

Reshaping Europe's media landscape

Pinpointing the drivers of media M&A

*M&A trends in the
European Entertainment
& Media Industry*

January 2015



About the data

The data we compile and analyse on the volume and value of transactions is for deals that completed in 2014, where the target company is in Europe, as reported through a number of sources (principally DealLogic, Mergermarket, ThomsonOne and Factiva). We use this data to conduct a fundamental assessment of the drivers and rationale underpinning deal activity, and examine how these change over time. While it's unlikely that any approach can be 100% comprehensive and accurate, we aim to capture as wide a sample of deals as possible, and maintain a consistent approach and definitions year-on-year to maximise comparability. Our figures include deals where the deal size was reported publicly and was greater than €10m, and where the investment in the company was greater than a 10% stake. We include transactions in cinema and cable & satellite, but we do not include gambling, casinos or the sport & leisure sectors. As a result, our compiled data may differ from that available from other sources.



Reshaping Europe's media landscape

Making sense of trends in media M&A

Welcome to this report analysing M&A deals in the European Entertainment and Media (E&M) industry in 2014. As well as reviewing and assessing developments in the media mergers and acquisitions (M&A) landscape during the year, we also compare the type and levels of deal activity in 2014 against prior years, and identify the key themes and forces that are driving M&A in E&M.

We have produced this report following a very active year for our media deals team. During 2014 we advised on a wide range of high-profile and successful deals, which included:

- Sell-side due diligence work on the acquisition of Precise Media by WPP
- Due diligence work with Ziggo for its acquisition by Liberty Global
- Buy-side due diligence for BC Partners on their acquisition of Mergermarket
- Buy-side due diligence for ECI Partners on its acquisitions of ATG Media and Investis
- Buy-side due diligence for UBM on its acquisition of Advanstar
- Buy-side due diligence for Vue Cinemas on its acquisition of The Space
- Buy-side due diligence work for Oakley Capital on the acquisition of Facile.it
- Buy-side due diligence for ITV on its acquisition of LeftField

If you would like further information, or to discuss in more detail any of the themes raised in this report, please do not hesitate to contact us, or your PwC relationship team.

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Europe's E&M Deals landscape throughout 2014

Against a backdrop of strengthening economic growth in the UK and a more fragile recovery in the Eurozone, the volume and aggregate value of European E&M deals in 2014 were broadly similar to 2013. However, while in terms of volume the deals completed in 2014 were spread fairly evenly across various sectors of E&M, overall deal value in the industry was dominated by the cable & satellite sector, which produced Europe's six biggest E&M deals of the year.

