US entertainment, media & communications deal insights
2013 year-end update

February 2014

A publication from PwC's Deals practice

At a glance

2013 saw several "megadeals," with four deals in excess of $10B, compared with only one in 2012. These megadeals spanned a number of subsectors, including communications, broadcasting, and advertising & marketing.

Spotlight article: With growth in retransmission fees and a changing regulatory landscape, the Broadcasting sub-sector has been a hotbed for M&A activity.

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Introduction

Welcome to the year-end update of the *US entertainment, media & communications deal trends*, a quarterly publication prepared by the Entertainment, Media & Communications (EMC) deal professionals at PwC. With the economy improving and confidence among executives on the rise, it's no surprise the deal market is gaining momentum.

Consistent with the annual report we've published for nearly 10 years, we continue to focus on merger and acquisition trends in the EMC sector including domestic and outbound deals, and corporate versus private equity deals. With respect to subsector activity, we provide a look back at 2013 activity and an outlook for 2014.

Based on the positive feedback we received from our readers, we will again offer a deeper dive into a single industry-specific deal driver – the Spotlight Article – which had its inaugural run last quarter. 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 titled, *Breaking news: Broadcasting consolidation – no end in sight*, offers insight into the immediate outlook for deal-making in the broadcasting sector. Station groups continue to chase retransmission fees amid increased scrutiny on deal activity by the FCC. At a time when content consumption trends are shifting, TV station groups know the stakes are high and the rewards big for successful deals. Read the full article to learn more.

Best regards,

Bart Spiegel

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Partner
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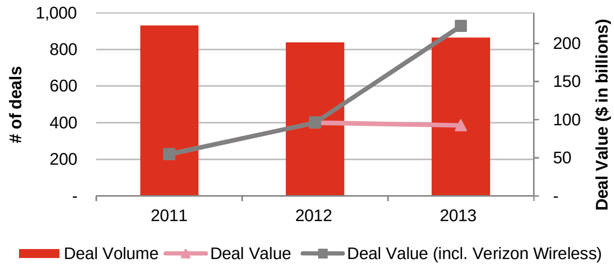
2013 M&A trends and 2014 outlook

The Advertising & Marketing, Communications, and Broadcasting subsectors were the big drivers of deal value in 2013, and we expect continued activity in 2014. Additionally, we noted several other trends within certain EMC subsectors, which we further discuss below.

Announced deal volumes were relatively flat between 2012 and 2013.

2013 deal volume was consistent with 2012, with announced EMC deals increasing by 27 (or 3%) to 866 transactions. Disclosed deal value increased significantly, primarily due to the Verizon Communications deal. The most active subsectors were Advertising & Marketing, Internet-Related/Information Services, and Telecommunications, while Broadcasting and Publishing led the way with the highest increases in deal activity.

US EMC announced deals



Source: Thomson Reuters

US EMC announced deals by sub-sector

	Deal Volume			Deal Value*		
$ in billions	2012	2013	Variance	2012	2013	Variance
Advertising & Marketing	184	181	(3)	3.0	20.4	17.4
Internet-Related/Information Services	149	154	5	9.4	3.3	(6.1)
Telecommunications	154	151	(3)	43.5	33.4	(10.1)
Publishing	117	129	12	3.2	1.2	(2.0)
Broadcasting	71	87	16	5.8	26.3	20.5
Recreation & Leisure	77	73	(4)	10.6	1.4	(9.2)
Film / Content	40	46	6	9.0	0.5	(8.5)
Cable	15	16	1	9.0	5.0	(4.0)
Casinos & Gaming	19	17	(2)	2.5	0.9	(1.6)
Music	7	7	-	0.1	0.2	0.1
Video Games	6	4	(2)	0.1	-	(0.1)
Total excl. Verizon	**839**	**865**	**26**	**96.2**	**92.6**	**(3.6)**
Verizon Communications	-	1	1	-	130.1	130.1
Total	**839**	**866**	**27**	**96.2**	**222.7**	**126.5**

** Represents transaction value and not enterprise value (excludes deals where deal value is not disclosed)*
Source: Thomson Reuters, PwC analysis

Sub-sector analysis: Key drivers for 2013 and outlook for 2014

Broadcasting

2013 M&A activity: Broadcasting deal value increased by $20.5B, from $5.8B in 2012 to $26.3B in 2013, primarily due to Comcast's purchase of its remaining interest in NBCU and a number of local TV station affiliate purchases.

