Transaction Services

Insights

Entertainment & Media 2008

Analysis and trends in US M&A activity*

*connectedthinking

PricewaterhouseCoopers


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Welcome

Welcome to the third issue of PricewaterhouseCoopers' M&A Insights. Published annually by PwC's Entertainment & Media Transaction Services practice, the report covers deal activity and trends in the US Entertainment & Media industry.

2007: A tale of two halves

As predicted by our last year's outlook, 2007 deal volume surpassed that of 2006. Despite economic and credit market uncertainties during the latter half of the year, a total of 1,168 Entertainment & Media (E&M) transactions were completed in 2007, an increase of 16% from 1,008 in 2006. In terms of disclosed deal volume and value, 2007 fell short of 2006, with 331 disclosed transactions aggregating $108.1 billion versus 341 deals totaling $129.7 billion in the prior year. It is likely that the changing economic and debt market conditions during the latter half of 2007 delayed a handful of pending deals from closing in 2007. We expect that these macro factors will have an impact on E&M deal activity in 2008 and beyond.

Three E&M sectors drove deal volume in 2007. Publishing, Internet Software & Services, and Advertising & Marketing together accounted for 911 of the 1,168 deals, or 78% of total deal volume. Digital convergence and the growing importance of the Internet and online media led E&M companies to strengthen their digital platforms, triggering much of the deal activity. The momentum from these sectors is expected to spill over into the new year.

Private equity firms solidified their presence in E&M

Private equity buyers were extremely active in the E&M space, investing nearly $45 billion or 41% of 2007 disclosed deal value, up from $19.4 billion or 15% in 2006. Private equity deal volume increased 7% to 159 total deals. In addition, average private equity deal value more than tripled, rising from $245 million to $897 million in 2007.

Increase in "mega" deals

There were 23 deals valued over $1 billion—including 14 valued over $2 billion—completed in 2007, compared to 16 deals over $1 billion completed in the prior year. As a percentage of total deal value, 2007 mega deals contributed 74%, up from about 70% in 2006. Private equity completed seven of the mega deals, representing nearly 50% of total mega deal value.

However, the M&A landscape in the E&M sectors faced a slowdown of activity by private equity acquirers during the latter part of 2007, as their ability to obtain leveraged loan financing became more challenging.

In fact, reports indicate that there is still over $150 billion of leveraged transaction debt to be placed by banks (from a high of $350 billion to $400 billion in late 2007 across all industries). This rationalization in the debt markets is driving a shift in approach by private equity firms.

Looking ahead

2008 will see a continued increase in middle market deal activity. Strategic buyers will likely play a bigger role in 2008 than their private equity counterparts, as they do not typically rely as heavily on the debt markets for financing. *However, don't count private equity out!* It is expected that private equity will remain a major player in the E&M arena, with a concerted focus on middle market sector companies, especially publishing, broadcasting and cable. Private equity platform companies will also be active in the E&M space. With the dollar at an all time low, foreign acquirers are likely to increase their E&M presence as well.

Convergence remains a key factor influencing deal activity in E&M. Consumer empowerment over how content is consumed will continue to drive E&M companies to build scale, enhance capabilities, and think outside the box to grab a piece of the PwC estimated $650 billion 2008 US advertising and consumer/end-user spending pie.

A year does not go by without several high-profile deals in the E&M space—2008 should be no exception. The recent $45 billion takeover bid for Yahoo! by Microsoft will likely fuel related deal activity as well as potential additional interest in Yahoo! itself by other suitors. Potential high-profile transactions involving other major industry players—including Time Warner, IAC/Interactive, XM and Sirius—could also impact the M&A landscape. Indeed, 2008 is already developing into a definitive year.

We look forward to hearing from you…

I hope you find this publication insightful and valuable as you evaluate the E&M deal environment. I invite you to contact me or one of my E&M colleagues if you have any comments about the report, or if you would like to explore any of the issues presented.

Best regards,

Tom

Thomas M. Rooney
Transaction Services, Entertainment & Media Leader
PricewaterhouseCoopers LLP

Index

About the Data

Due to ongoing convergence and shifting of consumers from traditional channels, the E&M industry continues to evolve. While many sectors cross E&M in some fashion, we believe the trends within the sectors discussed herein are applicable to others as well. We have based our research on findings from information provided by industry-recognized sources—specifically *Thomson Financial, the PricewaterhouseCoopers' Global Entertainment and Media Outlook: 2007-2011, Wilkofsky Gruen Associates, S&P, Dow Jones Indices, Private Equity Intelligence, Interactive Bureau, TNS Media Intelligence and SunGard PowerData*. We have used individual E&M sectors primarily as defined by Thomson Financial. As with previous years, 2007 transaction data obtained from these information sources will likely not be finalized until after this report is published. As a result, 2006 transaction volume has been updated from our 2007 Outlook to reflect finalized transaction data.

We define US E&M transaction activity as acquisitions, mergers, shareholder spin-offs, consolidation of minority interests and restructurings. Acquisition targets are defined as US companies acquired by either domestic or foreign acquirers (both corporate and private equity), and deal value is disclosed.

As has been the case over each of the past five years, 2007 disclosed deal volume was significantly lower than total E&M deal volume due to undisclosed deal activity. We believe transactions with disclosed deal values are indicative of overall sector trends in general.

Defining Entertainment & Media

Our analysis highlights the changes underway in the E&M industry due to shifting consumer preferences, evolving technology, and convergence of traditional and new media. Finding a concrete definition of the industry and its sub-sectors is similar to hitting a moving target. We expect the definitions of E&M, technology and communications will continue to blur in coming years.

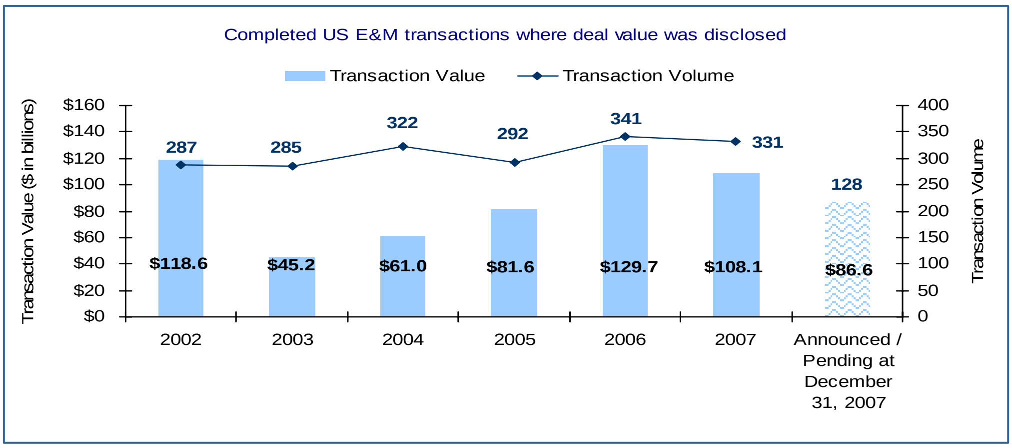
For purposes of our report, we have opted to analyze the following sectors:

- Advertising & Marketing
- Broadcasting
- Business Information
- Cable
- Casinos & Gaming
- Internet Software & Services
- Recorded Music
- Motion Pictures
- Publishing
- Recreation & Leisure
- Video games

Our Findings

2007—disclosed deal activity driven by consolidation in three E&M sectors

Total US E&M transaction activity increased roughly 16% to 1,168 completed deals. Disclosed deal value was lower than that of 2006, primarily due to several mega deals announced in 2006, but not closed as of December 31, 2007.



