

# Combi-nations

US *entertainment, media and communications deal insights*

December 2014

A publication from  
PwC's Deals practice

## At a glance

**Normal and healthy**  
Deal values decline  
from lofty first half  
heights

**Not for kids** Slot  
machine acquisitions  
drive deal value

**It's a small world**  
Inbound and outbound  
M&A continues to drive  
volume

*Spotlight:*

**Winning the  
integration  
marathon**  
The long road to  
strategic, financial and  
operational success.



**pwc**

# Introduction

With significant, transformational megadeals announced in each of the past two quarters, it is no surprise that a normal, healthy quarter like our third may seem less exciting. However, after the dust settled, we saw the **Gaming sector join the megadeal club** where two transactions exceeded \$1B in Q3.

One key trend we observed this quarter is a **surge in inbound and outbound activity**. Acquisitions by US companies of foreign businesses were up 37% from the same period in the prior year. Equally intriguing is the 49% increase in inbound deals when comparing the same periods. The deployment of investment capital across borders continues to change the EMC deal landscape.

Our Spotlight article this quarter hits on an oft challenging area of deals: integration. Transformational deals require strong collaboration at the get go, and sustained efforts over the long-term, hence our focus on **Winning the Integration Marathon**. We discuss the track record of our industry in doing high performing deals compared to other industries. The data serves as a good reminder that achieving success requires at least three things should be done early: leadership alignment, stakeholder communications and integrating operating policies.

As always, we are open to feedback from our valued readers so please contact me directly with your thoughts.

Best regards,

*Bart Spiegel*

Bart Spiegel

Partner, Entertainment, Media & Communications Deals,  
PwC



## PwC Q3 2014 Deals: At a glance

No showstoppers

\$6B

Largest deal in third quarter compared to \$48B last quarter

Max bet

40%

Casino & Gaming account for two of five Q3 megadeals

Looking stateside

▲49%

Increase in inbound deal volume in YTD Sep'14 vs. same period prior year

Slowing pace

▼10%

decline in deal volume from the prior quarter

Crossing oceans

173

Outbound deal volume in YTD Sep'14 compared to 126 in same period prior year

Spotlight article: *Winning the Integration Marathon*



Integrations are marathons.  
Learn to run your best race.

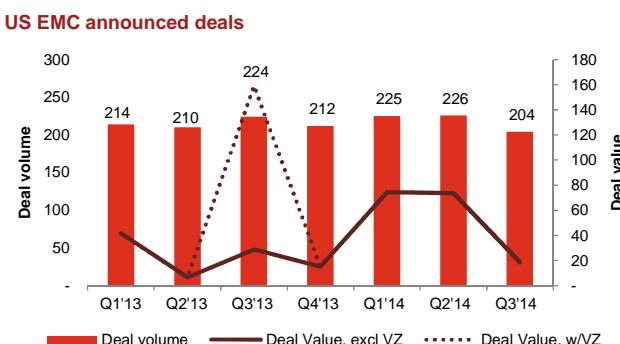
# Third quarter 2014 M&A trends

## The M&A machine cools after a strong first half 2014

In the absence of significant transformational deals that marked the first half of 2014, Q3'14 announced deal value reached only \$18.5B, over 70% of which was driven by 5 mega deals.

Deal volumes also declined by 10% in Q3'14 to 204 deals, compared to the prior quarter of 226 deals. Although deal volume was at its lowest in the past two years, driven by a decline in Advertising & Marketing transactions, deal volume remained steady across other subsectors.

### US EMC Announced deals slow in Q3'14



Source: Thomson Reuters

## Snapshot: Top 5 megadeals

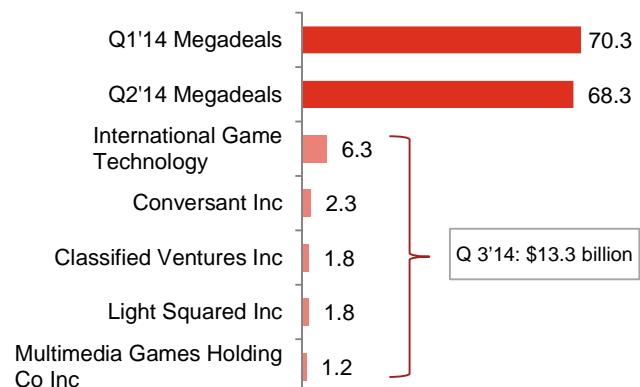
After an average of five “megadeals” (in excess of \$1B) per quarter the first half of 2014, an additional five megadeals were announced in Q3'14. Companies continue to look at major acquisitions as a means to diversify operations and access new markets and customers.