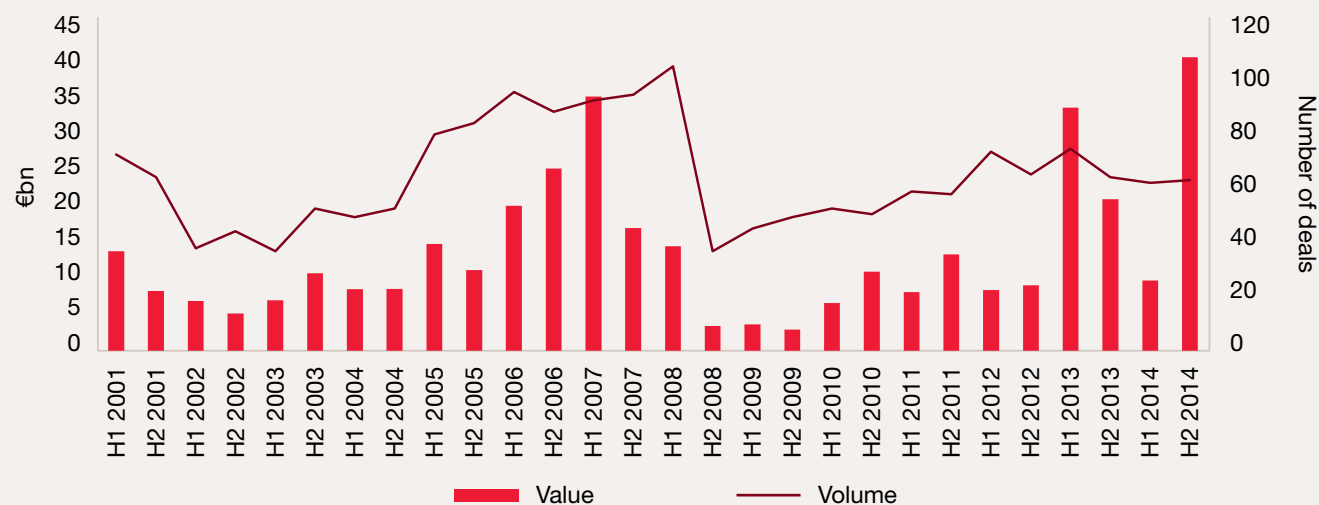
Volume and value: stability returns

Looking at entertainment and media industry deals with a disclosed deal size above €10m and where the target is located in Europe, 2014 saw European E&M deal volumes and values running at approximately the same levels as in 2013 (see Figure 1). This outcome means that deal volumes have remained relatively stable for the past three years. And while the number of deals in 2014 remained well below the levels seen in the boom years of 2005-2008, it was up by more than 35% on deal volumes in 2009-2011.

Compared to the relatively modest recovery in deal volume, the rebound in deal values from the post-crisis trough has been much more marked. Aggregate media deal value in 2013 and 2014 was three times the level of 2010-2012 – an increase that reflects the return of 'megadeals' in the media space over the past two years, particularly in the cable & satellite sector. In fact, E&M total deal value in H2 2014 was the largest ever

recorded. The megadeals completed in 2014 included Liberty Global's acquisition of Ziggo, Vodafone's acquisition of ONO, and BSkyB's acquisition of Sky Deutschland and Sky Italia. These followed a strong flow of major deals in 2013, such as Liberty Global's acquisition of Virgin Media and Vodafone's acquisition of Kabel Deutschland.

Figure 1: Entertainment and Media deal volume and value, 2001-2014



Europe's E&M Deals landscape throughout 2014

The top ten deals: cable & satellite dominates in Europe

Tables 1 and 2 list the top ten media deals by size in 2014, for Europe as a whole and the UK, respectively. As Table 1 shows, cable & satellite deals dominate the European top ten, accounting for the six largest deals – compared to only three sizeable cable & satellite deals in 2012-13. In the UK, by contrast, the more consolidated cable & satellite market resulted in there being no deals in that sector during the year. Instead the UK top ten was led by transactions in the television, publishing and marketing services sectors, which are all areas that we touch upon in this report. However, it's important to note that this analysis excludes two main types of deal: those whose value is undisclosed, such as the significant acquisition of Bureau van Dijk by EQT; and those where European acquirors bought businesses based outside Europe, such as UBM's acquisition of Advanstar and ITV's purchase of Leftfield.

Table 1: Top 10 European deals, 2014

Date	Target	Acquiror	Sector	Deal Value (€m)	Country
Nov 14	Ziggo NV (70.0%)	Liberty Global plc	Cable & Satellite	8,481	Netherlands
Jul 14	Grupo Corporativo ONO SA	Vodafone Holdings Europe SLU	Cable & Satellite	7,200	Spain
Nov 14	Sky Deutschland AG (89.7%)	BSkyB	Cable & Satellite	5,701	Germany
Jul 14	Numericable Group (34.6%)	Altice SA	Cable & Satellite	4,161	France
Nov 14	Sky Italia Srl	BSkyB	Cable & Satellite	3,098	Italy
Oct 14	Get AS	TDC A/S	Cable & Satellite	1,668	Norway
Mar 14	Trader Media Group Holdings Ltd (50.1%)	Apax Partners LLP	Online	1,433	United Kingdom
Sep 14	Vkontakte Ltd. (48.0% Stake)	Mail.ru Group Limited	Online	1,135	Russia
Apr 14	Berliner Morgenpost, Hamburger Abendblatt and others	Funke Mediengruppe GmbH	Publishing	920	Germany
Dec 14	Endemol (28% Stake), CORE Media, Shine Group	Twenty-First Century Fox, Apollo Global Management	Television	786	United Kingdom