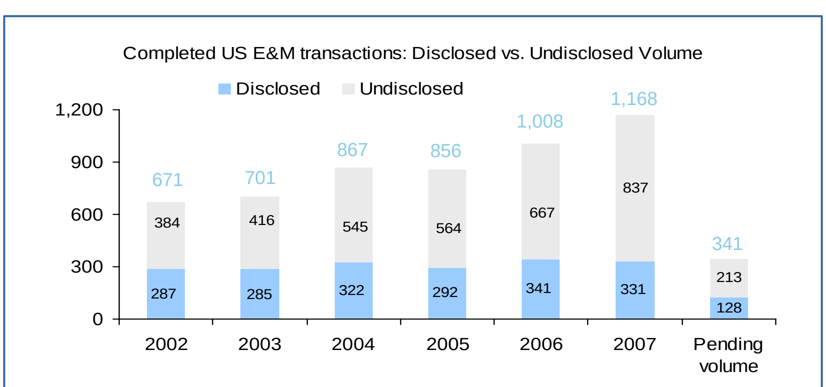
In 2007, E&M deals represented 6.5% and 8.8% of total disclosed US transaction value and volume, respectively (compared to 9.8% and 9.8% last year).

This chart covers US E&M M&A transactions completed in each year indicated, involving US or international companies acquiring US target companies where the deal value was disclosed, excluding open market share repurchases.

Source: Thomson Financial as of January 23, 2008

2007–Big numbers; big uncertainty. While the number of disclosed deals declined slightly from the prior year, total deal volume increased by 16% to 1,168 transactions. Driving this increase was the robust activity in Publishing, Internet Software & Services and Advertising & Marketing which together accounted for 911 total deals or 78% of the total industry volume. The swarm of activity in Internet Software & Services was a telling sign that convergence was behind much of the sector's activity. During 2007, industry players increased their online capability through targeted acquisitions. Prompted in part by Google's announced purchase of DoubleClick, rivals such as Microsoft, Yahoo! and WPP made similar acquisitions. We anticipate this sector to continue its momentum in 2008 as evidenced by Microsoft's recent $45 billion takeover bid for Yahoo!.

Likely hurt by the credit crunch in late 2007 and pending regulatory approvals, disclosed deal value was lower in 2007 than 2006 ($129.7 billion). Mega deals that were expected to close during 2007 did not close due to the tightening of the debt markets or inability to obtain regulatory clearance, including the $27.9 billion purchase of Harrah's Entertainment by Apollo and Texas Pacific Group. In addition, the $19.5 billion buyout of Clear Channel led by Bain Capital and Thomas H. Lee Partners, announced in 2006, finally received clearance from the Federal Communications Commission (FCC) in January 2008, but has yet to close.



This chart covers US E&M M&A transactions completed in the year indicated, involving US or international companies acquiring US target companies, excluding open market share repurchases.

Source: Thomson Financial as of January 23, 2008

In 2007, private equity was a major player in E&M. Although there were 50 disclosed private equity transactions completed during 2007 compared to 79 in 2006, private equity deal value more than doubled to $44.8 billion (41% of total E&M deal value) up from $19.4 billion (15% of total E&M deal value). In terms of total deal volume, 159 private equity deals were completed in 2007 versus 148 completed in 2006—an increase of 7%. Based on disclosed deals, average private equity deal size more than tripled to $897 million in 2007, up from $245 million in 2006.

The following table presents the various sectors included in our analysis, ranked by 2007 transaction value:

US completed E&M transactions where deal value was disclosed

	2007	2006		2007 Deal Volume:		
$ in billions	**Value**	**Value**	**Rank**	**Disclosed**	**Undisclosed**	**Total**
Publishing	39.9	27.9	3	44	149	193
Internet Software & Services	20.5	9.8	5	145	356	501
Broadcasting	19.0	37.8	1	34	27	61
Advertising & Marketing	12.2	1.1	9	50	167	217
Casinos & Gaming	7.4	5.4	7	12	6	18
Recorded Music	2.5	0.4	10	2	9	11
Recreation & Leisure	2.0	5.6	6	13	36	49
Business Information	1.8	1.1	8	7	20	27
Cable	1.5	29.8	2	4	20	24
Motion Pictures	1.2	10.5	4	19	42	61
Video Games	0.1	0.1	11	1	5	6
Total	**108.1**	**129.7**		**331**	**837**	**1,168**

This chart covers US E&M M&A transactions completed in each year indicated, involving US or international companies acquiring US target companies where the deal value was disclosed, excluding open market share repurchases. Differences due to rounding.
Source: Thomson Financial as of January 23, 2008

The most active E&M sector was Internet Software & Services, with 501 completed deals—145 disclosed and 356 undisclosed—accounting for 43% of total deal volume. However, Publishing led in deal value with $39.9 billion or 37% of total E&M value. The most significant growth in 2007 came from Advertising, increasing almost ten-fold, and the Internet Software & Services sectors, increasing 110%.

For the second consecutive year, E&M deal activity was dominated by "mega deals"—deals greater than $1 billion; 23 mega deals were completed in 2007—44% more than in 2006—totaling $80.1 billion and comprising 74% of disclosed deal value. The number of deals exceeding $2.0 billion also increased significantly from nine to 14 in 2007.

