Consolidation nation

US entertainment, media and communications deal insights

First quarter 2015 edition

May 2015

A publication from PwC's Deals practice

At a glance

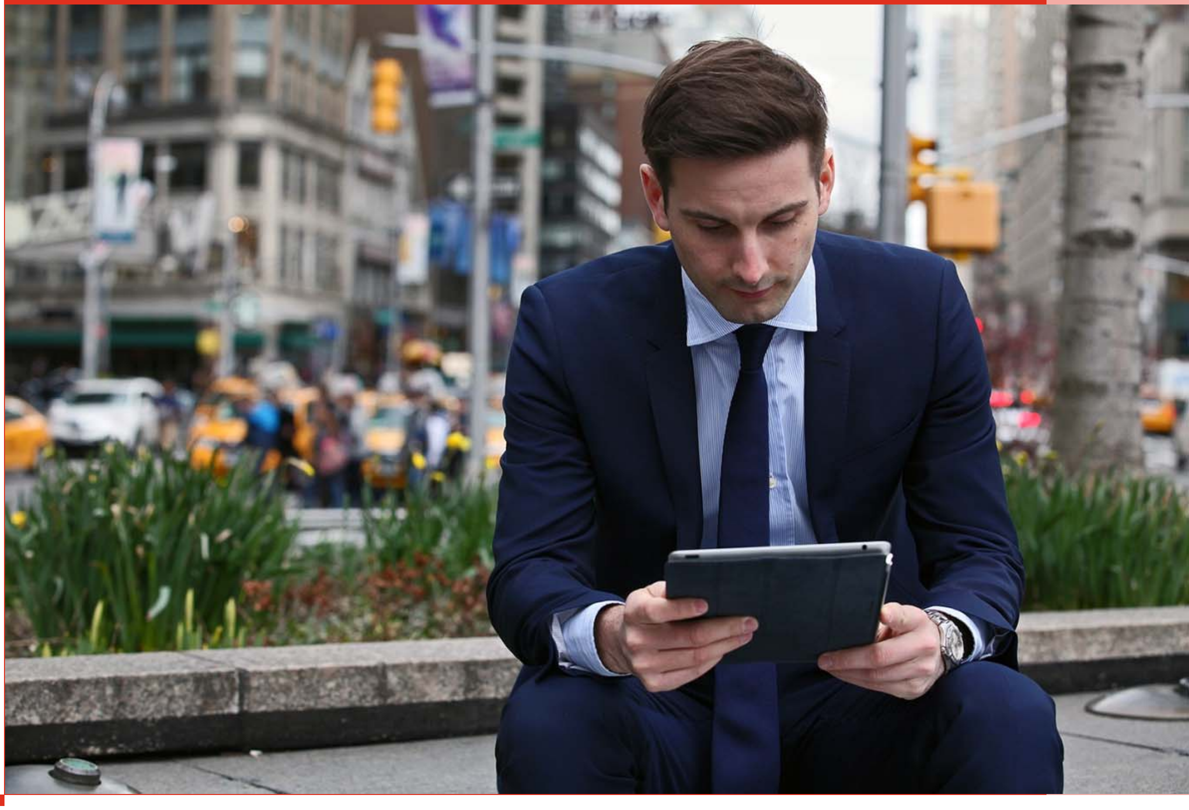
Quarter in review
$39B in deals, up 144% from last quarter

Billion-dollar deals
6 megadeals account for 90% of deal value

***Cable:** calm between the storms*

Spotlight article:

Mobile Payments gain momentum: ***M&A in this transformative sector***



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Introduction

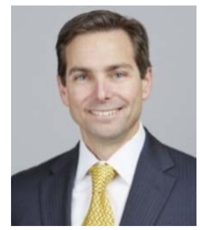
There's no need to dance around the elephant in the room. The Cable sector is poised for consolidation now that the Comcast/Time Warner Cable deal has been called off. M&A rumors are already swirling about potential partners, and we anticipate deal values will reflect a strong market and a large appetite to consolidate.

However, the other Entertainment, Media & Communications (EMC) sectors aren't necessarily sharing in this excitement. We saw the lowest quarterly deal volumes in the previous eight quarters, and the only thing propping up deal values this quarter are a couple of deals Verizon announced in the Communications space now that the Bright House Networks/Charter deal is in flux.

That being said, we maintain our optimism for the remainder of the year and expect M&A will continue to be robust in this sector. Competition is tough and with new market entrants and unique partnerships forming around the ecosystem, those deal makers with access to capital and healthy balance sheets will remain active to execute on their growth strategies.