2014 Outlook: The most significant catalyst for deal activity in this sub-sector appears to be a strategic shift by TV station operators to consolidate and increase scale in order to improve negotiating leverage with pay-TV distributors for retransmission revenues.

Our Spotlight article expands on trends in the Broadcasting subsector.

Communications

2013 M&A activity: Communications deal value has been dominated by large transactions, including the Verizon Communications deal in 2013 and Softbank's $20.1B acquisition of Sprint Nextel in 2012.

2014 Outlook: With the use of mobile data surging, Communications Service companies and Equipment Vendors are using M&A as a tool to enhance the efficiency of mobile networks and address growing bandwidth needs. As a result, we expect 2014 volume to continue at a similar pace as this past year.

Advertising & Marketing

2013 M&A activity: Advertising & Marketing deal value increased by $17.4B, from $3.0B in 2012 to $20.4B in 2013, driven largely by the merger between Omnicom and Publicis. Regarding volume, we have seen increased attention toward digital agencies that have a proven track record of creating compelling content, and companies are competing to acquire the talent behind these agencies.

2014 Outlook: Advertisers will continue to invest in building a core competency in analytics-driven insights that connect consumers' behavior, expectations, buying intentions, and media platforms. In addition, marketers will continue to build capabilities in mobile advertising, given the massive global adoption of portable devices. Thus, companies with inventive, scalable mobile advertising solutions are likely to be attractive M&A targets.

Publishing

2013 M&A activity: While announced Publishing deals increased by 10% to 129 deals in 2013, deal value declined by $2B to $1.2B, primarily due to 2012 including Apollo Global Management's $2.5B acquisition of McGraw-Hill Education. While not included in disclosed deal activity, 2013 also saw other high-profile announcements in the publishing space, including Time Warner's spinoff of Time Inc., 21st Century Fox's (formerly News Corp) spin-off of its publishing business, which was renamed News Corp upon separation, and Tribune's spin-off of its publishing business.

2014 Outlook: Publishers are working hard to establish new formats and tools that will both maintain readership, and also create and demonstrate value for advertisers. Technologies that can accomplish this goal are likely to garner the interest of established players in this sub-sector. In addition, we expect to see further consolidation among the large trade book publishers and legacy educational publishers.

Recreation & Leisure

2013 M&A activity: Despite deal volume remaining relatively flat in 2013, deal value declined by approximately 87%. This was driven by significant deals in 2012 including three sports team acquisitions totaling $4B and Dalian Wanda Group's $2.6B acquisition of AMC Entertainment Holdings.

2014 Outlook: With sporting media rights continuing to rise, the value of sporting teams is expected to follow. While this may lead to team owners trying to monetize their assets, the question is whether buyers are willing to pay these premiums. Returning stability in owner / player collective bargaining relationships should also reduce the risk profile of investing in major US sports franchises. Most recently, William Morris Endeavor together with Silver Lake Partners announced its acquisition of talent representation and sports marketing company IMG for a rumored $2.3B. Transactions of this nature highlight the growing importance of sports rights and the value of appointment TV in a digital age.

Top 10 US* EMC deals announced YTD December 2013

	Announce Date	Acquirer	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	Oct-13	Crown Castle International	AT&T Inc-Tower Lease Rights	Telecommunications	4,850
5	Jul-13	Tribune Co	Local TV-Television Stn(19)	Broadcasting	2,725
6	Mar-13	Liberty Media Corp	Charter Communications Inc	Cable	2,674
7	Dec-13	William Morris Endeavor and Silver Lake Partners	IMG Worldwide Inc	Recreation & Leisure	****
8	Jun-13	Gannett Co Inc	Belo Corp	Broadcasting	2,142
9	Dec-13	Frontier Communications Corp	Southern New England Telephone Co (AT&T)	Telecommunications	2,000
	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 United States
**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 $35B
**** Deal value not disclosed, however it is rumored to be $2.3B
Source: Thomson Reuters, WSJ

Film / Content

2013 M&A activity: While announced Film / Content deals increased by 6 to 46 deals in 2013, deal value declined by $8.5B to $0.5B, primarily due to 2012 including Disney's $4.1B acquisition of Lucasfilm, and The Carlyle Group's $3.3B acquisition of Getty Images.