Europe's E&M Deals landscape throughout 2014

Table 2: Top 10 UK deals, 2014

Date	Target	Acquiror	Sector	Deal Value (€m)
Mar 14	Trader Media Group Holdings Ltd (50.1%)	Apax Partners LLP	Online	1,433
Dec 14	Endemol (28% Stake), CORE Media, Shine Group	Twenty-First Century Fox, Apollo Global Management	Television	786
Aug 14	All3Media Ltd	Liberty Global, Discovery Holding	Television	671
Sep 14	Channel 5 Broadcasting Ltd	Viacom Inc	Television	548
Dec 14	Perform Group PLC	AI PG LLC	Marketing Services	498
Feb 14	Mergermarket Ltd	BC Partners Ltd	B2B Media	459
Oct 14	Gorkana Group Limited	Cision AB	Marketing Services	253
Jul 14	CSC Media Group Ltd	Sony Corp	Television	134
Aug 14	Engine Group Ltd	Lake Capital Partners Inc	Marketing Services	126
May 14	Jobsite UK (Worldwide) Ltd	Axel Springer SE	Online	110

The rankings reveal contrasts between the UK and Europe as a whole in terms of the nature of acquirors. The list of the year's biggest European deals is dominated by corporate buyers. But in the UK, private equity has a more significant presence in the top ten, with deals such as Apax Partners' purchase of the remaining stake in Trader Media Group (now Auto Trader), and other large deals completed by BC Partners, Cision/Vocus (GTCR-owned) and Lake Capital Partners. The composition of the UK top ten list also highlights the high interest in UK assets from US corporates.

However, despite corporates accounting for the largest European deals in 2014, private equity investors are continuing to show strong interest in media assets, particularly in the UK market. This is demonstrated by the fact that private equity accounted for c. 30% of UK deals that were completed in 2014 and where the transaction value was disclosed.

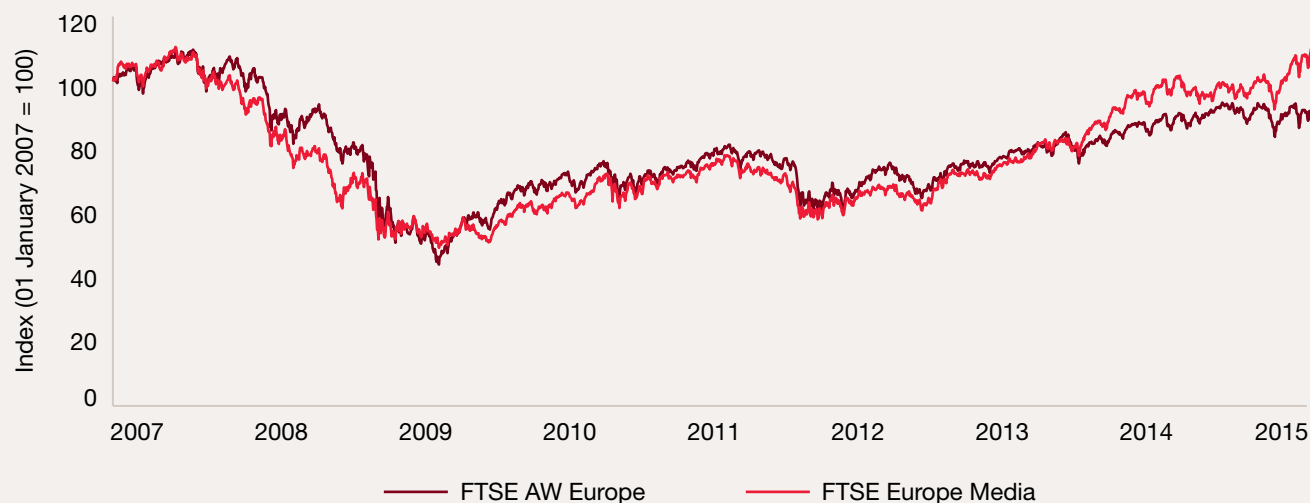
Europe's E&M Deals landscape throughout 2014

