Perspectives from the Global Entertainment and Media Outlook on Deals

Strong Tailwinds
Strong tailwinds

PERSPECTIVE: Overall, 2016 continued a multiyear trend of strong activity across the global technology, media, and telecommunications (TMT) sector. According to Mergermarket, 2016 deal value in TMT reached $698.2 billion, accounting for 21.4 percent of all global deal activity. The United States was the most active region, reporting 1,101 deals worth $362.7 billion. Within TMT, media showed the biggest increase, growing 118 percent, from $86.1 billion to $188.1 billion. A rise in foreign investment of U.S.-based targets from Asia-Pacific countries, particularly China, contributed to the impressive growth. So, too, did AT&T’s announced $85.4 billion purchase of Time Warner, which, if approved, will be one of the largest deals in the history of the industry (see Exhibit 1). Looking ahead through 2021, there are more tailwinds than headwinds for deal activity. We expect corporate and private equity investments to remain very active. Deal activity will primarily be aimed at gaining global scale, diversifying revenues, and acquiring new capabilities to drive growth.

Tailwinds
The powerful underlying shifts in the global E&M industry point to a growth in capabilities-driven deals designed to create new revenue streams and enhance the user experience. We expect an increase in strategic deals (large and small) that will expand a company’s ability to create and manage its data assets, strengthen analytics capabilities, power innovation with ad tech and emerging technologies (VR, AR, AI, etc.), and orchestrate live events and experiences across digital and physical venues. Although transformative blockbuster deals will garner headlines, many significant transactions will be smaller, undisclosed, tuck-in deals. Some
good examples of publicly disclosed deals are Disney’s 33 percent stake in BAMtech (a technology company spun off from Major League Baseball’s digital video–streaming unit) and Spotify’s recent purchases of four analytics-enabled businesses: Soundwave, Cord Project, CrowdAlbum, and Sonalytic.

The deals environment should continue to benefit from three positive trends.

- **Continuing convergence.** Companies will use M&A activity to get closer to their customers — both to consumers and to brands. These vertical integration deals are not focused on cost synergies. They are aimed at boosting growth, monetizing audiences, and allowing for the bundling of services.

- **Changing regulatory environments.** Changes in net neutrality and privacy regulations across the world could make the environment more ripe for deal making. In particular, with a change of administration, the U.S. market seems more favorably positioned for ongoing consolidation within E&M, and across the broader TMT universe.

- **Cross-border investment.** In the introduction of this report, we noted that anti-globalization trends due to geopolitical factors could affect broader global E&M spending. But
it's also the case that a large amount of foreign investment continues to flow into the U.S. E&M sector. The largest increase in 2016 foreign investment was from the Asia-Pacific region, particularly China. However, megadeals involving foreign acquirers included the completion of U.K.-based Liberty Global's purchase of U.S.-based Cable & Wireless and Netherlands-based Altice's purchase of U.S.-based Cablevision.

Headwinds
Although the tailwinds supporting the progress of deals are strong, significant headwinds remain that E&M companies must contend with. These include:

• China. Direct foreign investment from China conglomerates in U.S. targets is expected to subside in coming years. President Xi Jinping’s government has enacted controls to limit the flow of outbound capital, and is concerned about currency valuation challenges. Uncertainty about trade relations and regulatory changes on both sides of the Pacific may impact the pace of growth in FY17; however, we believe the U.S. market will continue to remain attractive to Chinese business leaders. In a recent article, the Wall Street Journal detailed how Hollywood studios are increasingly dependent on China — as a source of investment and as a source of ticket-purchasing customers.

• Escalating valuations. Pricing of today's deals reflects companies' focus on driving growth, as opposed to general cost-cutting or streamlining operations. Although a ceiling on valuation has not been established, escalating prices may inhibit the willingness of certain private investors to participate. For example, unless an individual private equity (PE) firm has a deep E&M portfolio, its ability to leverage synergies may be limited. That said, both corporate and PE buyers are nonetheless actively pursuing deals in the E&M industry. Overall, we expect PE firms to contribute to escalating valuations going forward.
Appendix

Global entertainment and media outlook

PwC’s Global entertainment and media outlook 2017-2021 provides a single comparable source of five-year forecast and five-year historic consumer and advertiser spending data and analysis, for 17 entertainment and media segments, across 54 countries. It’s a powerful online tool that provides deep knowledge and actionable insights about the trends that are shaping the E&M industry. You can access the full segment definitions or subscribe to the Global entertainment and media outlook at www.pwc.com/outlook.

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Historical data collection

All forecasts have been built starting with the collection of historical data from a variety of sources. A baseline of accurate and comprehensive historical data is collected in the first instance from publicly available information, including from trade association and government agencies. When this data is used directly, these sources are cited accordingly. In addition, interviews with relevant associations, regulators and leading players have been held to gather insights and estimates not available in the public domain. When this information is collected, it is used as part of calculations, and the sources are proprietary.

Forecasting methods

All forecasts are prepared as part of a collaborative, integrated process involving both quantitative and qualitative analysis. The forecasts are the result of a rigorous process of scoping, market mapping, data collection, statistical modeling, and validation.

Note: The only source of all consumer and advertising spend data is the Global entertainment and media outlook; however, all the data, charts, and graphs (unless stated otherwise) in this publication are taken from the Global entertainment and media outlook.

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Many other professionals from the PwC entertainment and media practice, across 54 countries, reviewed and added local expertise to this article.

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