2014 Outlook: The rising value of content has started an industry-wide race to acquire it. Buyers continue to look for ways to bridge the value gap and meet the premiums demanded by content providers through attractive deal structures, beneficial tax structuring and contingent consideration. Recent years have seen several major acquisitions of content assets, and despite the drop in deal value in 2013, the ongoing deal activity is likely to continue. Geographic location will hold no bar as US participants look abroad and foreign players look to the United States for a means to acquire and monetize content.

Top 10 deals

2013 saw several "megadeals" in EMC, with four deals in excess of $10B, compared with one in 2012. Total announced deal value increased to $227.1B in 2013, which represents a 131% increase over the $96.2B announced during 2012. However, excluding all deals over $10B, disclosed deal value would have actually decreased from $76.1B in 2012 to $42.9B in 2013, representing a 44% decline.

The four most significant announced deals in 2013 by deal value were:

- Verizon Communications / Verizon Wireless – acquisition of the remaining 45% of Verizon Wireless from Vodafone Group.
- Comcast / NBCUniversal - Comcast's purchase of its remaining interest in NBCU.
- Liberty Global / Virgin Media –Gives Liberty Global access to Europe's largest cable market.
- Publicis / Omnicom Merger - Creates the world's biggest advertising agency.

The megadeal trend looks set to continue into FY14, with Comcast announcing it will acquire 100% of Time Warner Cable's stock in a deal worth approximately $45B. In addition, Sprint is assessing the regulatory issues surrounding a potential acquisition of T-Mobile.

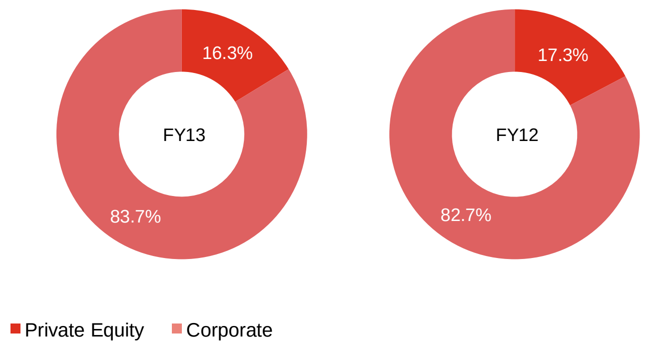
Private equity play

In 2013, private equity backed announced deals represented ~16% of total EMC deals. While this represents a slight decline in percentage terms from their overall industry participation in the prior year, the volume of deals has remained consistent (~145). From a sub-sector perspective, Internet-Related/Information Services remained an area of increased PE interest.

Outbound deals

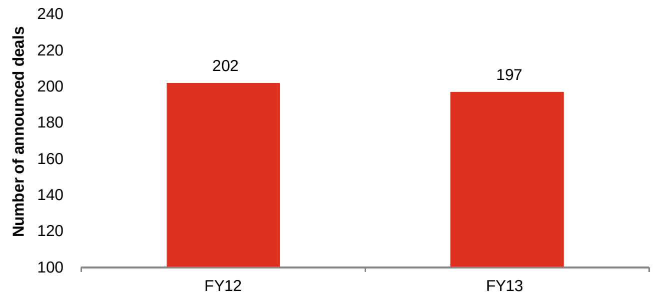
The number of announced deals by US companies acquiring overseas targets ("outbound deals") was fairly consistent in 2013 when compared with 2012. Although we are still seeing significant interest by US companies in overseas markets, executing and completing acquisitions in certain foreign jurisdictions can prove challenging.

US EMC announced deals – corporate versus private equity mix



Source: Thomson Reuters

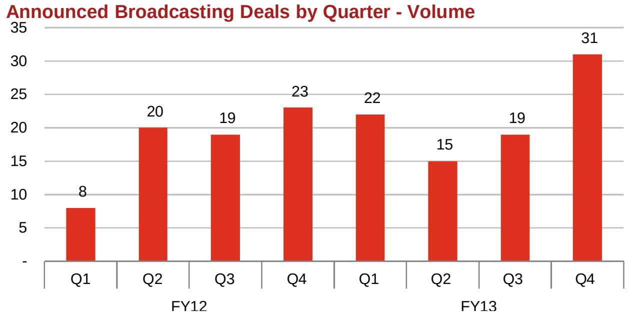
EMC cross-border deals by US acquirers



Source: Thomson Reuters

Breaking news: Broadcasting consolidation – no end in sight

With strength returning to Broadcast advertising and continued growth in retransmission revenues, Broadcast M&A activity has increased over the last two years