Media outperforms the stock market as a whole in 2014

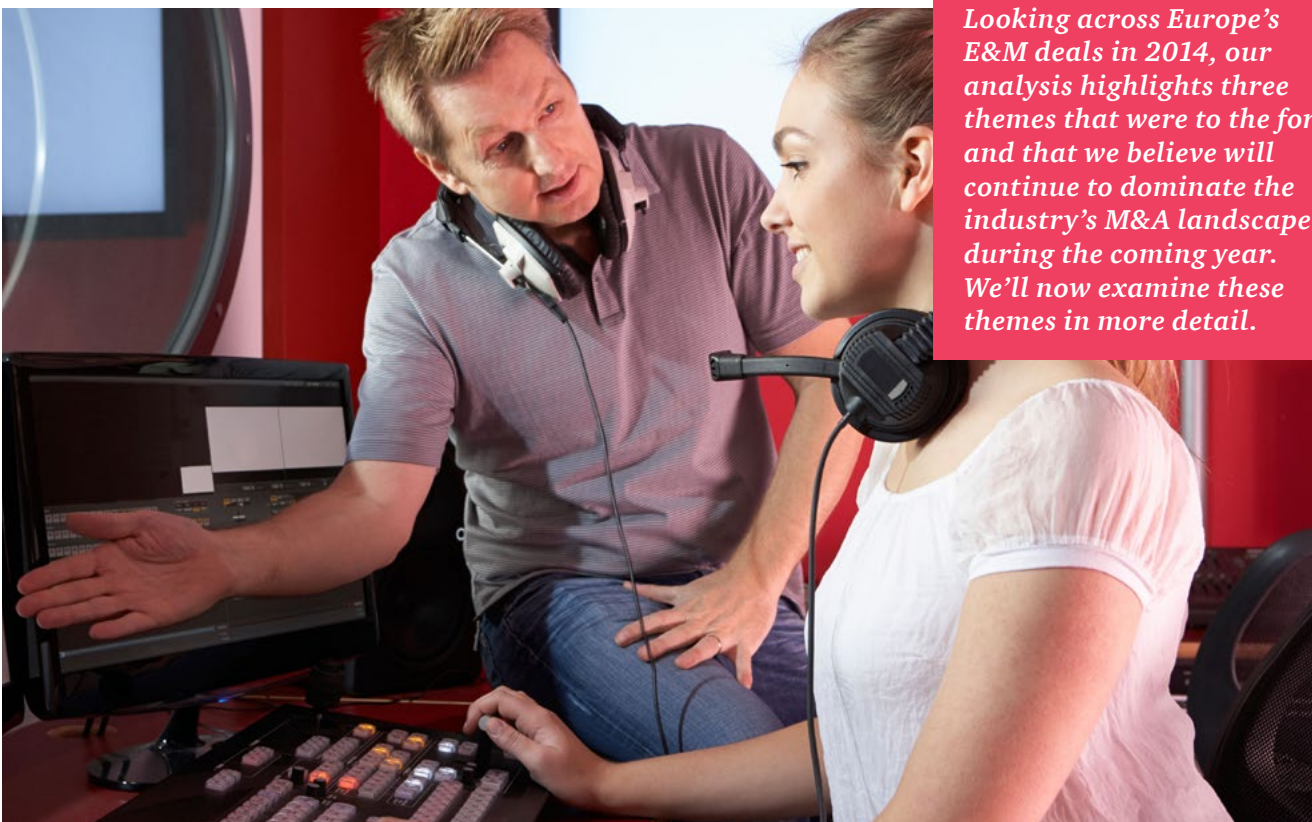
Looking across Europe and the UK, entertainment and media stock market performance has been much stronger than one might expect in volatile economic times. During the recession, E&M stocks did generally slip slightly below all-sector indices, but they bounced back, and in recent years they have out-performed the wider stock market. Across Europe, since mid-2013, media stocks have out-performed all-sector indices by c. 20% (see Figure 2). UK media out-performance has been even stronger, albeit in part driven by specific company over-performance such as ITV (3x higher now than in mid-2012).

