	23.9	11.8
Publishing	91	107	16	0.5	0.5	0.0
Broadcasting	46	55	9	5.4	25.3	20.0
Recreation & Leisure	59	50	(9)	8.2	1.2	(7.0)
Motion Pictures / Audio Visual	31	37	6	4.7	0.4	(4.3)
Cable	11	13	2	9.1	5.0	(4.1)
Casinos & Gaming	15	12	(3)	1.3	0.5	(0.9)
Video Games	5	2	(3)	0.0	-	(0.0)
Total excl. Verizon	**594**	**647**	**53**	**49.8**	**77.1**	**27.3**
Verizon Communications	-	1	1	-	130.1	130.1
Total	**594**	**648**	**54**	**$ 49.8**	**$ 207.2**	**$ 157.4**

** Represents transaction value and not enterprise value*
Source: Thomson Reuters, PwC analysis

[1] Excluding Verizon Communications deal of $130.1 billion

Top 10 US* EMC deals announced YTD September 2013

	Announce Date	Acquiror	Target	Target Industry	$ Transaction Value in millions**
1	Sep-13	Verizon Communications Inc	Verizon Wireless Inc	Telecommunications	130,100
2	Feb-13	Comcast Corp	NBCUniversal Media LLC	Broadcasting	16,700
3	Feb-13	Liberty Global Inc	Virgin Media Inc	Telecommunications	16,381
4	Jul-13	Tribune Co	Local TV-Television Stn(19)	Broadcasting	2,725
5	Mar-13	Liberty Media Corp	Charter Communications Inc	Cable	2,674
6	Jul-13	DISH Network Corp	LightSquared Inc	Telecommunications	2,200
7	Jun-13	Gannett Co Inc	Belo Corp	Broadcasting	2,142
8	Feb-13	Charter Communications Inc	Optimum West	Cable	1,625
9	Aug-13	Rockwell Collins Inc	ARINC Inc	Telecommunications	1,390
	Jul-13	Publicis Groupe SA / Omnicom Group Inc.	Publicis Groupe SA / Omnicom Group Inc.	Advertising & Marketing	***

**US deals is defined as deals where target is located in the US*
***Note transaction value may differ from enterprise value*
****This transaction was a merger as opposed to an acquisition where the combined value of the merged company approximates $35 billion.*
Source: Thomson Reuters, WSJ

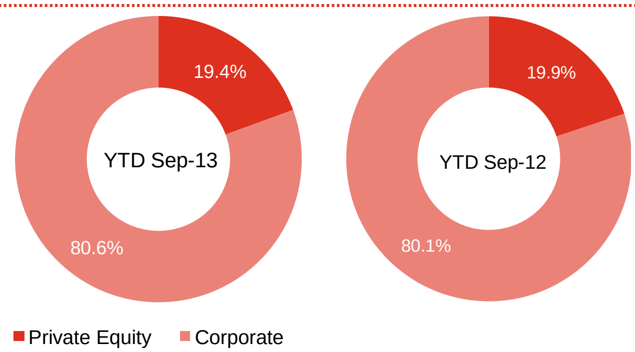
Top 10 deals

Total announced deal value increased to $77.1 billion1, which represents a 55% increase over the $49.8 billion announced YTD Sep-12. The substantial increase in disclosed deal value is driven primarily by three deals in the broadcasting, telecom and advertising & marketing subsectors which were ~$16B each (see above for Top US Deals). Excluding all deals over $10B in YTD Sep-12 and YTD Sep-13, disclosed deal value would have actually decreased from $49.8B in YTD Sep-12 to $27.3B in YTD Sep-13, representing a 45% decline.

Private equity play

Through the YTD Sep-13 period, Private Equity backed announced deals represented ~20% of total EMC deals (which is also largely in-line with the overall market from an announced value perspective). This was consistent with their overall industry participation in the prior year. From a sub-sector perspective, Internet Related/Information services remained an area of increased PE interest while other sub-sector announced deals remained stable.

US EMC announced deals - corporate versus private equity mix

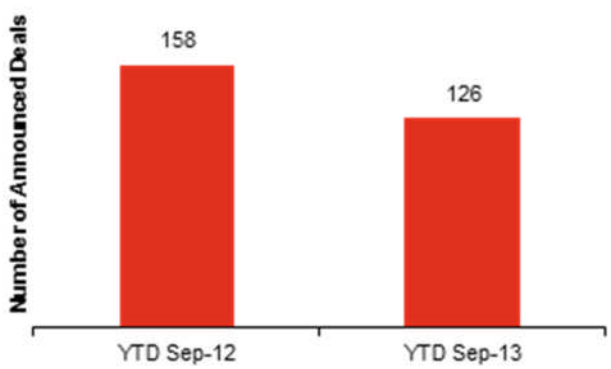


Source: Thomson Reuters

Outbound deals

Announced deals by U.S. companies buying overseas ("outbound deals") declined to 126 deals in YTD Sep-13 compared to 158 deals in YTD Sep-12. The decline in outbound deals was evident in six of the nine subsectors - the largest decline of which was seen in advertising & marketing and internet related/information service sectors.

