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Column: LEADING THE WAY: REASSESSING ENTERTAINMENT ASSETS IN THE DIGITAL AGE

REASSESSING ENTERTAINMENT ASSETS IN THE DIGITAL AGE

LEADING THE WAY

PRICEWATERHOUSECOOPERS

Intangible assets are often key components of entertainment and media (E&M) business value. Many of the traditional intangible assets common to E&M businesses have evolved. The methods employed to value these assets — while still valid — may ultimately need to evolve in the interest of improved reporting in today's quickly changing new media world. By refocusing acquisition accounting methods, E&M companies can better align the economics of their transactions with key value drivers in the digital age.

Accounting rules require companies to recognise intangible assets acquired in a business combination at fair value. Intangible assets — such as advertiser relationships and drivers of market share — are often key components of E&M business value.

However, many of the traditional intangible assets that exist in E&M businesses and the methods employed to value them may need to start evolving in this quickly changing environment. Traditional valuation techniques that have served the E&M industry well may eventually start giving way to alternative methods for calculating the value acquired.

E&M consumer trends may start driving corresponding changes in asset valuation in three interrelated areas:

1. Valuing registered users: Television and movie audiences have always been valuable. But they have typically represented a mass of nameless consumers without any real ability to identify or contact them. Consequently, these viewers couldn't be valued or recognised as an asset for financial reporting purposes. With the rise of digital distribution and social media, E&M companies place significant emphasis on identifying, retaining, and monetising their audience. In turn, the ability to identify viewers/users creates challenges in valuing this relatively new asset.

From nameless viewers to registered users: Expanding into digital distribution, social media and online gaming has created opportunities for E&M companies to identify viewers/users by having them register for services. Once users register, their viewing habits, usage statistics and other information can be used to tailor content and services. Not only does this raise much-publicised privacy issues but it also has accounting and reporting implications.

In recent years, acquisitions of companies with the ability to identify, monitor and track visitors/users have increased. Due diligence has also started focusing more on this information. Acquirers are very interested in understanding how often users access various products and services, as well as their demographic statistics, attrition rates and other factors.

Websites and digital distribution companies may have many non-registered users for every registered user. However, these non-registered users are not likely to meet the definition of an asset for recognition separate from goodwill; they do not represent relationships that are contractual or separable. Registered users, however, are quite likely to meet the recognition criteria.

The difficult question becomes how these registered users should be valued. The answer may be different for each scenario, but cost-based or income-based methods are common approaches.

2. Valuing advertiser relationships: In the not-so-distant past, advertisers had developed relationships with broadcasters, cable networks and websites. Now, with potentially hundreds of channels and websites to choose from, advertisers are focused on viewer/user demographics and ratings more than developing ongoing relationships. If a channel, programme, or website can generate viewership in key or desirable demographics, advertisers won't be far behind.

We've observed fewer M&A deals in the E&M industry where advertiser relationships are a significant value driver. At what point will the traditional approaches to valuing advertiser relationships need to change?

Do advertisers still remain a primary asset? In the early days of television, most markets had a small selection of channels showing programming only during certain times. Relationships with advertisers (often local) were the key to a broadcaster's ability to generate revenue.

Over time, the landscape slowly grew to include additional channels and expanded broadcast times. Today, there are hundreds (if not thousands) of channels or other distribution vehicles delivering content.

With audiences split among so many channels, companies increasingly look to place ads based on audience

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demographics rather than relationships with particular broadcasters. Advertiser who want to reach young men aged 18 to 24 may look beyond advertising loyalties to seek out channels or programmes popular with that demographic.

The same can be said of internet advertising. In the past, a fairly small number of websites produced the majority of traffic and advertising dollars. Today advertising on the internet has become more targeted with visitors often presented with advertisements for specific items/topics based on their recent browsing history.

E&M companies have recognised this shift from relationship-based advertising to one based on audience share and demographics. As a result, much more emphasis is placed on content and carrier relationships than advertiser data during due diligence. This shift in industry dynamics may require reassessing whether to value acquired advertiser relationships under an excess earnings method or by using a "with and without" method.

3. Valuing licences: The television broadcast landscape has changed dramatically from the past. There has been a significant increase in cable subscribers including households subscribing to satellite and telecom-based television services. Given this changing landscape, we need to ask at what point we need to revisit the traditional approaches to valuing licences.

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