- GTECH SpA/International Game Technology –** The acquisition of the world's largest slot machine maker by GTECH, gives the operator of Italy's state lottery an opportunity to diversify outside of its domestic market.
- Alliance Data Systems Corp/Conversant Inc –** Provides Alliance Data Systems with access to technology to distribute advertising across the Internet and measure the effectiveness of marketing campaigns.

- LightSquared Inc. SPV/LightSquared Inc. –** An equity group consisting of Cerberus Capital Management LP, Fortress Investment Group LLC and JP Morgan Chase & Co planned to acquire a 74% interest in bankrupt LightSquared Inc. This reorganization plan was subsequently abandoned, with a newly proposed Chapter 11 plan giving Dish Network Corp 60% equity in a reorganized LightSquared.
- Gannett Co Inc/Classified Ventures Inc –** Gannett agreed to buy the 73 percent interest it doesn't already own in Classified Ventures, the parent company of Cars.com. The Company indicated this transaction would give Gannett's Broadcasting and Digital company “enhanced strategic, operating, financial, and regulatory flexibility...” and would be part of its larger corporate strategy of spinning off its publishing business to shareholders and accelerating growth of its existing digital portfolio.
- Global Cash Access Holdings Inc./Multimedia Games Holding Co Inc. –** The acquisition of a large slot machine maker by an established casino service provider provides an opportunity to increase service offerings across the same customer base and reduce back-office operating costs.

## Chart toppers

### Q 3'14 Megadeals (>\$1B)



Source: Thomson Reuters

## Quarter in review: Active sub-sectors

**Q3 volumes hold steady across all sectors with the exception of Advertising & Marketing**

**US EMC announced deals by sub-sector**

\$ in millions	Deal Volume		Deal Value <sup>(2)</sup>	
	Q2 Jun'14	Q3 Sep'14	Q2 Jun'14	Q3 Sep'14
Internet Related/Information Services	41	40	94	3,176
Publishing	41	39	259	737
Advertising & Marketing	54	36	757	3,455
Communications	26	25	8,680	1,808
Recreation & Leisure	20	21	2,637	570
Broadcasting	17	18	743	403
Film/Content <sup>(1)</sup>	13	12	405	970
Casinos & Gaming	6	6	2,352	7,428
Cable	6	5	57,743	-
Music	2	2	2	-
<b>Total</b>	<b>226</b>	<b>204</b>	<b>73,673</b>	<b>18,546</b>
Total Q3 Sep'13		224		28,919

<sup>1</sup> Classified as "Motion Picture/Audio Visual" within the Thomson Reuters database.

<sup>2</sup> Represents transaction value and not enterprise value

Source: Thomson Reuters

## Subsector commentary

### 1. Foreign attraction



#### Internet Related/ Information services

While Internet related/information service deal volume remained steady in the quarter compared to last, deal values soared to \$3.2B driven by three deals: Gannett's acquisition of the remaining ownership in Cars.com for \$1.8B, Rakuten's (Japan) acquisition of Ebates for approximately \$1.0B and Telstra's (Australia) investment in Ooyala Inc for \$0.3B. The recent acquisitions of Ebates and Ooyala point to a broader trend of foreign investment in the US market, with a particular focus on social media, internet and cloud technology in 2014. Inbound acquisitions rose from only 7 in YTD Sep'13 to 18 in YTD Sep'14.

### 2. Investor slow down



#### Advertising & Marketing

Deal volumes declined 33% in Q3'14, driven by a retreat in foreign and private equity investment. In Q2'14, acquisitions by foreign and private equity investors represented almost 40% of deal activity in the sector, however in Q3'14 activity declined to only 7 deals, representing less than 20% of advertising & marketing deals.

Despite a decline in deal volume, Alliance's acquisition of Conversant, an online advertising service provider, topped the charts in Q3'14 at \$2.3B. CBS Outdoor's acquisition of an outdoor advertising competitor, Van Wagner, for \$0.7B rounded out deal value in the quarter which in total was up \$2.8B over Q2'14.

### 3. *Less talking, more listening*



#### **Communications**

Deal volumes remained consistent from Q2 to Q3'14 and continued to be dominated by telecom equipment, telecom services and wireless deals. These three categories have accounted for 65 of the 80 Communications deals in YTD-14.

