PwC Deals

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US Entertainment, Media & Communications Deals insights Q1 2017

Executive summary

Is net neutrality dead? Will corporate tax cuts actually happen? What will be the impact of China's tighter grip on outbound investment? Will regulations on TV station ownership be relaxed?

These questions and more continue to reverberate across all Entertainment, Media & Communications (EMC) sub-sectors as dealmakers continue to grasp how to succeed in a sector going through continued transformation.

The good news is that uncertainty about the future has not slowed the pace of deals in the present, as acquirors are continuing to find avenues to grow quickly through inorganic means. Overall, EMC deal volumes increased 32% from Q4'16 to 256 deals, representing the highest level of quarterly volume for the last two years.

Advertising & Marketing volumes continued to retain the top spot in deal volume, with a notable uptick in private equity interest in the sub-sector. Overall, all sub-sectors except for Video Games had flat or growing deal volumes from Q4'16.

Following a quarter where we saw two industry transformative megadeals announced that drove up deal value to its highest level in recent memory, deal values in Q1'17 were unsurprisingly down, with only three megadeals in excess of $1 billion.

Given the high volume of deals to kick off 2017, we remain optimistic that the uncertainties in the market present more tailwinds than headwinds for deals. Happy reading, and for further insight on these themes and more, don't forget to check out our all new *Global Entertainment and Media Outlook 2017-2021* launching in June.

Volume by the numbers

256

32%

Volume vs. Q4 2016

Value by the numbers

$10.4B

-92%

Value vs. Q4 2016

"Despite certain regulatory uncertainties, we remain optimistic that M&A activity in the EMC sector will continue on a robust pace for the foreseeable future."

—**Bart Spiegel**, Partner
Entertainment, Media & Communications Deals

Q1 2017 Highlights

- Deal volumes increased for the second consecutive quarter, with 256 deals in Q1'17, a 32% increase from Q4'16, representing the highest level of quarterly deal volume for the last two years.
- Absent of any industry transformative megadeals like those announced in Q4'16, announced deal value declined by 92% in Q1'17 to $10.4B.
- Three deals greater than $1 billion in value were announced during Q1'17, led by Intelsat SA's announced merger with OneWeb Ltd for $2.7B. The Communications sub-sector comprised $4.8B (or 76%) of total announced megadeals, with the remaining deal in Broadcasting.
- Advertising & Marketing continued its streak of leading the way in terms of deal volume. Video Games was the only sub-sector that had a decline in deal volumes in Q1'17 versus Q4'16.
- A number of regulatory uncertainties stretching across all EMC sub-sectors is presenting challenges and opportunities for dealmakers as they try to anticipate potential changes to the status quo.

Source: Thomson Reuters and PwC analysis

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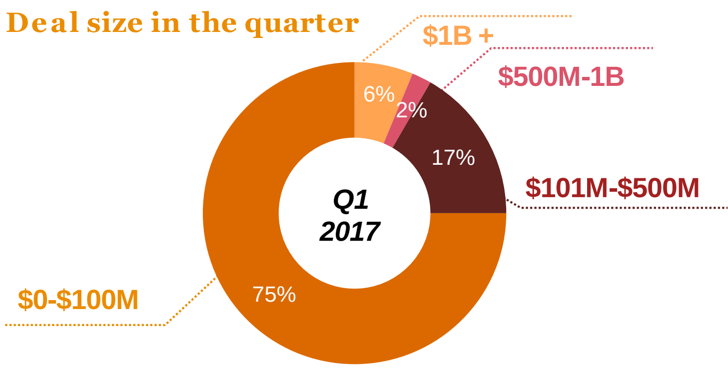
Highlights of Q1 2017 deal activity

Key announced transactions

There were three announced deals in Q1 2017 in excess of a billion dollars.

- **Intelsat SA/OneWeb Ltd** *(Communications)* **($2.7B):** The announced merger of Intelsat with OneWeb was designed to save on costs as the combined company seeks to develop connections that deliver video and broadband services across the world through a combined fleet of around 1,000 satellites.
- **MacDonald Dettwiler & Associates/DigitalGlobe Inc** *(Communications)* **($2.1B):** The planned acquisition of DigitalGlobe is the largest so far in the ongoing consolidation of the earth-imaging industry. It will expand MacDonald Dettwiler's portfolio of satellites for surveillance, television, satellite radio and mobile communications with DigitalGlobe's satellites supplying high-resolution images to customers including the U.S. Department of Defense, Facebook and Uber.
- **Entercom Communications Corp/CBS Radio Inc** *(Broadcasting)* **($1.5B)**: The proposed combination of Entercom with CBS Radio in a tax-free merger will create the second largest radio station owner in the U.S., with a footprint of 244 stations broadcasting in 23 of the top 25 U.S. markets as well as a growing events platform. CBS Radio was previously scheduled to be spun-off in an IPO.