In this issue, we provide a summary of first quarter 2015 deal activity. We also take a dive into the mobile payments sector which is disrupting Financial Services most notably, but also EMC, Technology and Retail & Consumer sectors. The Payments space has seen much M&A activity in the last 12 months with implications across the internet, advertising, publishing and of course, brands, and we expect that trend to continue.

As always, we welcome your feedback.



Best regards,

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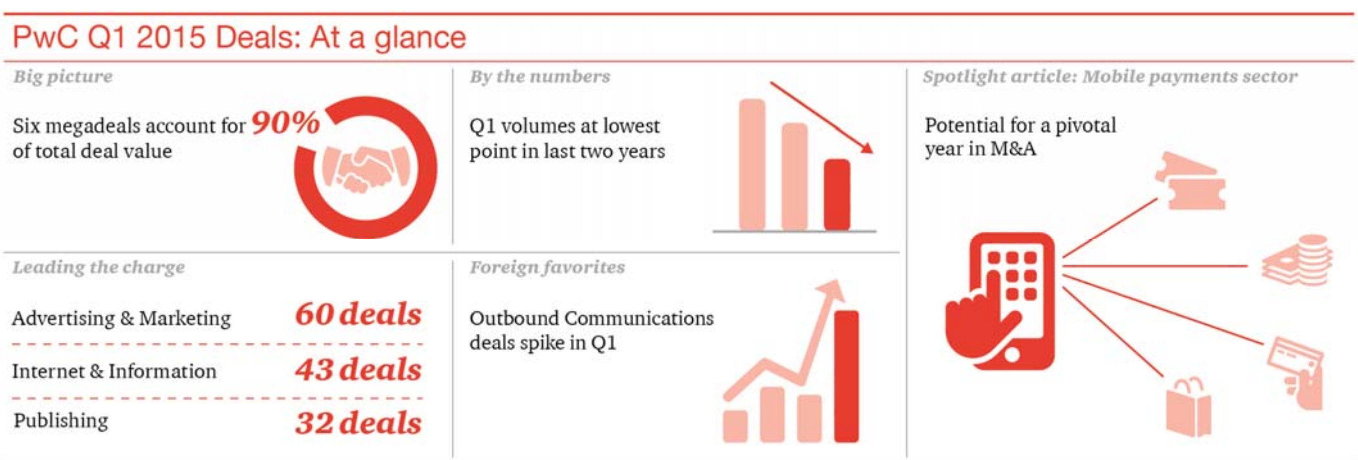


First quarter 2015 M&A trends

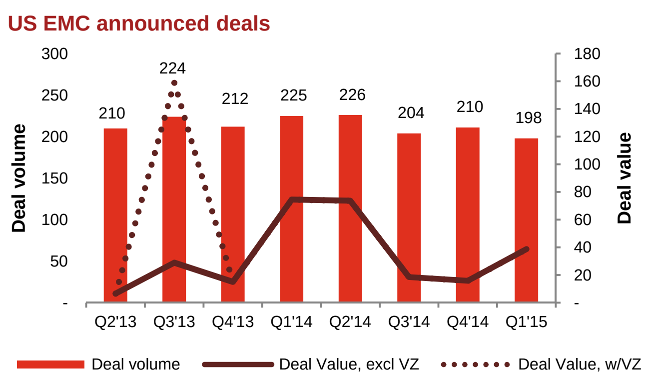
Overall deal value starts strong in Q1'15 despite volume at its lowest point in two years.

Deal values reached a reported $39B in Q1'15, compared to only $16B last quarter (Q4'14), driven by the return of megadeals (in excess of $1B). Included in Q1'15 is the $10.8B announced acquisition of Bright House Networks by Charter Communications, which was contingent upon completion of Comcast's purchase of TWC. However, given the recent termination of the Comcast/Time Warner Cable merger and related spin-off of Comcast subscribers to Charter Communications, there is an air of uncertainty surrounding Charter's current bid for Bright House Networks.

Deal volumes in Q1'15 fell to the lowest point over the last two years with a total of 198 deals. Declines in deal volume were driven primarily by the Communications and Publishing sectors, offset by growth in Advertising and Marketing.

While Q1'15 deal values continue to be favourably impacted by the era of megadeals we found so prevalent in 2014, it may be too soon to tell in which direction deal volumes will trend in the remainder of 2015.