Deal value was lower in Q3'14, absent the \$7.3B acquisition of TW Telecom by Level 3 Communications which announced in Q2'14. Total deal value of \$1.8B in Q3 was almost entirely attributable to the announced 'bailout' of LightSquared for \$1.8B. While the private equity consortium reorganization plan was subsequently abandoned, a recent Chapter 11 plan would see Dish obtain 60% equity, alongside JP Morgan Chase who would obtain a 31.9% stake in a reorganized LightSquared.

### 4. *In search of a jackpot*



#### **Casinos & Gaming**

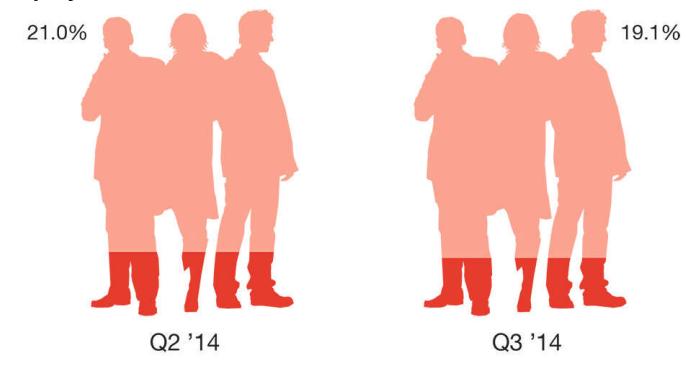
This sub-sector, historically dominated by acquisitions of casino properties and other brick & mortar gambling establishments, saw significant announced megadeals for gambling equipment (slot machines) in Q3'14. From a value perspective, the acquisitions of International Gaming and Multimedia Games Holding combined for all of the disclosed value in the most recent quarter.

### **Private equity still active**

Private equity interest in EMC deals remained strong in Q3'14, with approximately 20% of total US EMC deals having PE acquirors. This represents a significant step up from the corresponding period in 2013, where only 16% of US EMC deals were PE backed. Private equity acquisitions were prevalent across a number of EMC subsectors, but were most active in the Communications, Publishing, and Internet related/Information Services sector.

#### **One in five deals have a private equity buyer**

##### **US EMC announced deals - Corporate versus private equity mix**



Source: Thomson Reuters

## Outbound deals

The number of announced deals by US companies acquiring overseas targets increased more than 40% to 178 deals in YTD Sep'14 compared to YTD Sep'13. The Q3'14 period was also the most active quarter to date in 2014, with 67 outbound deals compared to 52 and 59 in Q1'14 and Q2'14, respectively.

- Approx. 50% of outbound deals in YTD Sep'14 were focused in four territories: UK, Australia, Canada and China. European territories outside of the UK accounted for another 30% of outbound deal activity in the period.
- The number of outbound deals surged across almost all of the subsectors, but the largest increase was seen in internet related/information services – which led the charge with 75 deals in YTD Sep'14 (a 79% jump from YTD Sep'13).

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### Outbound deals continue – grow by 27%

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#### EMC cross-border deals by US acquirors



Source: Thomson Reuters

# Spotlight: PwC's 2014 Integration Survey: Winning the Integration Marathon

*M&A integration is a marathon of strategic, financial and operational challenges that requires a rapid start, but also a consistent focus on the finish line. Those who understand the proper integration momentum, including early planning, rapid execution and long-term commitment, may be able to realize the full value of their M&A activities.*

Capturing value from M&A transactions remains a top priority for EMC sector companies. As pressure from stakeholders to achieve deal objectives and deliver quantifiable deal value increases, and the focus of many companies' M&A strategies shifts to larger and more transformational acquisitions, companies are entering relatively unchartered territory.

The EMC sector has entered a period of transition. Recent deals are driving transformation in the industry as legacy communications companies and content providers are merging to align with consumer trends. For example, AT&T's announcement to acquire DIRECTV for \$48B will bring to bear new technologies and workflows for AT&T. It is anticipated that similar megadeals will continue to reshape the EMC sector, as companies pursue M&A as a means to reach more customers through diversified distribution channels and a greater variety of content.

Unique challenges are evident with EMC transactions that should be considered with M&A integration. Legacy infrastructure, technology, and workflow are common, as it has evolved in a reactive manner over time and may be inefficient and costly to change. In addition, content and rights management has become increasingly complex, and remains a critical aspect of EMC sector business models.