However, the outlook for 2015 remains uncertain. While the UK economy continues to show a steady improvement, the picture across Europe is much more mixed – and the widespread uncertainty is having a knock-on impact on the media sector, especially those companies relying on advertising revenues.

Figure 2: European Entertainment and Media share prices vs all share prices, 2007 - 2014



Three key themes driving M&A activity



Looking across Europe's E&M deals in 2014, our analysis highlights three themes that were to the fore, and that we believe will continue to dominate the industry's M&A landscape during the coming year. We'll now examine these themes in more detail.

Theme 1 – Continued transformation of television and content

During 2014, ongoing shifts in TV viewing and the ownership of content and distribution drove M&A activity across Europe, through a combination of triple-play deals, cross-border plays by US majors and diversification moves by TV channels.

M&A activity in triple-play

As telecoms businesses look to add television services to their portfolio of offerings, the traditional dividing-lines between media and telecoms providers are blurring rapidly. TV is typically seen as the differentiator within triple-play and the way to win and retain customers – and so telecoms players are continuing to develop their offerings, in part through acquisitions.

A related ongoing trend during the year was consolidation between operators, with Liberty Global continuing to pursue this strategy – including acquiring Ziggo in 2014. Fixed/mobile integration also remained a theme, with Vodafone having further expanded its fixed line presence through the acquisition of the Spanish cable provider ONO, and BT currently engaged in discussions with EE.

Three key themes driving M&A activity

US television majors investing in Europe

The US television majors continued to invest in Europe in 2014, in an ongoing drive to grow their channel footprints and tap into Europe's revenue potential. They also sought to increase their exposure outside the US, gain distribution options for their content and generate new content assets. Examples of this trend during the year included Liberty/Discovery acquiring All3Media, Discovery increasing its stake in Eurosport, and Sony buying CSC Media (including Chart Show TV).

This consolidation is taking place against an industry background in which TV advertising continues to perform relatively well. However, recent figures from markets such as Scandinavia suggest that traditional TV viewing may be starting to feel greater impact from rising over-the-top (OTT) viewing. The ongoing TV channel consolidation should provide scale to enable channels to develop strong OTT propositions to compete in the online world.

TV channels diversifying into content

In a shift also evident in other territories worldwide, television channels in Europe are increasingly turning to TV production to boost revenues and reduce their reliance on local advertising and pay TV revenues. Examples in 2014 included ITV continuing its acquisition journey by acquiring LeftField (creator of Pawn Stars). As a result, ITV is now the largest independent non-scripted producer in the US.

At the same time, other players such as MTG and Sky have also been expanding their focus on production, with MTG buying Nice (in 2013) and Sky recently acquiring Love Productions, maker of *Great British Bake-Off*. Going forward, the focus for these businesses will be to create recurring shows that can be exported overseas – while also keeping an eye on the emergence of OTT, with Netflix and others increasingly now commissioning original programming, including Netflix's *House of Cards*.

Theme 2 – Digital remains a key M&A driver

Digital technology is at the heart of media and M&A for several reasons. It creates change and demands investment; it makes businesses buy new capabilities in search of growth; and it triggers disposals of non-digital businesses to raise funds for digital acquisitions and spending. All these dynamics were apparent in 2014.

Publishers seeking digital growth

The ongoing migration of readers and advertisers to digital devices and consumption continues to generate much of the deal activity in the publishing sector, maintaining the trend seen in recent years. During 2014 there was significant digital-related deal activity from publishers including Future, Immediate Media, Springer, Mecom and many others.