Deal values rebound in Q1

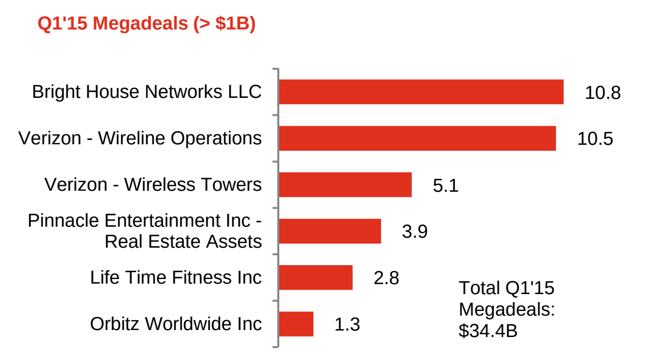


Source: Thomson Reuters

Big deals have returned

After what appeared to be a slowdown for megadeals in the second half of 2014, 2015 kicked off with six megadeals totalling $34.4B (90% of total deal value).

5 billion-dollar deals announced



Source: Thomson Reuters

Below are the Q1'15 billion dollar plus megadeals:

- ***Charter Communications Inc/Bright House Networks LLC*** – The acquisition of Bright House Networks LLC would give Charter ~2.5 million cable subscribers and expand its footprint into California, Florida and Michigan. As mentioned earlier, uncertainty exists around this transaction in light of the recent Comcast/TWC announcement.

- ***Frontier Communications Corp/Verizon Communications Inc*** –Frontier will acquire Verizon's wireline operations that provide services to residential, commercial and wholesale customers in California, Florida and Texas.

- ***American Tower Corp/Verizon Communications Inc*** – American Towers will lease the rights to 11,324 communications towers and purchase a further 165 towers from Verizon.

- ***Gaming & Leisure Properties Inc/Pinnacle Entertainment Inc*** – Gaming & Leisure Properties' unsolicited offer to acquire Pinnacle's real estate assets which include 15 gaming entertainment properties located across 8 states.

- ***Life Time Fitness Inc SPV/Life Time Fitness Inc*** – An equity group consisting of TPG Capital LP, Leonard Green & Partners LP and LNK Partners LLC agreed to acquire the entire share capital of Life Time Fitness, a fitness-chain operator with 113 fitness centers in the US and Canada.

- ***Expedia Inc/Orbitz Worldwide Inc*** – Expedia's acquisition of Orbitz comes in the wake of its acquisitions of Travelocity and Wotif.com of Australia, both announced in FY14. This transaction further consolidates the American market for online travel booking.

Quarter in review: Active sub-sectors

Advertising & Marketing leads Q1'15 in deal volume

US EMC announced deals by subsector

$ in millions	Deal Volume		Deal Value (1)	
	Q4 Dec'14	Q1 Mar'15	Q4 Dec'14	Q1 Mar'15
Advertising & Marketing	53	60	7,504	82
Internet & Information	38	43	2,160	2,419
Publishing	45	32	732	750
Recreation & Leisure	18	19	171	3,125
Communications	28	16	2,543	16,277
Film & Content	12	11	791	283
Broadcasting	10	7	721	40
Casinos & Gaming	2	4	1,252	3,944
Cable	2	4	-	11,638
Music	2	2	-	200
Total	**210**	**198**	**15,874**	**38,757**
Total Q1 Mar'14		*225*		*74,516*

[1] Represents transaction value and not enterprise value, when disclosed.
Source: Thomson Reuters.

Out with the old, in with the new

Communications

Deal volumes were off to a sluggish start, down more than 40% compared to the 28 deals in Q4'14. The most significant slow-down was seen in wireless/VoIP related deals. With the big players bidding billions in the FCC AWS-3 spectrum auction and awaiting the outcome of the pending AT&T/DirecTV merger – US dealmakers may have had their plates full this quarter. Deal values went the other direction, soaring to $16.3B, driven almost exclusively by the sale of tower and wireline assets by Verizon for a total of $15.6B. The impact of the recent emergence of Google as a credible player in the cellular and broadband market will also be closely followed in this sub-sector.

All digital everything

Advertising and Marketing

Deal volumes increased from 53 in Q4'14 to 60 in Q1'15. The most prevalent growth continues to be in the collective digital, mobile and social media markets. Last quarter, those markets accounted for 20% of total advertising and marketing deals. In Q1'15, their share jumped to 30%. Announced deal values were less than $100m in Q1'15, compared to $7.5B in Q4'14. Unfortunately, only 4 of the 60 announced deals this quarter had publicly disclosed deal values.

Settling down

Publishing

Deal volumes were down almost 30% to 32 deals in Q1'15 versus 45 last quarter, driven primarily by a decline in the newspaper space, general publishing houses and related packaging/distribution services. Q4'14 saw significant deal activity in the online and print newspaper space by a wide variety of dealmakers – both corporate and private equity that slowed in Q1'15. While we expect to continue to see spin-offs of legacy print businesses and consolidation in the sub-sector, only time will tell if the height of activity is behind us.