EMC cross-border deals by US acquirers



Source: Thomson Reuters

Looking Ahead: M&A opportunities for network operators and vendors

With use of mobile data surging, the need for more efficient mobile networks is driving M&A and investment in mobile network technologies and operations.

Driven by the development of high powered mobile devices, technologies and applications, consumers are demanding access to content anywhere, anytime. This 'mobile data tsunami' (mobile data traffic is expected to grow at a CAGR of 66% from 2012 to 2017[2]) has posed challenges to network operators as they attempt to combat network congestion and maintain their network quality amidst spectrum constraints. With finite spectrum assets and significant costs to acquire and build out capacity, operators are looking for innovative, flexible, reliable and cost-effective ways to alleviate their capacity and coverage issues. What's one solution? Self-optimizing Heterogeneous Networks (Het-Nets) that increase the *efficiency* of existing spectrum usage by using dynamic network optimization and small cells.

Optimizing the existing network

One approach to increasing the efficiency of spectrum is to optimize the existing network through a combination of lower-cost tools and technologies such as self-optimizing network ("SON") software, off-loading and dual-mode sites which allow operators to shrink or expand coverage as needed to meet demand. These "self-healing" techniques are integral tools for network operators to remain competitive in the market and have become attractive targets to network equipment and solutions vendors such as Cisco, Ericsson and Huawei. In January 2013, Cisco acquired VC-backed Intucell, a mobile network management company which provides SON software that assists mobile carriers in managing and optimizing their cellular networks real-time[3] . In September 2013, Amdocs, a software and systems company who supports companies within the EMC space acquired Actix, a mobile network performance optimization provider[4] . Other non-traditional players have also made acquisitions, such as Oracle's purchase of Tekelec, in order to move closer to wireless carriers and their overstretched data networks[5] . And at least one traditional MSO (Time Warner Cable) has already harnessed technology improvements in this area through an agreement with WeFi which will provide "real-time feedback on the quality of the Wi-Fi networks" that Time Warner Cable rolls out in its nationwide network of roaming hotspots.[6]

Small cells

An alternate approach to improving the efficiency of existing networks is through the use of smaller cell sites, which connect mobile devices to mobile networks over a small area at a fraction of the power and energy used by existing macro cell sites. This allows operators to bridge the divide between network demand and capacity and provides customers with strong signals in a relatively cost efficient manner.

Building out smaller cell sites within a larger macro site can significantly reduce both capex and operating expenditure compared to the costs associated with owning a traditional macro cell configuration; especially in high-density areas where the cost to deploy a macro cell is considerable and may be impractical.

Optimization of cell sites can be challenging, and network solution vendors are seeing opportunities from both a technological and service standpoint. One example of this is Cisco's acquisition of Ubiquisys , a leading provider of 3G

---

[2] Cisco Visual Networking Index [or VNI] Global Mobile Data Forecast, 2012-2017, 2013, accessed on November 13, 2013 http://www.cisco.com/en/US/solutions/collateral/ns341/ns525/ns537/ns705/ns827/white_paper_c11-481360_ns827_Networking_Solutions_White_Paper.html

[3] M&A Alert: Cisco acquires mobile network management firm Intucell, Architect Partners, January 23, 2013, accessed on November 13, 2013. http://architectpartners.com/ma_alert/cisco-acquires-mobile-network-management-firm-intucell-2/

[4] M&A Alert: Amdocs acquires mobile network optimization provider Actix for 120mm, Architect Partners, September 3, 2013, accessed on November 13, 2013. http://architectpartners.com/ma_alert/amdocs-acquires-mobile-network-optimization-provider-actix-for-120mm/

[5] Oracle buys Tekelec to move closer to carriers and their overstretched data networks, AOL Inc, March 25, 2013, accessed November 13, 2013 http://techcrunch.com/2013/03/25/oracle-buys-tekelec-to-move-closer-to-carriers-and-their-overstretched-data-networks/

[6] Time Warner Cable taps WeFi for additional WiFi hotspots, FierceMarkets, December 3, 2012, accessed November 13, 2013 http://www.fiercewireless.com/story/time-warner-cable-taps-wefi-additional-wi-fi-hotspots/2012-12-03

and LTE small-cell technologies, in April 2013. New companies in this space are emerging and with the announcement of small cell strategic plans by both AT&T and Verizon in the US, analysts estimate that the size of the small cell market will grow to the billions by 2015[7].

PwC's March 2013 *Communications Review* expands on the increasing use of small cell technology in mobile networks.