2007 completed "mega" deals (where deal value was greater than $1 billion)

Target	**Acquirer**	**Value** ($B)	**Target Sector**	**Date Closed**
Univision Communications Inc.	Private equity consortium	13.5	Broadcasting	Mar. 2007
Tribune Co.	Sam Zell	8.3	Publishing	Dec. 2007
Thomson Learning Inc	Apax Partners, OMERS Capital Partners	7.8	Publishing	Jul. 2007
aQuantive	Microsoft Corp	6.3	Advertising & Marketing	Aug. 2007
Dow Jones & Co Inc	News Corp	5.1	Publishing	Dec. 2007
Station Casinos Inc	Colony Capital LLC	4.8	Casinos & Gaming	Nov. 2007
CheckFree Corp	Fiserv Inc.	4.3	Internet Software & Services	Dec. 2007
Harcourt Education	Houghton Mifflin Co	4.0	Publishing	Dec. 2007
Automatic Data Processing	Shareholders	2.7	Internet Software & Services	Mar. 2007
Time Warner assets (a)	Liberty Media Corp	2.4	Publishing	May 2007
ABC Radio	Citadel Broadcasting	2.4	Broadcasting	Jun. 2007
Readers Digest Association Inc.	Ripplewood Holdings LLC	2.4	Publishing	Mar. 2007
BMG Music Publishing Group	Universal Music Group	2.1	Music Publishing	May 2007
Aztar Corp	Wilmar Tahoe Corp	2.1	Casinos & Gaming	Jan. 2007
Catalina Marketing Corp	Hellman & Friedman Capital	1.7	Advertising & Marketing	Oct. 2007
Worldspan LP	Travelport Inc	1.4	Business Information	Aug. 2007
Digital Insight Corp	Intuit	1.4	Internet Software & Services	Feb. 2007
Digitas Inc	Publicis SA	1.3	Internet Software & Services	Jan. 2007
Paxar Corp	Avery Dennison Corp	1.3	Publishing	Jun. 2007
Banta Corp	RR Donnelley & Sons Co	1.3	Publishing	Jan.2007
Primedia Enthusiast Media	Source Interlink Cos Inc	1.2	Publishing	Aug. 2007
ADVO Inc	Valassis Communications Inc	1.2	Advertising & Marketing	Mar.2007
Advanstar Inc	Private equity consortium	1.1	Advertising & Marketing	May 2007
Total		**80.1**		

This table covers US E&M M&A transactions completed in 2007, involving US or international companies acquiring US target companies where the deal value disclosed was greater than $1 billion, excluding open market share repurchases.
Note: Acquisition of Tribune Co. by investor Sam Zell is technically defined as two separate purchases – the first was a 53% stake in May 2007 totaling $4.3 billion; the second was the remaining 47% stake in December 2007 for $4.0 billion.
(a): Time Warner assets include certain publishing assets and the Atlanta Braves baseball franchise.
Source: Thomson Financial as of January 23, 2008

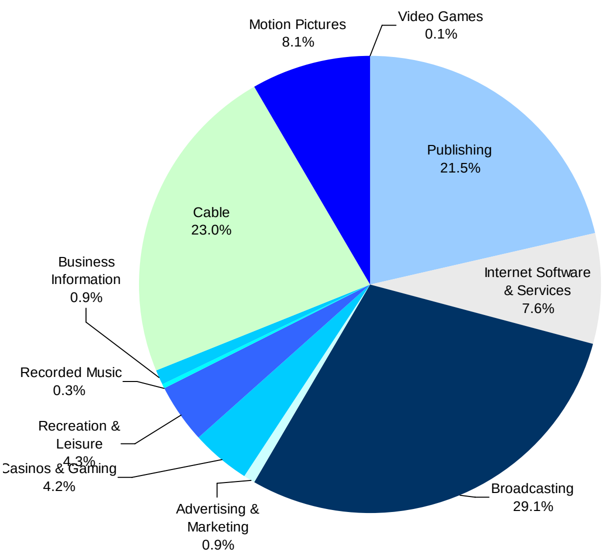
Sector Analysis

Publishing, Internet move to the front page

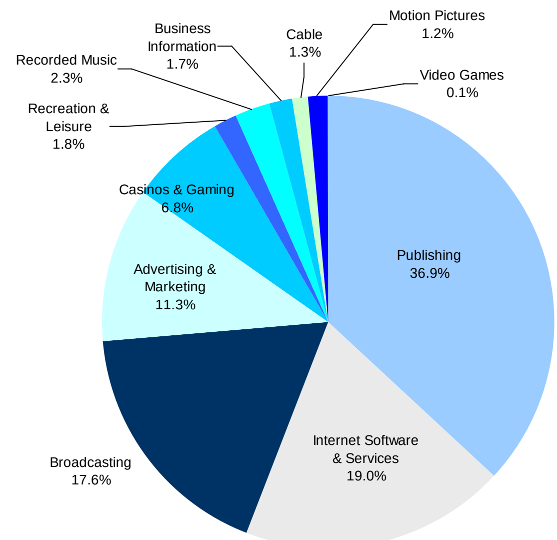
Publishing and Internet deals drove 57% of disclosed deal volume and 56% of disclosed deal value

US Disclosed Deal Value by Sector

2006

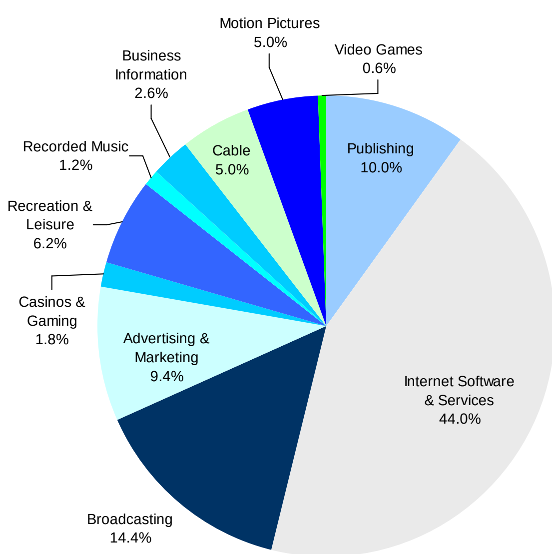


2007

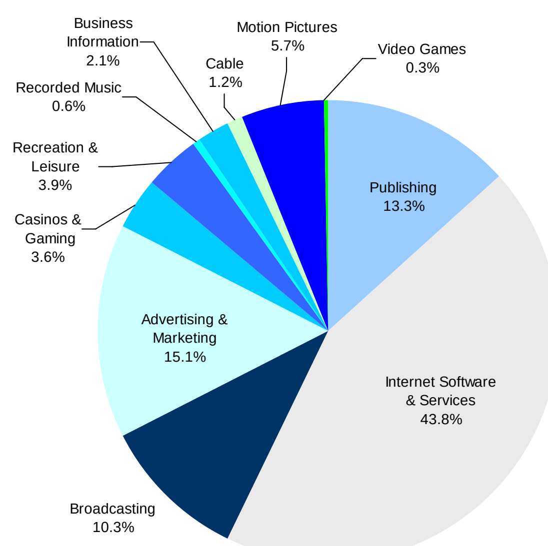


US Disclosed Deal Volume by Sector

2006



2007



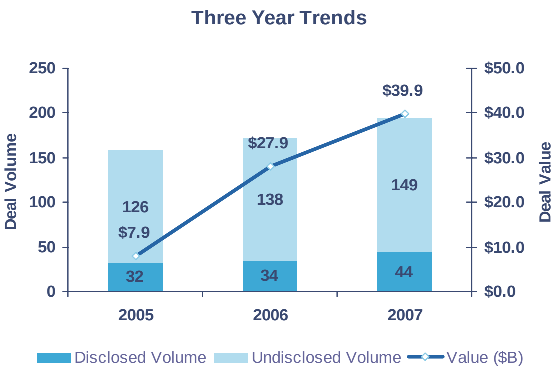
This chart covers US E&M M&A transactions completed in 2007, involving US or international companies acquiring US target companies where the deal value was disclosed, excluding open market share repurchases.