More to come

Cable

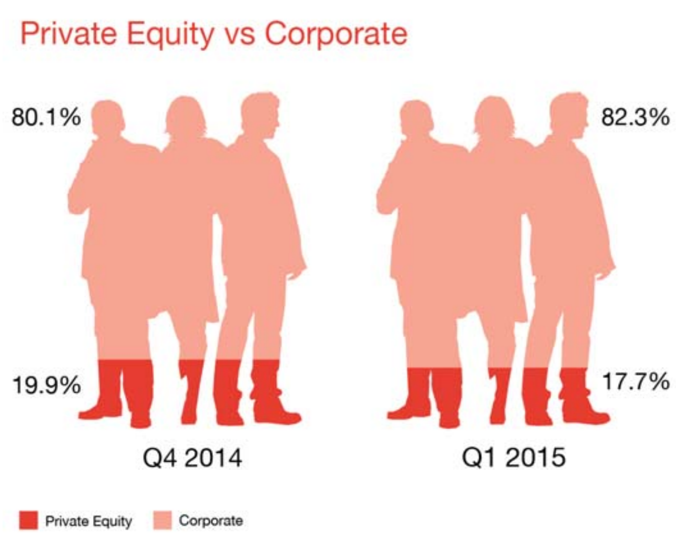
Q1'15 was a stronger start for the Cable sector, with 4 deals compared to only 2 announced in Q4'14. While the bulk of the cable deal value was driven by the aforementioned Charter/Bright House transaction, we anticipate an uptick in both deal volumes and values in FY15 as the key players in this sector re-evaluate their strategy and path forward. Rumors have already circulated in the market about potential M&A with all signs pointing to further consolidation at significant deal values.

Private equity slowdown

Announced deals by private equity buyers represented ~18% of total deals in Q1'15, a slight pull-back from Q4'14 where private equity backed deals represented almost 20% of total deals. While private equity acquisitions continue to be prevalent across a number of EMC subsectors – declines were evident in the Communications and Publishing subsectors while Advertising & Marketing and Broadcasting saw a slight increase in activity.

Private Equity remains active in ~20% of US EMC deals

US EMC deals: corporate vs. private equity mix



■ Private Equity ■ Corporate

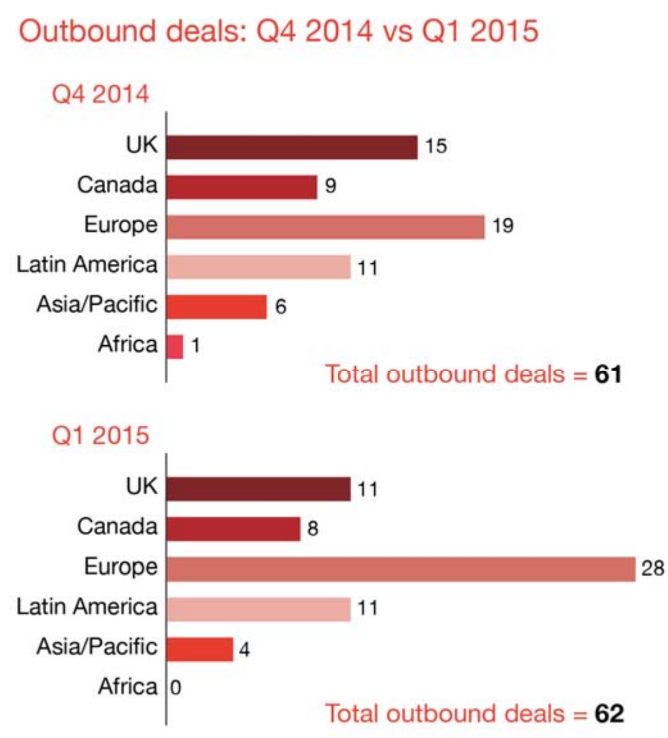
Source: Thomson Reuters

Outbound deals

The number of announced deals by US companies acquiring overseas targets ("outbound deals") remained steady in Q1'15 as compared to Q4'14, likely in part driven to the continued strengthening of the dollar. While the UK and Canada continued to see the most interest from US buyers, the share of outbound deals in the rest of Europe (e.g. Italy, Israel and France) has also increased compared to other markets. From an industry perspective, Internet & Information remains the most active subsector for foreign investment – but in Q1'15 we have also seen a spike in outbound Communication deals (offset by decline in outbound Advertising & Marketing deals).