Below is a discussion of results from PwC's 2014 M&A Integration Survey. When reporting results in the survey, we combined the EMC and Technology sectors, to which we referred collectively as "TICE." We believe this combination makes sense in the M&A context because of the continued convergence between the sectors, and the similar strategic and operational challenges they face.

## Know where the hills are

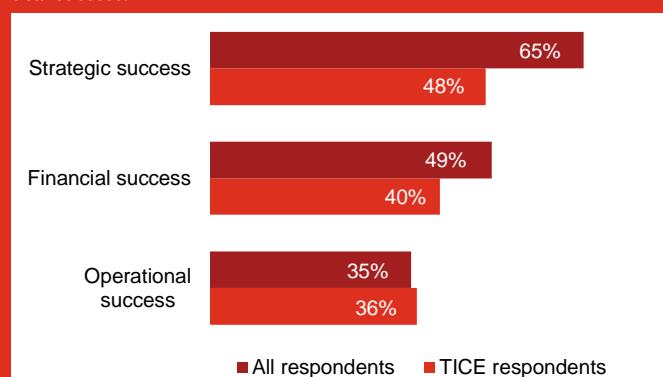
According to PwC's 2014 M&A Integration Survey, dealmakers agree that outcomes don't always measure up to M&A deal objectives. In the survey, 36 percent of TICE companies reported significant success in meeting operational targets, in line with all respondents who reported a similar 35 percent success rate. However, TICE clients reported lower rates of success than all respondents

on their Deal Financial goals (40 percent vs 49 percent) and Strategic goals (48 percent vs 65 percent).

The survey also reported most organizations continued to struggle to meet the objectives of transformational deals as a result of increased complexity, including gaining access to new brands, technologies, products and markets.

## Strategic and financial goals are easier to reach than operational goals

Percentage responding post-close difficulties were encountered:  
Percentage reporting "significant" strategic, financial, and operational deal success:



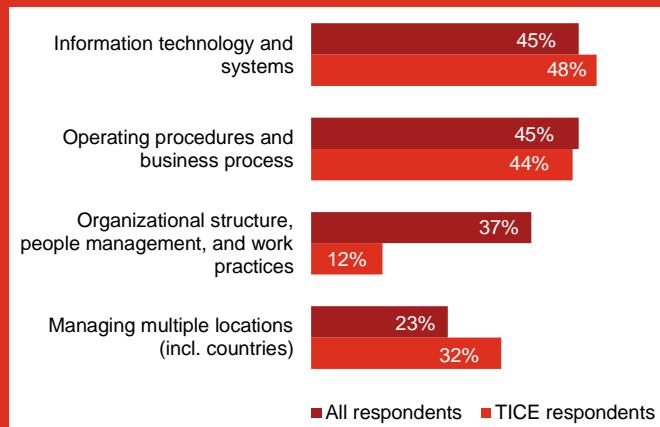
Respondents were also clear on the integration risks and challenges they face. Integrating technology systems and aligning operating procedures and business processes were identified as the biggest post-close challenges. These challenges are in line with the rising number of transformational deals. Transformational acquisitions often require strong collaboration and alignment between the companies, compared to traditional absorption deals which follow a more direct approach of migrating to the acquirer's procedures and processes.

Regardless of the acquisition type, survey respondents ranked research and development as the most difficult function to integrate. Respondents indicate that cultural differences between companies are one driver of this difficulty. These differences are cited as a significant barrier that inhibits essential collaboration for a successful integration, and often result in leakage of top talent. The upsurge in transformational deals also plays a part, by

driving a stronger emphasis on the importance of new product outcomes, one of the lengthiest of integration milestones.

#### Most common post-close integration challenges

Percentage responding post-close difficulties were encountered:



#### Setting a strong pace early

No one expects M&A integration efforts to achieve immediate success, but the likelihood of reaching predetermined milestones and overall objectives is enhanced by focusing on three primary components of the M&A integration process. Early planning, rapid execution and long term commitment improve deal success.