Conclusion

While each of the solutions to improve network efficiency may be considered incremental on its own, the aggregate impact of these strategies is meaningful in the overall struggle to meet the rising demand for bandwidth with limited spectrum opportunities. An opportunity exists for both network solution vendors as well as non-traditional players (both financial and strategic) to enter the market via platform acquisitions, as the need for small cell and network optimization grows along with the demand for bandwidth.

---

7 Press Release: More Than Just Femtocells, Small Cell Shipments' Retail Value to Reach $14 Billion in 2015, Says NPD In-Stat, NPD In-Stat, January 3, 2012, accessed November 13, 2013 http://www.prweb.com/releases/In-Stat/Small-cell/prweb9070323.htm

About PwC's Deals practice

Smart deal makers are perceptive enough to see value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, the smartest deal makers look to experienced advisors to help them fashion a deal that works.

PwC's Deals group can advise entertainment, media and communications (EMC) companies and EMC-focused private equity firms on key M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, through developing strategies for capturing post-deal profits, to exiting a deal through a sale, carve-out, or IPO. With more than 9,800 deals professionals in 75 countries, we can deploy seasoned deals teams that combine deep entertainment, media and communications industry skills with local market knowledge virtually anywhere and everywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services.

In short, we offer integrated solutions tailored to your particular deal situation and designed to help you complete and extract peak value within your risk profile. Whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divesture process, we can help.

For more information about M&A and related services in the entertainment, media and communications industry, please visit www.pwc.com/us/deals, and for industry research and insights visit www.pwc.com/us/em or www.pwc.com/us/comms.

About the data

Our analysis highlights the on-going changes in the EMC industry due to technology advances, the convergence of traditional and new media, and ever-shifting consumer preferences. For purposes of our publication, we have focused on the following sectors:

- Communications
- Recreation & Leisure
- Film/Content
- Cable
- Broadcasting
- Internet Related/Information Services
- Publishing
- Advertising & Marketing
- Casinos & Gaming
- Music
- Video Games

Our analysis was based primarily on individual EMC sectors as defined by ThomsonReuters, with the exception of Telecommunications and Internet Software & Services and E-Commerce, which we have renamed as Communications and Internet Related/Information Services, respectively, for the purpose of our analysis. In addition, all deal values disclosed, unless otherwise noted, were determined using transaction value. While in certain cases, enterprise value may exceed transaction value, it has not been considered in our analysis.

We define US EMC transaction activity as acquisitions, mergers, consolidation of minority interests, shareholder spin-offs, divestitures and restructurings. Acquisition targets are defined as US companies acquired by either domestic or foreign acquirers (both corporate and private equity). Cross-border deals in this publication have been limited to announced acquisitions of targets located outside of the US by US acquirers. Deal value is transaction value as reported. Private equity transactions are defined as acquisitions of initial platform companies only. Subsequent add-on acquisitions by private-equity-controlled platform companies are herein classified as corporate transactions.

As has been the case over each of the past several years due to undisclosed deal activity, YTD-12 and YTD-13's disclosed deal volume was significantly lower than total EMC deal volume. While transactions with disclosed deal values are indicative of overall EMC sector trends, the high volume of undisclosed deal activity is also indicative of growing middle-market deal activity in the space.

Contacts

Authors

Bart Spiegel
EMC Deals
646.471.7085
bart.spiegel@us.pwc.com

Ian Same
EMC Deals
646.471.9943
ian.same@us.pwc.com

Shailabh Atal
EMC Advisory
408.373.4446
shailabh.atal@us.pwc.com

PwC Deals

Thomas Rooney
EMC Deals Leader
646.471.7983
thomas.rooney@us.pwc.com

Michael Kliegman
M&A Tax
646.471.8213
michael.kliegman@us.pwc.com

Andreas Ohl
Valuation
646.471.2947
andreas.ohl@us.pwc.com

Perry Mandarino
Business Recovery Services
646.471.7589
perry.mandarino@us.pwc.com

Richard Veysey
Capital Markets and Accounting Advisory
646.471.7973
richard.veysey@us.pwc.com

Michael Boro
Human Resources
646.471.0730
michael.boro@us.pwc.com

Ron Chopoorian
Divestitures
646-471-3491
ronald.chopoorian@us.pwc.com

John Merrigan
Insurance Risk Management
646.471.5847
john.merrigan@us.pwc.com

PwC Entertainment, Media and Communications

Kenneth Sharkey
US Practice Leader
646.471.5114
kenneth.j.sharkey@us.pwc.com

Deborah Bothun
US Advisory Leader
213.217.3302
deborah.k.bothun@us.pwc.com

Stefanie Kane
US Assurance Leader
646.471.0465
stefanie.kane@us.pwc.com

Peter D'Avanzo
US Tax Leader
646.471.5611
peter.davanzo@us.pwc.com

www.pwc.com/us/deals

www.pwc.com/us/em
www.pwc.com/us/comms