Europe attracts more M&A outbound deals

EMC cross-border deals by US acquirers



Source: Thomson Reuters

Spotlight: As payment offerings expand, collaboration and consolidation heats up

Mobile payments and associated transactions continue to proliferate. For mobile payments, 2015 and beyond is shaping up to be a pivotal and transformative period for the sector and M&A activity. Presently, the industry is in flux with a mix of factors that are expected to disrupt the industry and drive M&A activity centered around technology/IP, volume growth, customer applications and experience.

Mobile payments are poised to become increasingly important for the Entertainment, Media and Communications (EMC) sector, not directly, but rather as an opportunity to further enrich the customer experience when monetizing content or providing mobile solutions. With recent developments, we've started to see payments become less of a discrete step in the customer experience and more of the glue that helps to bind together commerce. In many cases, payments are fading into the background where consumers may not realize it until it hits their credit card or bank statements.

That being said, the mobile payments sector is currently experiencing major changes from competition to technological advancement to regulation, and as a result, an expected boom in M&A is likely to be spurred on by the following factors:

1. Rise of the connected consumer
2. Heavy prior year investment levels
3. Disruptive upstarts
4. Regulatory changes and cybersecurity concerns, and
5. Opportunities for higher penetration/growth in emerging markets

These factors are combining to provide opportunities around new products, services, and capabilities for both disruptors and for incumbents.

Key factors expected to drive continued deal activity in the sector

1. **Rise of the connected consumer:** We continue to see the ongoing shift in consumer preferences and demands where consumers expect their content and services when they want, where they want, and on the device they want. And they are using multiple screens simultaneously. Mobile payment technologies designed for these screens provide additional opportunities for consumers to transact seamlessly with media or brands, opening a new world of possibilities for new advertising models.
2. **Heavy Prior Year Investments:** Over the prior few years, the sector has realized record levels of VC-backed investments, and increasingly faces further threats from large, (and sometimes tangential,) hardware and software companies expanding their presence into mobile payments. In addition, as many of these VCs look towards near-term exit strategies, M&A becomes more appealing.
   For example, Square now generates up to ~$5B in annualized payments, ApplePay is now leveraging its large base with a low-friction enrollment process to spur consumer adoption, and other technology giants are getting involved.
3. **Disruptive upstarts:** While incumbent network providers and processors still maintain significant market share, the decades old established order in the mobile payments space has given way over the last few years to a new mix of competitors (and want-to-be competitors), platforms, technologies and target markets. Interestingly, amid an ever-evolving battle for new features, IP, and customer bases, disruptive upstarts can be viewed as both a cause and effect of higher M&A levels as established players seek to defend their market share
4. **Regulatory changes and cybersecurity concerns:** New regulations, technology driven by forces such as EMV chip mandates, the global standard for authenticating credit and debit card transactions, and cybersecurity concerns related to a recent rash of high profile network attacks create both opportunities and risks for the sector.
   Concerns around privacy/use of data and the impact upon potential monetization of data will likely drive change in the future around the industry. While it's unclear how the regulation of this part of the industry will develop over the next several years, it's inevitable

that regulation will continue to play a pivotal role in the industry.

5. **Opportunities for higher growth/penetration in emerging markets:** With near-maximum adoption in the US market of established payment mechanisms (i.e., credit, debit, prepaid), a slowing shift from cash to card-based payment solutions, and significant regulatory or other hurdles to international collaboration (especially in the higher-growth emerging markets). incumbent players face slower growth and the need to expand into other territories. While there may be significant regulatory hurdles in some of these markets, the benefits of having a first mover advantage should not be minimized.

What does this mean for our clients?

For companies looking to act offensively, be on the lookout for good opportunities to grow revenue streams, expand product offerings and capabilities, prepare for continued customer/regulatory change, and/or enter new markets. The new entrants into this space provide the ability to leverage others' R&D efforts and capitalize upon their early successes. Make sure that M&A pursuits are well integrated with your overall growth strategy and technological capabilities, and pursue robust diligence to protect against bad investments and unsupported valuations, which can significantly detract from overall growth objectives for many years.

Defensively - know that significant forces are continuing to drive change and the payments sector is facing a potential inflection point which could cause significant disruption. Competitors will be looking to jump ahead and secure new markets/capabilities in ways that may allow smaller competitors to leap ahead or box-out established players Be prepared to utilize M&A as another tool in the R&D toolkit, and stay plugged-in to M&A activity as a way to keep track of competitor movements.

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, many smart 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 & Information
- 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 & Information, 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, FY14 and YTD15'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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