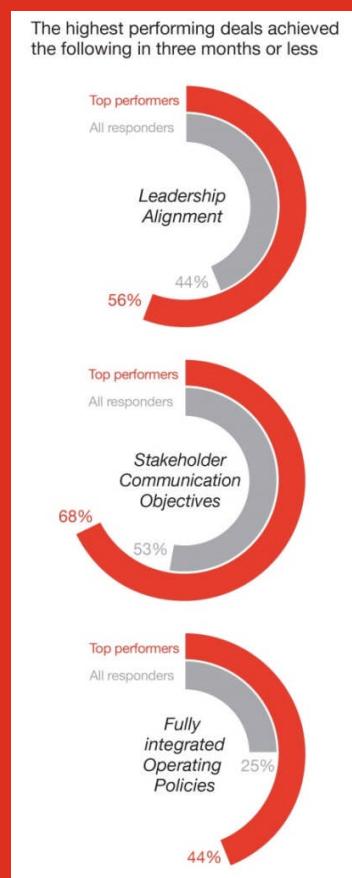
Quick and systematic integrations that make optimal use of the time between deal announcement and deal close, as well as the initial period post-close set the course for long term commitments by delivering continuous deal value. The M&A integration process provides a natural arena for redefining business processes and redesigning organizational structures and systems, clearing the course for ongoing cost efficiencies.

Before areas of improvement can be identified and roadmaps put in place, leadership must be aligned within the organization. Higher levels of deal success were reported by those companies who achieved leadership alignment within the first three months, underscoring the need for speed as well as a systematic approach to the integration.

Respondents indicated that early leadership selection and organizational assignments also enable superior M&A

integration performance. In addition, meeting internal and external communication targets within the first three months or less of deal close is directly attributable to increased customer focus, employee commitment and productivity, the speed at which decisions are made and overall confidence in the direction of the integrating business.

Of equal importance is the need to integrate operating policies in less than six months after deal close. According to survey respondents, the highest performing deals achieved this milestone in three months or less, and the reasons are clear. Quickly integrating operating policies solidifies awareness of the company's direction, providing employees a well-defined understanding on where to focus energies to achieve the objectives that matter most.



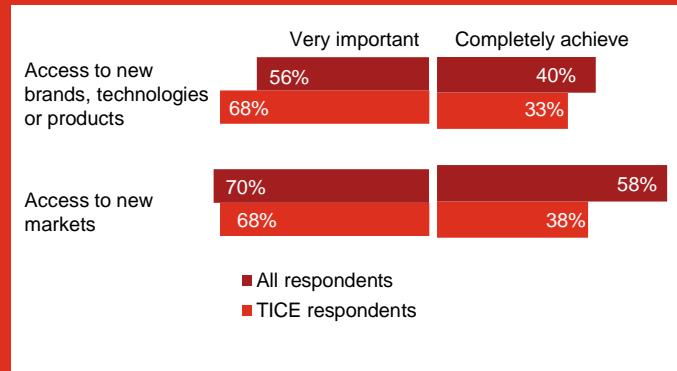
## Closing the final mile

Establishing the key foundational elements within the first three months sets the starting blocks for the race to the finish line, but sustained commitment to the integration plan over the long term is essential to realizing deal objectives. Survey respondents for 68 percent of the highest performing deals indicated complete commitment to long term plans and objectives. This is evidenced through the development of comprehensive execution plans during early integration, as well as the commitment of resources and capital to deliver and track synergy progress against goals over time. According to survey data, companies with the highest performing deals incorporated detailed tracking into their integration plans, particularly around operating and capital costs.

The 2014 M&A Integration Survey results are clear: Emphasize early planning focused on strategic deal objectives, and implement fast action to achieve these goals. While dealmakers instinctively know how to deliver deal value and recognize the importance of early integration execution, only 50 percent of respondents achieved their most important deal objectives, such as access to new brands, technologies, products and markets, growth in market share and capturing operational synergies.

### Deals don't always achieve the strategic goals intended

Percentage reporting deal objectives was "very important" and "completely achieved":



Increasing the odds of a successful M&A Integration is all about good strategy and focus—planning integration early and staying involved long enough to deliver deal value. Rapidly deciding on the strategic, financial and operational objectives that matter most and performing the integration initiatives that have the greatest potential impact set the stage for long term success and provide the means to realizing the full benefits of M&A deals.

For more information about the results of the 2014 M&A Integration Survey, please visit  
<http://www.pwc.com/2014maintegrationsurvey>.

# 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 & 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 & 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 & communications industry, please visit [www.pwc.com/us/deals](http://www.pwc.com/us/deals), and for industry research and insights visit [www.pwc.com/us/em](http://www.pwc.com/us/em) or [www.pwc.com/us/comms](http://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 United States 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, FY13 and FY14's disclosed deal volume was significantly lower than total EMC deal volume. Although 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.

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