However, the circumstances triggering digitally-driven deals vary widely. In some cases, publishing companies struggling to cope with digital have been bought at low multiples, or alternatively taken over by banks where their debt levels were too high. In others, companies have offloaded some titles or assets to generate investment funds to drive digital growth. At the same time, many companies have refocused their portfolios on assets with stronger digital futures. We expect these themes to continue into

Three key themes driving M&A activity

2015 and beyond, with digital ‘winners’ and ‘losers’ becoming increasingly evident

A particular focus of interest in the publishing sector has been digital pure-play media companies, with Zoopla making its IPO in 2014, and Auto Trader rumoured to be looking to transact in 2015. These businesses are not held back by declining print revenues – Auto Trader withdrew its print offering in June 2013 – and are growing their revenue both through increased online usage and also expansion of their products and services, for example by offering data services and more personalised offerings.

Marketing services deals targeting digital offerings

The rapid growth of digital media has revolutionised marketing services over the past decade, with trends such as the rising importance of social media creating a new wave of interest in the sector. Leading marketing services businesses such as WPP and Publicis continue to make multiple acquisitions, often focused on growing their digital capabilities. The sector has also seen substantial interest from private equity investors, with Chicago-based private equity fund GTCR acquiring media monitoring businesses Cision and Vocus (in the US) before adding UK based Gorkana in October. Lake Capital, another private equity fund, acquired the Engine Group to combine it with other assets to create what it calls a ‘21st century’ marketing services group.

Theme 3 – A growing appetite for B2B data and events businesses

Having weathered the downturn more robustly than business-to-business (B2B) magazines, B2B events and B2B digital data services have now returned to growth, and are attracting acquisition interest both from private equity investors and corporates.

B2B information assets on the private equity radar

B2B information/data providers are using new digital delivery methods to expand their product offerings, making them more real-time, more relevant and – in some cases – more workflow-embedded than traditional print information. This advance has reinforced the ability of these businesses to generate cash from subscribers, in turn generating growing interest from acquirors.

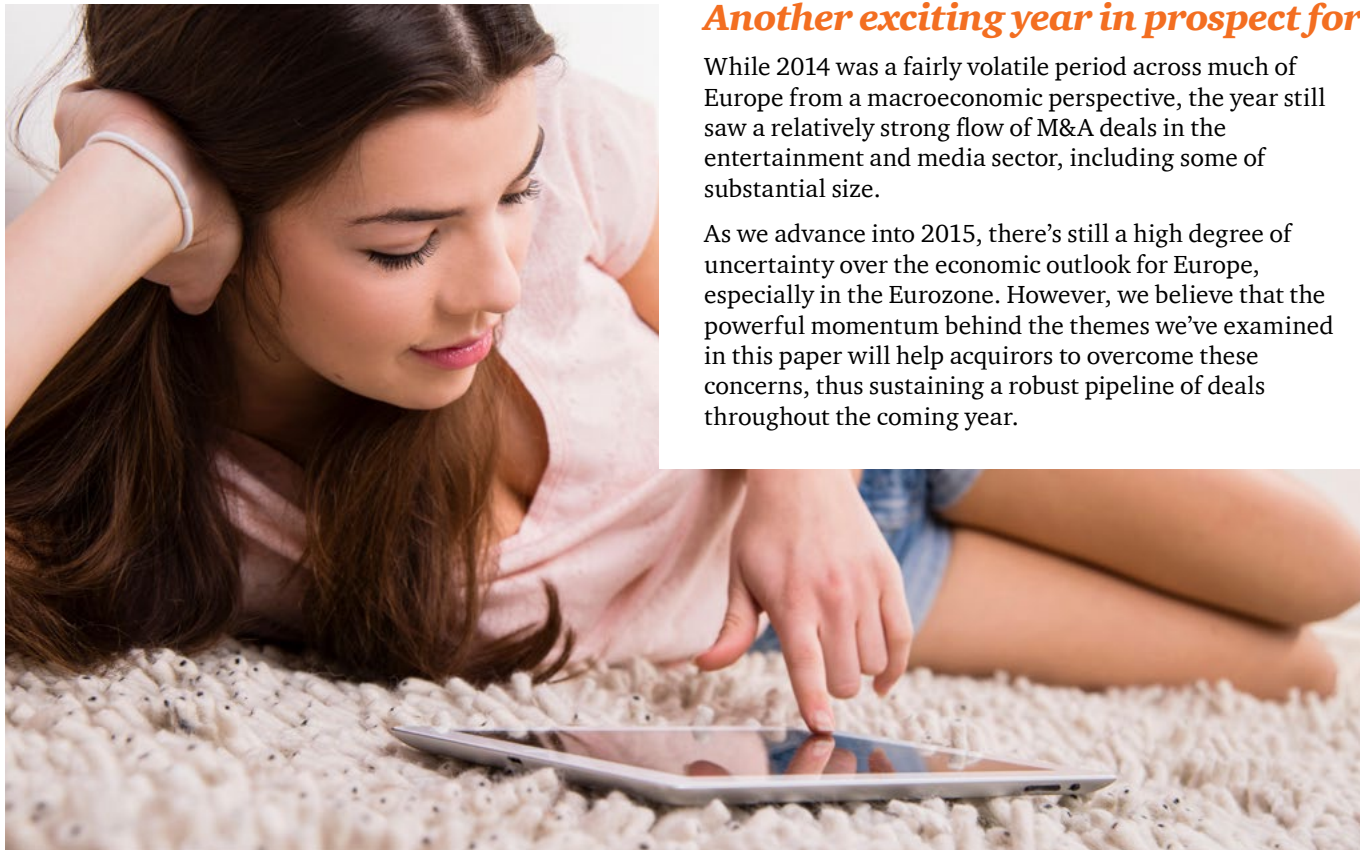
These trends have triggered a number of transactions, with private equity buyers especially prominent. Deals of this type in 2014 included Bowmark buying Autodata, LDC buying Capital Economics and Mergermarket’s acquisition by BC Partners. Most of these B2B information/data businesses are experiencing strong growth, with further potential still available from changes to products and pricing, as well as from their growing customer bases overseas.