Source: Thomson Financial as of January 23, 2008

Sector Analysis

Publishing—this year's best seller

2007 US Publishing deal activity	
Disclosed deal value ($M)	39,944
Disclosed deal volume	44
Average disclosed deal size ($M)	908
Total deals closed (including undisclosed)	193
% of disclosed deals to total sector volume	23%



Source: Thomson Financial as of January 23, 2008

Deal volume and value grew exponentially, primarily as a result of major deals in both the newspaper and educational & professional publishing sectors. The newspaper sector was headlined by Sam Zell's private equity backed takeover of Tribune Co. for $8.3 billion and the sale of Dow Jones to News Corp. for $5.1 billion. It is likely that Rupert Murdoch intends to utilize Dow Jones' premier publishing asset, *The Wall Street Journal*, as a launch pad for his recently introduced Fox Business Channel.

In the educational & professional space, deal value was driven by the $7.8 billion acquisition of Thomson Learning by Apax Partners and OMERS Capital Partners, as well as the sale of Harcourt Education to Houghton Mifflin for $4.0 billion. Another significant Publishing deal was the $2.4 billion acquisition of Readers Digest Association by Ripplewood Holdings LLC.

Other deals also exceeding $1 billion included RR Donnelley & Sons' acquisition of printing services company Banta Corp. for $1.3 billion; and Source Interlink's (principally owned by private equity firm Yucaipa Companies) purchase of Primedia Inc's Enthusiast Media division which includes publications such as *Motor Trend* and *Soap Opera Digest*, for $1.2 billion.

Private equity continues to have a significant presence in the Publishing sector. In 2007, private equity investments totaled $19.9 billion in the Publishing sector alone, comprising 44% of private equity disclosed deal value.

Internet Software & Services—announced deal value doubles in 2007

2007 Internet Software & Services deal activity	
Disclosed deal value ($M)	20,575
Disclosed deal volume	145
Average disclosed deal size ($M)	142
Total deals closed (including undisclosed)	501
% of disclosed deals to total sector volume	29%

Source: Thomson Financial as of January 23, 2008

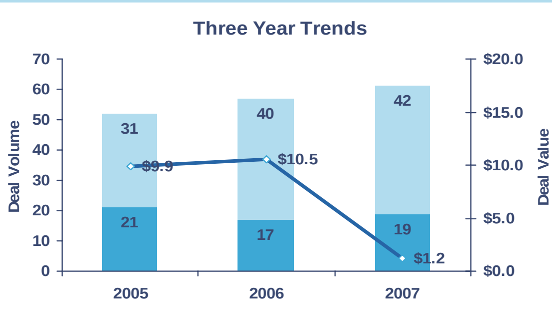
The largest transaction was Fiserv Inc.'s $4.3 billion acquisition of CheckFree Corp., an e-commerce service provider. Other notable transactions included ADP's IPO spin-off of its brokerage services unit valued at $2.7 billion; Intuit's $1.4 billion acquisition of Digital Insight Corp., a provider of Internet banking services; and the acquisition of direct marketing firm Digitas by French advertising giant Publicis Groupe for $1.3 billion.

Looking ahead, Internet conglomerate IAC/Interactive Corp. recently announced plans to break into five separate publicly traded companies, including IAC, the online media and advertising unit; Home Shopping Network; LendingTree; Ticketmaster; and Interval International, the online vacation services unit. IAC's change in strategy could impact sector deal activity in 2008 and beyond.

Continued growth of digital content consumption by consumers has and will drive deal activity among both pure-play Internet companies and traditional E&M players. Sector deal activity is expected to remain high in 2008, with small deals dominating the landscape as newly developed technology is snapped up by companies in their bid to monetize the evolving digital landscape.

Motion Pictures—smaller, less publicized deals

2007 Motion Pictures deal activity	
Disclosed deal value ($M)	1,245
Disclosed deal volume	19
Average disclosed deal size ($M)	66
Total deals closed (including undisclosed)	61
% of disclosed deals to total sector volume	31%



Source: Thomson Financial as of January 23, 2008

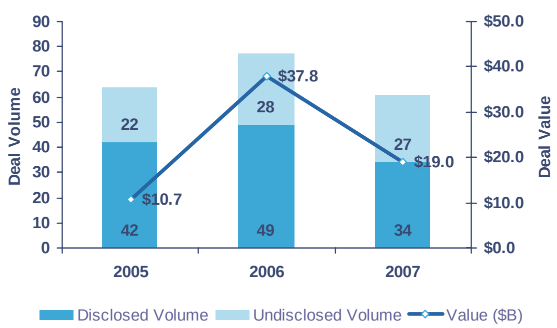
While deal volume remained relatively constant versus 2006, deal value decreased significantly. This was largely due to the absence of multibillion dollar deals which dominated the sector in prior years. 2007 was marked by smaller, less publicized deals—the largest being LodgeNet Entertainment's $378 million acquisition of Ascent Entertainment Group, a provider of in-room, on-demand video entertainment and information services. During 2007, Dan Snyder engineered the acquisition of dick clark productions, inc. through Six Flags and Red Zone Capital for $175 million.

This sector continues to be influenced by media convergence and the growing popularity of HDTV and movies on demand. The shortened timeframe from movie to rental also impacted the industry. Digital film distribution has become widely practiced and embraced by consumers. Going forward, motion picture companies will continue to improve their Internet infrastructure, either through strategic partnerships or acquisitions.

Broadcasting—headlined by Univision deal

2007 Broadcasting deal activity	
Disclosed deal value ($M)	19,020
Disclosed deal volume	34
Average disclosed deal size ($M)	559
Total deals closed (including undisclosed)	61
% of disclosed deals to total sector volume	56%

Three Year Trends



Source: Thomson Financial as of January 23, 2008

For the second consecutive year, the largest E&M deal occurred in the Broadcasting sector. A consortium of private equity firms, including Madison Dearborn Partners, Providence Equity Partners, Texas Pacific Group, Thomas H. Lee and Saban Capital, acquired Univision Communications, the largest Spanish language broadcaster in the US primarily known for its *telenovelas* and coverage of the World Cup soccer tournament, for $13.5 billion. Another notable deal in the space was Citadel Broadcasting's $2.4 billion acquisition of ABC Radio from The Walt Disney Company.

