

PwC Deals

US Media and Telecommunications Deals Insights Q3 2018

The convergence of tech and media fuels deal activity

Executive summary

We close Q3 2018 with yet another all time high – as deal volumes surpass last quarter by 34%. Yet, for the first time this year, the quarter closed without any megadeals crossing the \$5B mark, causing disclosed deal value to plateau at \$19B. Even without the force of megadeals, however, the sector had its fair share of attention-grabbing headlines, as companies made bold moves to acquire capabilities, expand portfolios and build scale. We saw the emergence of a new trend in audio content deals with the flurry of activity around podcast providers. We saw the blurring of lines move beyond technology vs media and penetrate sub-sectors in between, such as advertising and content. We saw companies make innovation the forefront of their acquisition strategy. If the sheer volume of deals this quarter isn't indication enough, the strategic rationale underlying the deal activity in some of our most active sub-sectors highlights the continued importance players are putting on M&A to further their position in this competitive and ever-changing landscape.

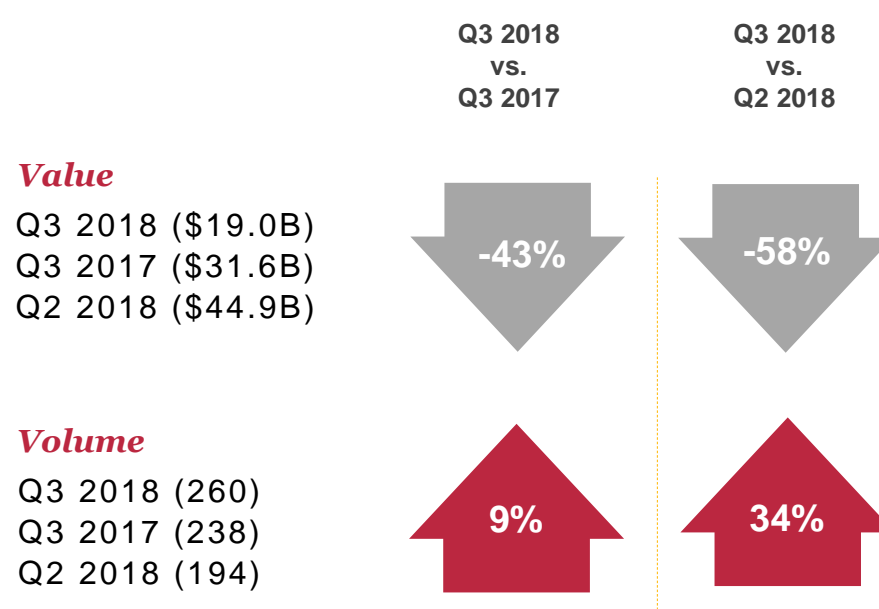
“As deal activity continues to reach new heights, TMT players are becoming more aggressive in the market – by monetizing assets in their current portfolio to free up capital, and using the proceeds to expand their capabilities and footprint in order to maintain their competitive advantage.”



Bart Spiegel
US Media & Telecommunications
Deals Partner
PwC

Trends and highlights

- Q3 2018 deal volumes reached a two-year high, increasing 9% over Q3 2017 and 34% over Q2 2018.
- There were no new announced megadeals exceeding \$5B in value this quarter. As a result, announced deal values were down from prior quarters, decreasing 43% from Q3 2017 and 58% from Q2 2018.
- Five deals greater than \$1B in value were announced during Q3 2018. The largest deal announced this quarter was Adobe's acquisition of Marketo Inc. for \$4.8B.
- While the Advertising & Marketing and Internet & Information sub-sectors continue to dominate deal volumes with 82 and 71 announced deals in Q3 2018, respectively, the Broadcasting and Music / Audio Content sub-sectors experienced strong growth over prior quarters.



Source: Thomson Reuters and PwC analysis

Highlights of Q3 2018 deal activity

Largest transaction

Adobe's announced acquisition of Marketo Inc, a cloud-based B2B marketing engagement platform, was the largest transaction with disclosed deal value in Q3 2018. The deal will combine Adobe's B2C and Marketo's B2B experience and position the company to serve all marketers.



Deals in excess of \$1B in value

While there were no new megadeals in excess of \$5B this quarter, there were five announced deals in excess of \$1B, accounting for \$12.4B, or 69%, of total deal value. While high value deals crossed sub-sectors, there was an emphasis in Internet & Information. Comparatively, there were seven deals in excess of \$1B in Q3 2017, accounting for 83% of deal value.