B2B events sees a resurgence of corporate deals

2014 was also a strong year for B2B events deals, with corporates in particular making a number of acquisitions in the US, where the B2B exhibitions industry is especially buoyant. UBM – pursuing an ‘Events First’ strategy – acquired Advanstar, expanding its US presence and its footprint in the fashion sector, while Informa acquired Hanley Wood, which operates the *World of Concrete* event. Meanwhile, i2i acquired the fast-growing US payments exhibition *Money 20:20*.

Alongside these large acquisitions, many of the leading exhibitions businesses have continued to make smaller acquisitions in emerging markets. With growth rates in the US and emerging market exhibition sectors remaining above Western European levels, we expect these trends to continue into 2015.

Conclusion



Another exciting year in prospect for E&M M&A in Europe

While 2014 was a fairly volatile period across much of Europe from a macroeconomic perspective, the year still saw a relatively strong flow of M&A deals in the entertainment and media sector, including some of substantial size.

As we advance into 2015, there's still a high degree of uncertainty over the economic outlook for Europe, especially in the Eurozone. However, we believe that the powerful momentum behind the themes we've examined in this paper will help acquirors to overcome these concerns, thus sustaining a robust pipeline of deals throughout the coming year.

At the same time, despite the patchy economic background, we expect growth in advertising-based sectors to continue. And as traditional media companies continue to invest in digital, this will help offset the pressures on their print revenues.

In our view, the three themes we've highlighted from 2014 – the continued transformation of television and content; a growing appetite for B2B data and events businesses; and digital as a key M&A driver – will continue to underpin much of the E&M deal activity across Europe in 2015. In addition, we anticipate activity in outdoor advertising driven by consolidation, digitisation and portfolio restructuring. In some media sectors, there may also be some European consolidation activities – in particular within live entertainment where UK cinema chains have already grown their presence in Continental Europe.

A further positive factor is that private equity investors are continuing to raise funds and show active interest in Europe's media sector, reinforcing their position alongside European corporates as prospective acquirors.

Against this background, we're confident that the European media deals environment in 2015 will be every bit as exciting as 2014 – and potentially more so.

Contacts

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