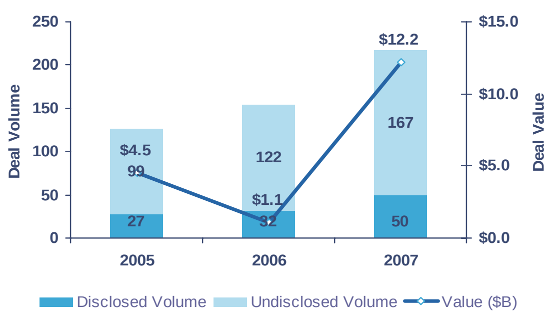
Television broadcasting has been an area of strong activity over the past two years, attracting significant attention from private equity. For example, Oak Hill Capital Partners purchased nine TV stations from *The New York Times* for $575 million during 2007, and also announced an eight-station deal with Fox television in December 2007 for $1.1 billion that is expected to close in the third quarter of 2008. Providence Equity Partners announced a $1.2 billion deal to purchase 56 radio stations from Clear Channel in April 2007, but a public filing by Clear Channel on November 8, 2007 brings the closing of this deal under these terms into question. Further, other broadcasters, including Nexstar Broadcasting and LIN TV, suspended their auctions as the credit markets tightened in the second half of 2007; it is unclear if, or when, these properties will change hands. Further activity in this group may be hampered by concerns over the advertising market in 2009, especially automotive advertising, following the national elections and the Olympics during 2008.

Looking ahead, the 2006 announced acquisition of Clear Channel Communications by Bain Capital Partners and Thomas H. Lee Partners for $19.5 billion received FCC approval in January 2008 and is expected to close during the first quarter. As a condition to regulatory approval, Clear Channel is expected to divest 42 radio stations in the top 100 US markets, which will spur deal activity in this sector in 2008. The $13 billion announced merger of satellite radio heavyweights XM and Sirius is still awaiting regulatory approval. If approved, this deal could also close during 2008. Continued audience fragmentation and disruptive technology are likely to drive consolidation among radio operators and TV broadcasters, particularly in middle market Designated Market Areas.

Advertising & Marketing—online ad networks drive sector activity

2007 Advertising & Marketing deal activity	
Disclosed deal value ($M)	12,222
Disclosed deal volume	50
Average disclosed deal size ($M)	244
Total deals closed (including undisclosed)	217
% of disclosed deals to total sector volume	23%

Three Year Trends



Source: Thomson Financial as of January 23, 2008

Due to the continued growth of online media, major sector players—including Microsoft, Google, Yahoo! and AOL—lined up to acquire online advertising networks in 2007. Most notable was the completed acquisition of aQuantive, a digital marketing services provider, by Microsoft Corp. for $6.3 billion, that comprised over 50% of the total sector deal value. In addition, WPP acquired 24/7 Real Media for $649 million and Yahoo! acquired advertising network BlueLithium for $300 million. Looking ahead to 2008, Google is expected to close its $3.1 billion acquisition of DoubleClick, and AOL expects to close its $275 million acquisition of Tacoda.

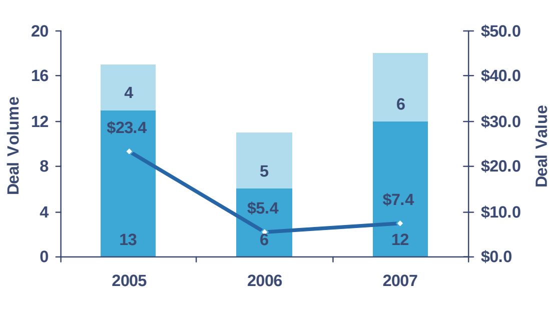
Microsoft's recent $45 billion takeover bid for Yahoo! is likely to further spur the pace of M&A activity in the advertising, publishing and online space as rivals and smaller companies consolidate to compete.

Private equity buyers were active in the sector as well—Hellman & Friedman Capital acquired Catalina Marketing Group, a provider of marketing consulting services, for $1.7 billion; DLJ Merchant Banking Partners sold the marketing firm Advanstar Inc. to a private equity consortium including Veronis Suhler Stevenson, Citigroup Private Equity and New York Life Capital Partners for $1.1 billion.

Casinos & Gaming—steady deal flow in 2007; Harrah's on the horizon

2007 Casinos & Gaming deal activity	
Disclosed deal value ($M)	7,351
Disclosed deal volume	12
Average disclosed deal size ($M)	613
Total deals closed (including undisclosed)	18
% of disclosed deals to total sector volume	67%

Three Year Trends



Source: Thomson Financial as of January 23, 2008

Completed deals in 2007 were led by the acquisition of Station Casinos, owner and operator of several off-strip casinos, by Fertitta Colony Partners for $4.8 billion—the sixth largest E&M transaction this year. Wilmar Tahoe Corp., a unit of Columbia Sussex Corp., acquired Aztar Corp., owner and operator of Tropicana in Las Vegas, among others, for $2.1 billion.

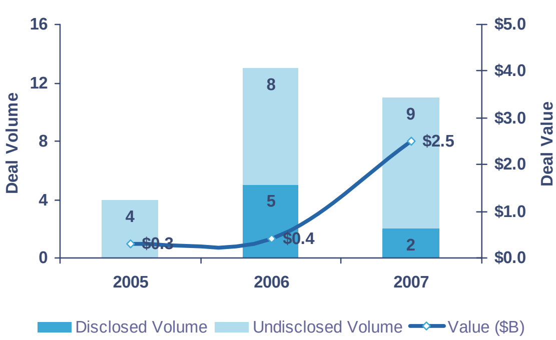
The sector outlook for 2008 is positive. Notably, private equity firms Apollo and Texas Pacific Group completed their $27.9 billion acquisition of Harrah's Entertainment in January 2008. Trump Entertainment Resort's Atlantic City based casino properties continue to be mentioned in the press as possible acquisition targets.

Furthermore, foreign investors appear to be increasingly interested in Las Vegas, evidenced by the recently announced acquisition of Cannery Casino Resorts by Hong-Kong based PBL Entertainment/Crown for $1.8 billion. In addition, Dubai World, a government controlled investment fund, recently announced the acquisition of a 50% stake in MGM's City Center project in Las Vegas for $2.7 billion.

Recorded Music—a Major is acquired, and music publishing "hits"

2007 Recorded Music deal activity	
Disclosed deal value ($M)	2,470
Disclosed deal volume	2
Average disclosed deal size ($M)	1,235
Total deals closed (including undisclosed)	11
% of disclosed deals to total sector volume	18%

Three Year Trends



Source: Thomson Financial as of January 23, 2008

Universal Music Group's $2.1 billion acquisition of BMG Music Publishing Group, a unit of Bertelsmann AG, led completed sector deals. However, all eyes were on the long auction process for recorded music and publishing giant EMI during 2007. The EMI auction attracted a number of high-profile strategic and financial suitors, with UK-based private equity firm Terra Firma eventually emerging as the acquirer at $4.7 billion. The deal closed in August 2007, but is not reflected in sector results due to the US-target focus of this report. However, this transaction certainly impacts the music landscape.