Key announced transactions

There were five announced deals in Q3 2018 in excess of \$1B:

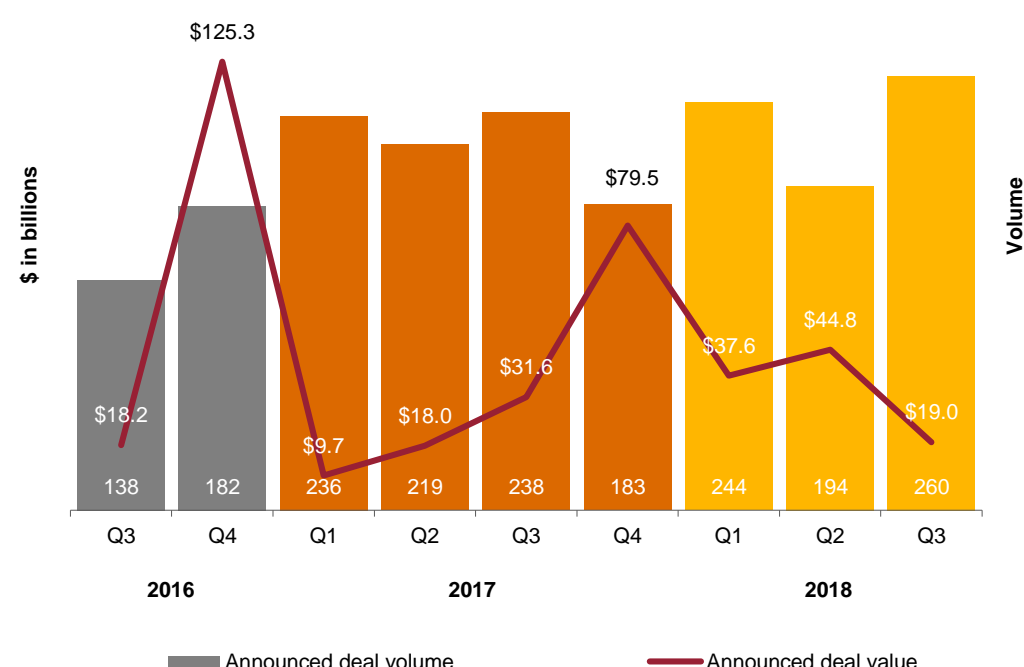
- 1. Adobe Systems Inc / Marketo Inc (Internet & Information)** (\$4.8B): Adobe's announced acquisition of Marketo broadens Adobe's portfolio with B2B expertise.
- 2. Sirius XM Holdings Inc / Pandora Media Inc (Music / Audio Content)** (\$2.7B): Sirius' announced acquisition of Pandora will help the satellite radio company compete with streaming services from Apple and Spotify.
- 3. Interpublic Group of Companies Inc / Acxiom Marketing Solutions (Advertising & Marketing)** (\$2.3B): IPG's acquisition of Acxiom's legacy data management business combines the holding company's agency expertise with AMS' data capabilities.
- 4. Amadeus IT Holding SA / TravelClick Inc (Internet & Information)** (\$1.5B): Amadeus' acquisition of TravelClick adds TravelClick's cloud-based hospitality platforms to Amadeus' portfolio of travel industry technology.
- 5. Insight Venture Partners LLC / Episerver Inc (Internet & Information)** (\$1.1B): Insight Venture Partners' acquisition of digital commerce platform company Episerver illustrates private equity's continued interest in the Internet & Information sub-sector.

*Deal value reported for Sirius XM's announced acquisition of Pandora Media, Inc. on the Media & Telecommunications and Technology Deals Insights Q3 2018 reports are different due to analyzing transaction value vs. enterprise value, respectively.

Deal volume reached a two-year high in Q3 2018, while the lack of megadeals drove down values

Q3 2018 deal volumes reached a two-year high after a moderate slowdown in the first half of 2018. Announced deal values declined from the prior quarter by 58% in Q3 2018, driven by the lack of megadeal activity in the quarter.

Media & Telecommunications deal value and volume



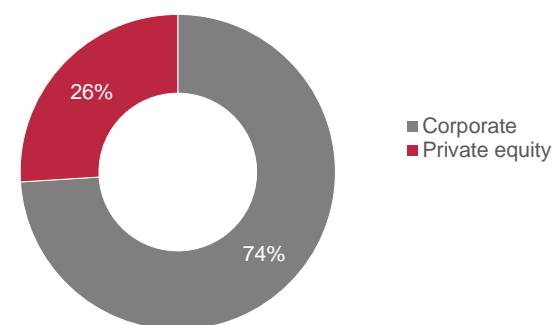
Highlights of Q3 2018 deal activity

Private equity remains committed to the Advertising & Marketing and Internet & Information sub-sectors

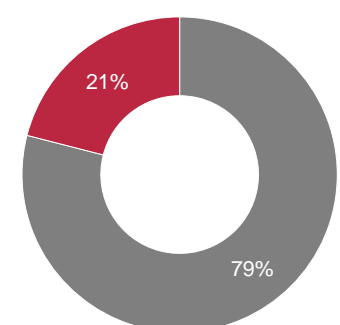
Private equity deal volumes continue at a strong pace, representing 26% of Q3 2018 deals. Consistent with overall industry trends, private equity interest remains focused in the Advertising & Marketing and Internet & Information sub-sectors.