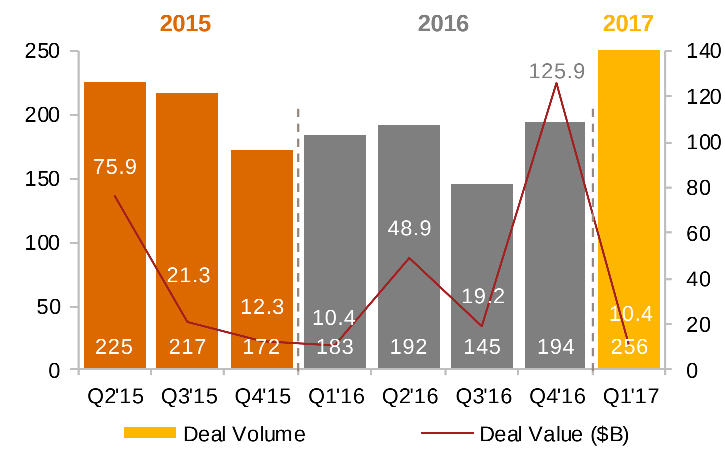
Deal size in the quarter



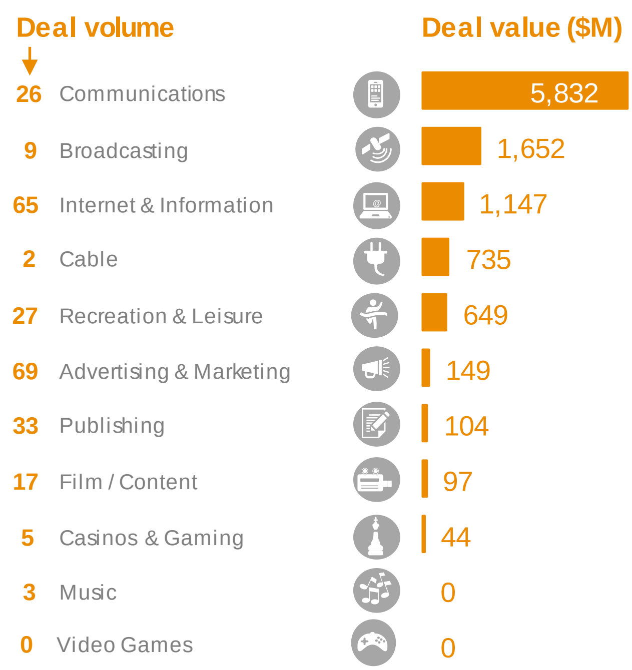
Note: Deals included in this chart are those that have disclosed value

"Deal volumes increased for the second consecutive quarter to 256, representing the highest volume of the last two years."

US EMC announced deal volume and value



Q1 2017 announced deals by sector



Source: Thomson Reuters and PwC analysis

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Key themes this quarter

Sub-sector: Advertising & Marketing

As has been the case for almost every recent quarter, Advertising & Marketing led the way in terms of deal volume in Q1'17. On the back of a strong Q4'16, deal volume still managed to increase by 23% to 69 deals. While deal value declined to $149M, this was driven by only a small number of the total deals having disclosed deal values.

There was a fairly even spread among the type of Advertising & Marketing deals announced in the quarter, with ad agencies (digital and traditional), PR firms, and marketing consulting firms all well represented.

What was most notable in the Advertising & Marketing sub-sector in Q1'17 was the strong interest by Private Equity acquirors. Of the 69 announced deals, 17 or 25% involved acquisitions by Private Equity firms. This compares to only 7% in the prior quarter. There are a number of potential reasons for the piqued interest by PE in the sub-sector, including the boom in digital and mobile advertising spend; companies with large retainer clients having strong and consistent cash flows; and also the ability to perform subsequent add-on investments. Advertising & Marketing companies tend to lend themselves to bolt on acquisitions in order to obtain additional capabilities, geographical reach, or access to a larger client base.

Sub-sector: Internet & Information

It was a record quarter for Internet & Information dealmakers, with deal volume increasing by 44% to 65 deals in Q1'17, surpassing activity in the last 7 quarters. Deal value declined by almost 50% to $1.1B.

Acquisitions in the Internet & Information sub-sector spanned a broad range of software publishers/developers, websites, and other online content.

As has been a consistent theme in prior quarters, companies that are able to provide an online alternative to traditional platforms are continuing to be attractive targets to corporate and PE acquirors, both domestic and overseas. How these investors subsequently monetize the underlying assets is something many are eager to see.

Sub-sector: Communications

Deal volumes in the Communications sub-sector reached 26 in Q1'17, the highest point since Q3'15, with disclosed deal values reaching $5.8B. Two megadeals – both in the satellite-related communications space – accounted for $4.8B or 82% of the total disclosed deal value. While deal value did not come close to Q4'16 record of $35B, the variety in deal activity continues to show signs of expansion and transformation.

The targets acquired in Q1'17 included many of the 'usual suspects' such as traditional equipment providers, regional wireless/broadband providers and enterprise solutions. However, we also saw increased activity in data centers, satellite technology and spectrum. AT&Ts acquisition of Fibertower (in bankruptcy) for its high-end spectrum is one area in which we expect to see more activity as key communications players work further to advance to 5G offerings.

Changing Regulatory Environment

Anyone reading this publication is likely aware that several key regulatory changes are being considered by the FCC under its new chairman, Ajit Pai. Key among those changes being reported is a reversal of the FCC's 2015 approval of net neutrality rules, regulating broadband Internet service as a utility.

While the undoing of existing rules could be difficult, other actions have already been undertaken by Chairman Pai, potentially slowing rules designed to ensure equal access to Internet content.

The upheaval of net neutrality rules could have a far reaching impact on Internet service providers, content providers, and ultimately consumers. From a deals perspective, such actions could accelerate the continued consolidation of content providers with distributors, among other things.

We will continue to monitor these and other proposed regulatory changes as the year progresses and will report back on trends we see in deals activity.

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Smart dealmakers 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 dealmakers look to experienced advisors to help them fashion a deal that works.

PwC's Deals group can advise entertainment, media and 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, to developing strategies for capturing post-deal profits and exiting a deal through a sale, carve-out, or IPO. With more than 9,800 deals professionals in 75 countries, we can deploy seasoned teams that combine deep 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 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.

Our analysis was based primarily on individual EMC sectors as defined by Thomson Reuters, 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.

For transactions where the buyer and target are in different industries, the announced acquisition is counted in both industry deal reports. To combine deal value or volume across reports, one should eliminate the double-counted deals.