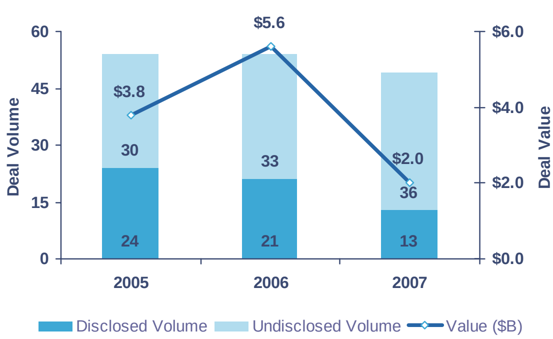
Beyond the BMG deal, focus was on other music publishing and non-recorded music deals. Bug Music, one of the largest independent music publishers and a portfolio company of Spectrum Equity Investors LP, purchased Windswept Music Publishing. Warner Music Group (WMG) created a joint venture with the family of Frank Sinatra to manage all aspects of Sinatra’s artistic contribution to music, film and stage. WMG also formed a joint venture with the founder of the artist-management company Violator Management. IAC purchased the largest US artist management company, Front Line (with WMG maintaining a minority interest). These transactions indicate that companies are continuing to consolidate positions, as well as branch out within the music industry, beyond recorded music.

The recorded music sector is evolving and particularly sensitive to convergence in technology and shifting consumer tastes. Companies are exploring numerous innovative approaches to monetize digital distribution and enhance customer and artist relationships in light of declining CD unit sales.

Recreation & Leisure—mid-sized private equity deals dominate

2007 Recreation & Leisure deal activity	
Disclosed deal value ($M)	1,997
Disclosed deal volume	13
Average disclosed deal size ($M)	$154
Total deals closed (including undisclosed)	49
% of disclosed deals to total sector volume	27%

Three Year Trends



Source: Thomson Financial as of January 23, 2008

American Capital Strategies' $631 million acquisition of SMG, a provider of venue management services, from Aramark and Hyatt Hotels, was the largest deal in the sector. Theme parks were also popular targets, accounting for more than 20% of deals in the sector and led by two notable transactions—the $330 million acquisition of Palace Entertainment by Parques Reunidos SA, a unit of Advent International's Global Private Equity subsidiary, and the $312 million acquisition of several Six Flags amusement parks by real estate company CNL Financial Group and PARC Management, operator of several water and amusement parks in the US.

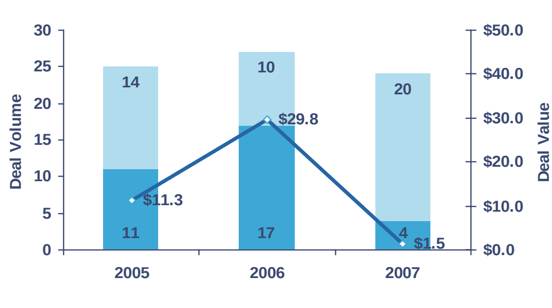
Not reflected in these sector figures is the sale of the Atlanta Braves baseball franchise for a reported valuation of $460 million. This sale is included as part of the larger $2.4 billion transaction between Time Warner and Liberty Media Corp., in which Time Warner re-acquired a portion of its stock held by Liberty Media in exchange for certain publishing assets, the Braves and cash (classified herein as Publishing).

During 2008, investor Sam Zell—in order to pay down debt associated with his $8.3 billion acquisition of Tribune Co. in 2007—is expected to sell off the legendary Chicago Cubs baseball franchise, their stadium Wrigley Field, and a stake in a Chicago-based regional sports network for upwards of $1 billion.

Cable—Oxygen Media breathes M&A life into sector

2007 Cable deal activity	
Disclosed deal value ($M)	1,460
Disclosed deal volume	4
Average disclosed deal size ($M)	365
Total deals closed (including undisclosed)	24
% of disclosed deals to total sector volume	17%

Three Year Trends



Source: Thomson Financial as of January 23, 2008

The sector was led by NBC Universal's $975 million acquisition of female-focused Oxygen Media LLC, which complements its iVillage Internet business and existing portfolio of broadcast and cable networks. In addition, Comcast Corp. acquired Patriot Media & Communication LLC, a provider of cable and Internet services, from Spectrum Equity Investors LP for $483 million.

Looking ahead to 2008, major industry players continue to shed non-core assets to streamline operations. As a means to build scale, consolidation of multiple system operators is expected to continue. Credit markets will likely have a significant impact on the ability of future sector deals to be consummated.

Private Equity Analysis

What a year!

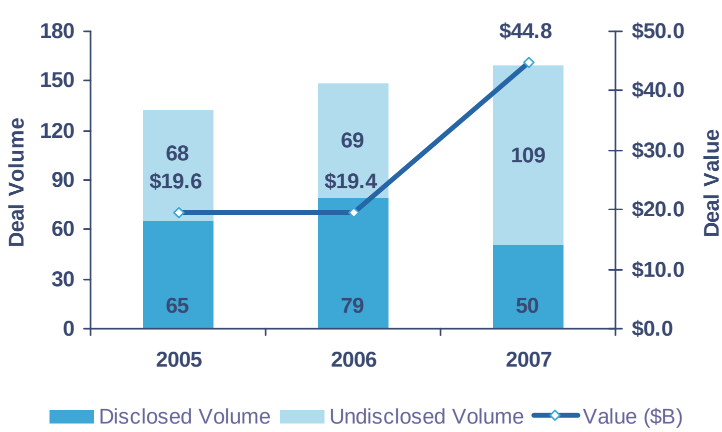
Private equity deals accounted for 41% of E&M deal value–up from 15% in 2006

2007 Private Equity US E&M deal activity

$ in millions		Volume		
Sector	Value	Disclosed	Undisclosed	Total
Publishing	19,882	10	19	29
Internet Software & Services	1,013	11	31	42
Broadcasting	14,804	8	2	10
Advertising	2,873	7	35	42
Casinos & Gaming	4,935	4	-	4
Recreation & Leisure	908	3	11	14
Recorded Music	-	-	3	3
Business Information	80	3	2	5
Cable	-	-	2	2
Motion Pictures	348	4	3	7
Video Games	-	-	1	1
Total	**44,842**	**50**	**109**	**159**
% of total disclosed US E&M activity	*41%*	*15%*		

This table covers US E&M M&A transactions completed in 2007, involving US or international private equity firms (alone or as part of an investor group) acquiring US target companies where the deal value was disclosed, excluding open market share repurchases. Differences due to rounding.