Source: Thomson Reuters

While Broadcasting deal value in 2013 was dominated by Comcast's purchase of its remaining interest in NBCU, we have seen Broadcast M&A deal volume driven largely by local TV station affiliate purchases. Overall, Broadcasting deals have increased from 51 in FY11 to 87 in FY13. The most significant catalyst for deal activity in this sub-sector appears to be a strategic shift by TV station operators to consolidate and increase scale in order to improve negotiating leverage with pay-TV distributors for retransmission revenues.

We are also beginning to see increased activity from US government regulators around anti-trust, intra-market media ownership and foreign media ownership regulations which could be another factor influencing deal volume.

"Scale matters"[1]

Retransmission revenues (which are fees paid from pay-TV companies to local station affiliates in exchange for consent to rebroadcast the stations' signal to pay-TV customers) have become increasingly lucrative for TV station owners. The size of the fee paid is generally driven by the number of subscribers the pay-TV company has in the TV stations' geographic market. As such, Broadcasting companies are seeking out larger geographic areas to increase the overall number of potential pay-TV subscribers from which to generate these fees. Ultimately, the size of a Broadcasting company's pay-TV subscriber pool allows for improved negotiating terms on retransmission fee agreements. Peter Liguori, chief executive of Tribune – an active Broadcast acquirer – noted that Tribune's acquisition of 19 additional stations in 2013 would "put us in a good position to fairly bargain with those who want to procure our products."[2] Other industry leaders shared similar sentiments, including Perry Sook, CEO of Nexstar – also an active acquirer in 2013 – who said, "It [retransmission fees] diversifies our revenue. Scale matters just to even the level playing field. Without retransmission fees, we'd look more like the newspaper business rather than TV business."[3]

Without these fees, local TV stations would be largely reliant on advertising revenues from local and national companies at a time when content consumption trends are shifting.

Regulatory impact – countervailing forces

During 2013, US government regulators also had an impact on current and go-forward deal activity in the Broadcasting space. The increase in Broadcasting deal activity over the last three years did not go unnoticed by the Federal Communications Commission (FCC) and was a likely driver for recent FCC actions increasing the scrutiny of Broadcasting "sidecar" agreements and continuing a long-standing ban on "newspaper-broadcast cross-ownership"[4]

Most recently, the FCC has required that at least two sidecar agreements included in two 2013 Broadcasting deals be amended or withdrawn entirely.

At the same time, the FCC recently voted to end a long-standing ban on foreign interests owning more than a 25% stake in US TV or radio stations. The FCC anticipates that opening up the Broadcast industry to greater foreign investment would encourage ownership diversity and likely lead to greater diversity in programming content.

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[1]http://www.nytimes.com/2013/07/08/business/media/a-different-deal-mania-grips-tv.html?pagewanted=all&_r=0

[2]http://www.nytimes.com/2013/07/08/business/media/a-different-deal-mania-grips-tv.html?pagewanted=all&_r=0
[3]http://www.usatoday.com/story/money/business/2013/07/14/tv-retrans-fees/2512233/
[4]http://online.wsj.com/news/articles/SB10001424052702303949504579262803786617112

2014 Broadcasting Outlook

The same critical industry forces that have driven increased Broadcasting deal activity since 2011 have not shown any sign of receding, with growing retransmission fees at the forefront. SNL Kagan recently announced that total transmission fees for 2013 were projected to be approximately $3.3B, increasing to $7.2B by 2018.[5] With growth in TV broadcast advertising projected to be only 4% CAGR from 2013-2017[6], gaining increasingly greater shares of the retransmission pie will be critical for TV Broadcast profitability going forward.

Although US government regulators will likely continue to scrutinize Broadcasting consolidation (particularly in like geographic markets), there is no reason to assume that regulation will be an impediment to further deal activity going forward. New regulations allowing for greater foreign ownership in TV and radio stations will also be beneficial to the overall industry, as it will open up additional avenues for capital investment.

[5] http://www.prweb.com/releases/2013/11/prweb11360552.htm
[6] PwC Entertainment & Media Outlook 2013 - 2017

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, 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 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, FY12 and FY13'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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