While PE deal volumes continue to grow, announced deal values for PE deals has declined in Q3 2018 to 21% of total deal value, following a strong first half for PE megadeals. The largest PE deals by value in Q3 2018 were Insight Venture Partners' \$1.1B leveraged buyout of Episerver Inc. and Permira Funds & Spectrum Equity's \$0.9B announced merger of XO Group and WeddingWire.

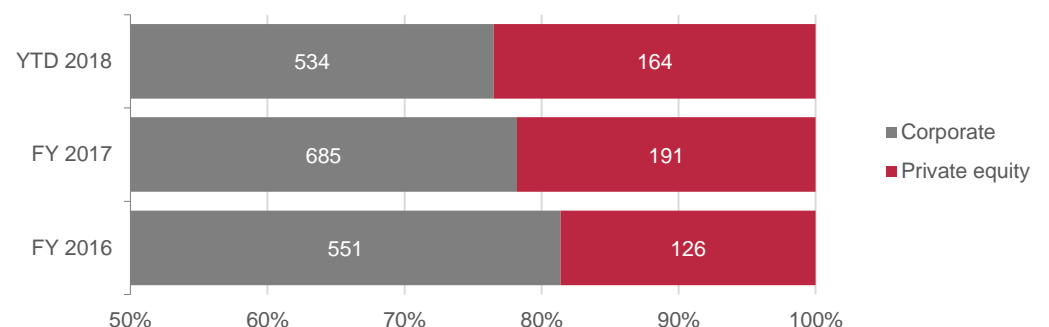
2018 PE vs. corporate volume mix



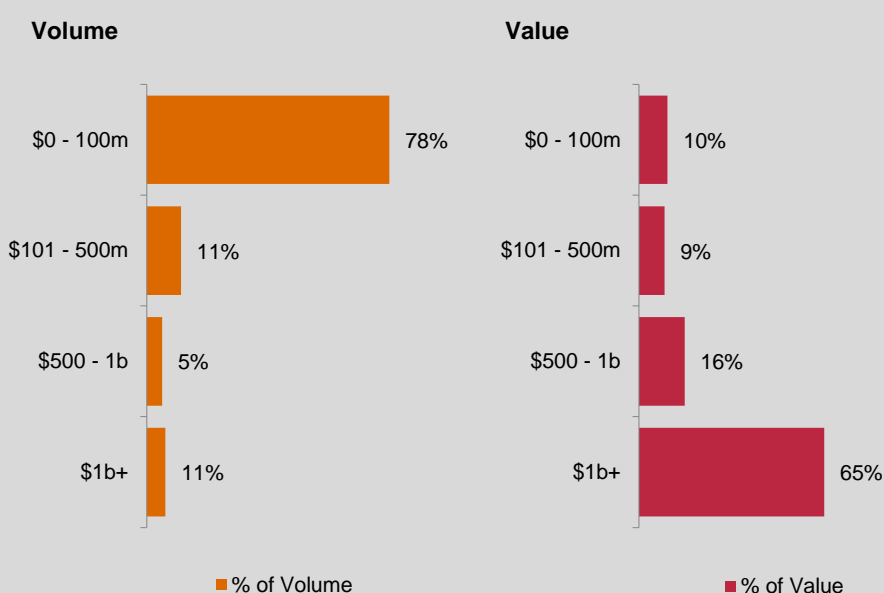
2018 PE vs. corporate value mix



PE v. corporate volume mix year-on-year



Q3 2018 US deal volume by transaction size



Smaller deals continue to dominate volumes while picking up more value

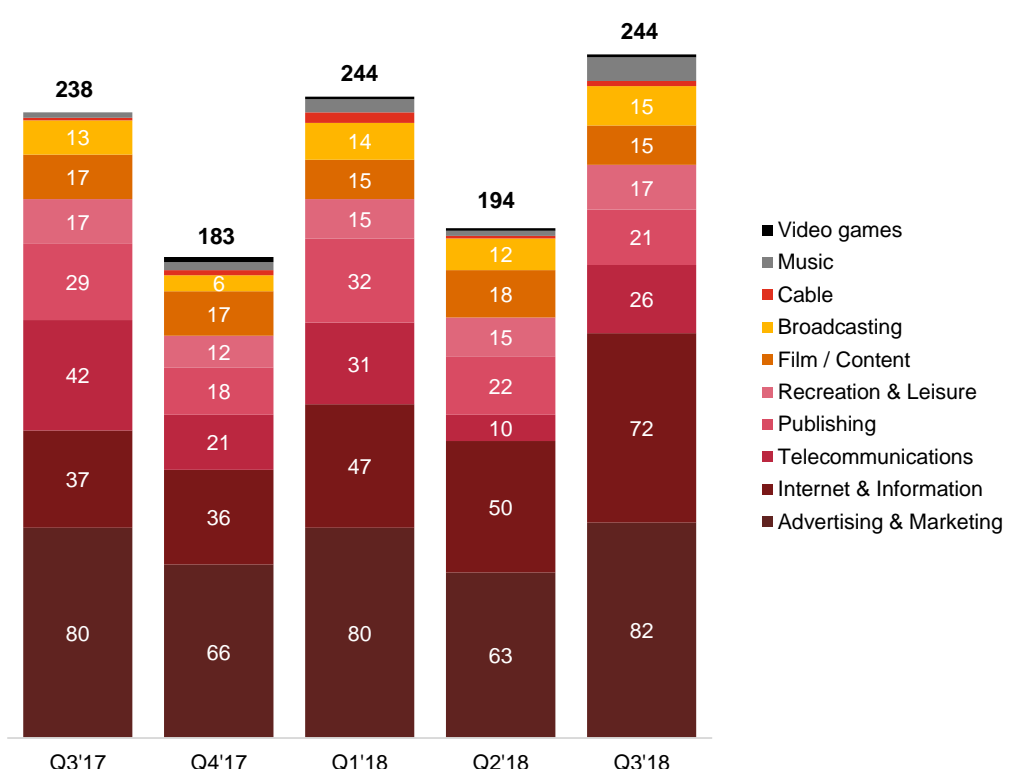
- Deals with announced values of \$100m or less continue to represent the majority of volumes at 78%, compared to just 10% of deal value. While still a small share of announced deal value, Q3 2018 shows a marked increase from just 2% in the first half of 2018.