Three Year Trends



Source: Thomson Financial as of January 23, 2008

Due to a large backlog of announced transactions in 2006 and continued E&M appetite throughout 2007, private equity activity represented 41% of E&M deal value, up from 15% in 2006. In aggregate, completed private equity deal value was $44.8 billion (versus $19.4 billion in 2006).

Seven private equity deals topped $1 billion each, totaling nearly $40 billion. The top three disclosed E&M deals of 2007 involved private equity buyers—the $13.5 billion acquisition of Univision Communications Inc., the $8.3 billion acquisition of Tribune Co. and the $7.8 billion acquisition of Thomson Learning.

In 2007, private equity buyers remained focused on traditional media sectors—Publishing and Broadcasting deals accounted for $34.7 billion, or 77% of total private equity deal value. The Casino & Gaming sector was active as well, with four private equity backed deals totaling $4.9 billion in deal value.

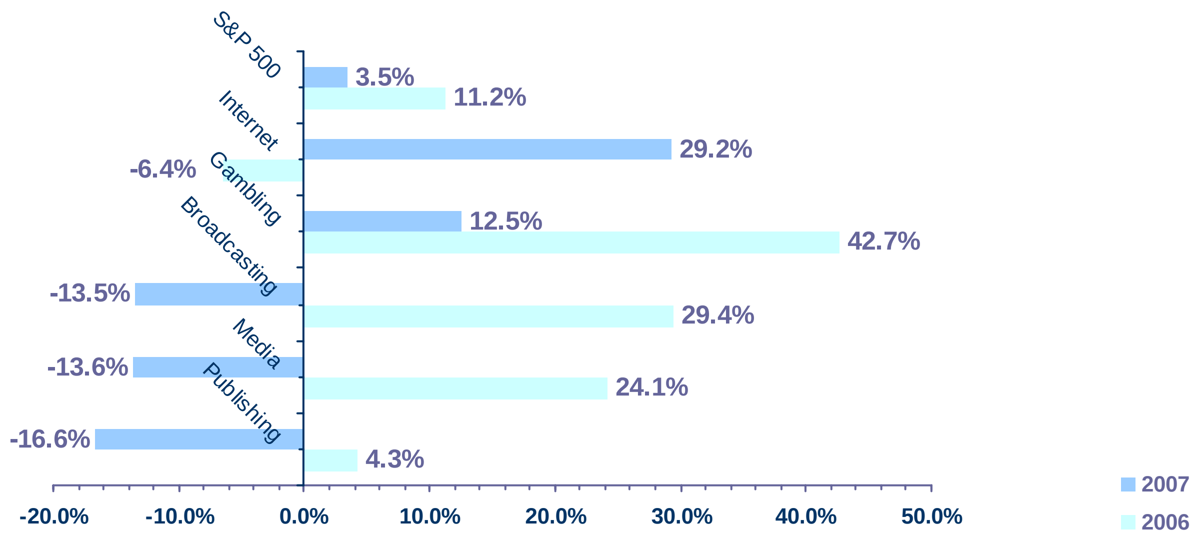
Looking ahead to 2008, Apollo and Texas Pacific Group's $27.9 billion acquisition of Harrah's Entertainment closed in January, and Clear Channel's $19.5 billion acquisition by Bain Capital and Thomas H. Lee Partners is expected to close later in the year. Despite the current tightening of the credit markets, we expect that private equity's interest in E&M will continue, with a concerted focus on middle market sector companies, including add-on investments for existing portfolio companies.

Private equity fundraising continued apace amidst the credit crunch. According to *Private Equity Intelligence*, US-focused funds raised $281 billion in 2007—11.5% more than 2006. Based on these amounts raised, private equity buyers will continue to be active in the M&A area either through direct investments or add-ons to existing platform companies.

Public Market View

Performance—E&M lags in 2007

After generally outpacing the broader equity markets during 2006, traditional E&M indices delivered lackluster returns in 2007 (a)



Sources: Dow Jones US Indexes, SunGard PowerData
(a) Relative one year return.

Despite a strong first half, E&M stocks declined significantly in the latter part of 2007, further demonstrating the sensitivity of the industry to broader macroeconomic trends (economic slowdown, debt market crisis) as compared to other industry sectors.

Concerns of a prolonged economic downturn and expectations of sluggish advertising spending in 2008 had a negative impact on a number of E&M sector stocks in 2007. With the S&P 500 index up 3.5% for the year, traditional E&M sector stock performance lagged the broader equity markets, indicating that E&M companies are highly sensitive to changes in overall economic conditions (more so than other industries) and a discretionary spend for end consumers. Largely immune to this downward trend is the Internet sector, dominated in market capitalization by Google and Yahoo!, who are receiving a large market share of the increasing advertising spend on the Internet.

The increasing emphasis of advertising dollars shifting to online platforms raises the concern that traditional media will face continued challenges in attracting and retaining ad spend, and must focus on monetizing digital content to share this online ad spend. As indicated by the record high 30-second spot prices for this year's Super Bowl ($2.7 million), advertisers are clearly willing to invest in premier, wide-reaching broadcast events. It is also anticipated that other major events this year, such as the 2008 Summer Olympics and US presidential election, should see strong broadcast advertising spend. However, outside these prominent high-water marks, the underlying trend going forward points towards a more fragmented audience across E&M, requiring the overall industry to stay on its toes and continually rethink its approach. As previously noted, this advertising shift may lead to further consolidation and deal activity in the online space as E&M companies continue to enhance their digital capabilities and platforms.

2008 US E&M Industry Outlook

2008—a wildcard, but likely to exceed 2007 disclosed deal value

The level of M&A activity in 2008 is difficult to predict given changing economic and debt market conditions, as well as the pending outcome of potential industry changing transactions—such as the Microsoft-Yahoo! deal. Should these mega deals be approved and completed during 2008, deal value in 2008 may be the highest we've seen. With a total of 341 announced deals in 2007 pending closure, and mega transactions announced in the latter half of 2006 closed or cleared in early 2008, the new year is set to mirror or surpass that of 2007. The slowdown of private equity activity will likely be offset by both an increase in strategic activity, and an influx of foreign buyers due to the weakened US dollar.

Spending—continuing the pace in 2008

$ in millions	2002	2003	2004	2005	2006p	2007e	2008e	2009e	2010e	2011e	2007-2011 CAGR
Consumer/End-User Spending	313,305	331,594	355,338	374,408	398,123	422,468	447,623	473,994	502,632	528,914	*5.8%*
Advertising Spending	151,287	156,562	169,893	175,619	184,325	189,695	201,325	206,719	217,571	225,295	*4.1%*
Total	464,592	488,156	525,231	550,027	582,448	612,163	648,948	680,713	720,203	754,209	*5.4%*
% Change	*4.7%*	*5.1%*	*7.6%*	*4.7%*	*5.9%*	*5.1%*	*6.0%*	*4.9%*	*5.8%*	*4.7%*	

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates.
p= preliminary; e= estimated

US E&M industry spending is estimated to increase 6.0% to $648.9 billion in 2008. According to PricewaterhouseCoopers' *Global Entertainment and Media Outlook: 2007-2011*, the driving forces behind the increase are the double-digit growth in Internet advertising and satellite radio subscriptions, Internet access spending due to the shift from dial-up to broadband, shut down of analog broadcasts, the 2008 Olympics and the US presidential election.

As the Internet increasingly becomes part of consumers' everyday lifestyle and technological innovation continues to offer them more control over content consumption, advertisers have to be nimble and strategic in distributing their spending to reach their target audience.

Other key industry trends influencing M&A activity

Online growth accelerates
It's no mystery that the Internet continues to alter the industry. However, the rate at which companies shift from traditional advertising and marketing channels to online may accelerate if faced with a prolonged economic downturn and contracting marketing dollars. This may lead to further consolidation and deal activity in the online space as companies continue to enhance their digital capabilities.

A note on the writer's strike
It's difficult not to comment on the writer's strike that impacted planned advertising and resulted in lost revenue across the E&M landscape. The strike highlights the dependence on writers to create captivating content to sustain viewers' interest and network ratings that are so important to advertisers. It also forces advertisers to re-evaluate their advertising and marketing plan as viewers continue to explore other media channels, including online.

Convergence remains a key driver in M&A activity. The convergence of media, technology and communications will continue to be a driver in deal activity for years to come. As technology evolves and enables consumers to access content through various mediums, E&M companies will expand capabilities and acquire new platforms to attract consumers.

An increase in middle market activity. With the threat of a prolonged economic downturn, the tightening of the credit market and normalized deal multiples, there will be fewer mega deals in 2008. Deals valued at less than $1 billion will be more common.

Despite the credit crunch, private equity continues to be an important player.
The credit crunch may put an end to mega private equity deals for the time being and dampen private equity's M&A pace; however, private equity will continue to be active. According to *Private Equity Intelligence's* January issue of *Spotlight*, US-focused funds raised $281 billion in 2007—$29 billion more than 2006. According to Private Equity Intelligence's Limited Partner (LP) survey, 52% of respondents said they intend to increase their allocations to private equity funds in 2008, while the remaining 48% plan to maintain (not reduce) their current level. This is a good indication that private equity interest in E&M is here to stay as E&M is an industry focus for most mega funds.

Given the amount and breadth of E&M deal activity over the past three years, private equity currently has investments across the majority of E&M sectors—and, because subsequent transactions made by private equity portfolio companies are considered corporate transactions—it has become difficult to accurately quantify private equity's impact on the E&M deal landscape. However, when all transactions made by private equity are taken into account, private equity's influence in the E&M space is far greater than that disclosed.

Consolidation continues in certain E&M sectors. In 2007, we witnessed consolidation in the Publishing, Advertising & Marketing, Broadcasting (middle market), and Internet Software & Services sectors. This trend will likely carry over into 2008. Regional and local publishing companies will continue to use acquisitions to increase scale. As the importance of the Internet grows, E&M companies will make strategic purchases to enhance existing online capability or enter the online market. Publicis Groupe, one of the world's leading advertising media services conglomerate, entered the digital space in 2007 with its purchase of Digitas, Inc., a leader in digital and direct marketing.

Foreign acquirers go bargain hunting in the US. The weakening of the US dollar and the increased strength of foreign currencies such as the Euro will draw foreign interest, especially from European acquirers. The recent interest rate cuts by the Fed only increase the attractiveness of the US as an investor's destination in the near term. In fact, foreign buyers contributed more than 12% (143 completed deals) of total US E&M deal volume (1,168 deals). Currently, 34 US deals involving foreign buyers were announced in 2007 that are pending or partially completed.

In Conclusion

2008—strategic buyers to return to the forefront

2006 was dominated by a handful of mega deals and activity in certain E&M sectors, 2007 was a year of private equity, and 2008 will see a return of strategic buyers.

Private equity deal activity has grabbed the media spotlight for the last several years. With deal multiples coming down and private equity firms taking a breather to work through their backlog, savvy strategic acquirers will take advantage of these opportunities to secure deals.

How accurate was our 2007 forecast?*

2007 will be another active year

Correct. Despite the credit crunch in the second half of 2007, total E&M deal volume increased 16% to 1,168, up from 1,008 completed deals in 2006. However, deal value was down due to two mega deals announced in 2006—Harrah's and Clear Channel—that were expected to close in 2007 instead of 2008.

The number of mega deals to exceed 2006

Correct. There were 23 transactions valued over $1 billion versus 16 deals in the prior year. In addition, the number of mega deals valued over $2 billion increased from nine to 14 in 2007.

Evolving technologies and convergence of E&M, technology and communications industries create opportunities

Correct. Convergence and evolving technologies continue to offer opportunities for companies to explore new channels to reach consumers and strategically reshape traditional business models. For example, E&M companies are increasingly turning to the Internet to reach a greater audience and/or narrow their marketing efforts.

Corporate leaders will continue to impact the deal environment in a significant way

Correct. Google's announced acquisition of DoubleClick, an online placement firm, was followed by Google's rivals snapping up online ad networks—for example, Microsoft's aQuantative purchase, WPP's purchase of 24/7 Real Media and Yahoo!'s purchase of BlueLithium and RightMedia—to bolster their presence.

Advertisers must address convergence to reach consumers

Correct. The Internet is increasingly grabbing a bigger share of total advertising dollars and evolving technologies in personal devices such as iPods, iPhones and PDAs afford advertisers new ways to reach their audience. According to *Interactive Bureau* and *PricewaterhouseCoopers*, online ad revenues hit a record high of $5.2 billion in the third quarter of 2007. *TNS Media Intelligence*, a research firm, has said Internet ad spending for 2007-2008 will increase to 8.0% from 7.1% for the 2006-2007 period.

Private equity's continued interest in the industry

Correct. Private equity injected $44.8 billion into the industry across various E&M sectors—an astounding 131% increase over the $19.4 billion achieved in 2006. Consequently, private equity buyers accounted for 41% of deal value versus 15% in 2006.

* The accuracy of our previous forecast does not guarantee the accuracy of future forecasts.

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PricewaterhouseCoopers' Transaction Services Group advises entertainment and media companies on how to use transactions more effectively to reach their business goals and improve returns on capital invested. We help our clients understand trends in the market, assess the impact of regulatory changes, and uncover hidden opportunities, risks and deal issues, regardless of whether the objective is to diversify, enter new markets, reduce costs, exit non-core or less profitable businesses, or deploy capital more efficiently.

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