- Deals with announced values greater than \$1B continue to illustrate the converse trend, representing 6% of volumes and 65% of announced value in Q3 2018.

Advertising & Marketing and Internet & Information retain their positions atop the deal volumes ranking, but they were certainly not alone in what was a strong quarter across the board

Consistent with historical trends, the Advertising & Marketing and Internet & Information sub-sectors lead in deal volumes, with 82 and 72 deals in Q3 2018, respectively, marking a two-year high for both sub-sectors.

While relatively smaller in comparison, both the Broadcasting and Music / Audio Content sub-sectors also showed strong growth with record high quarters.

Q3 2018 US announced deal volume, by sub-sector

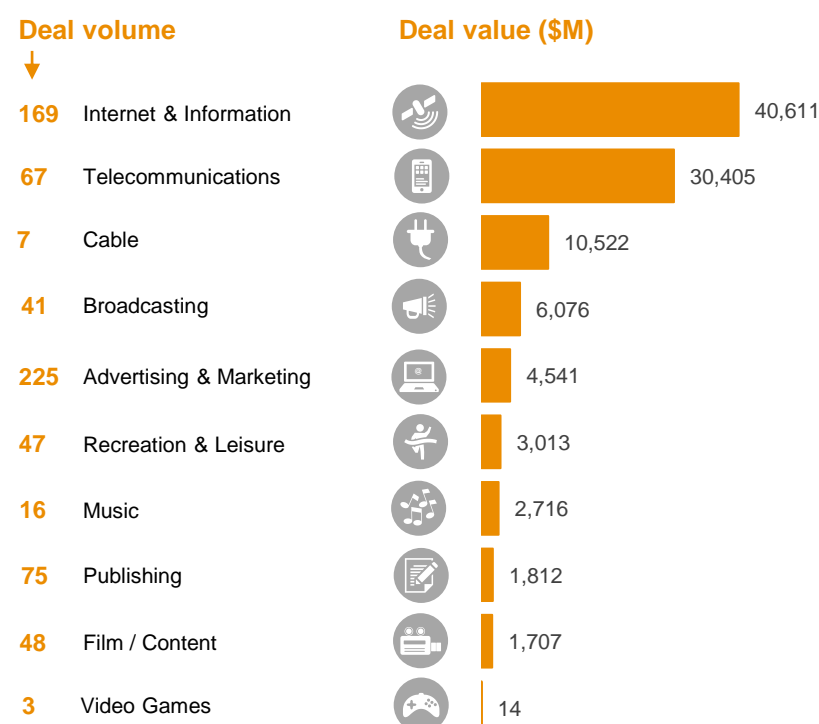


Highlights of YTD Q3 2018 deal activity

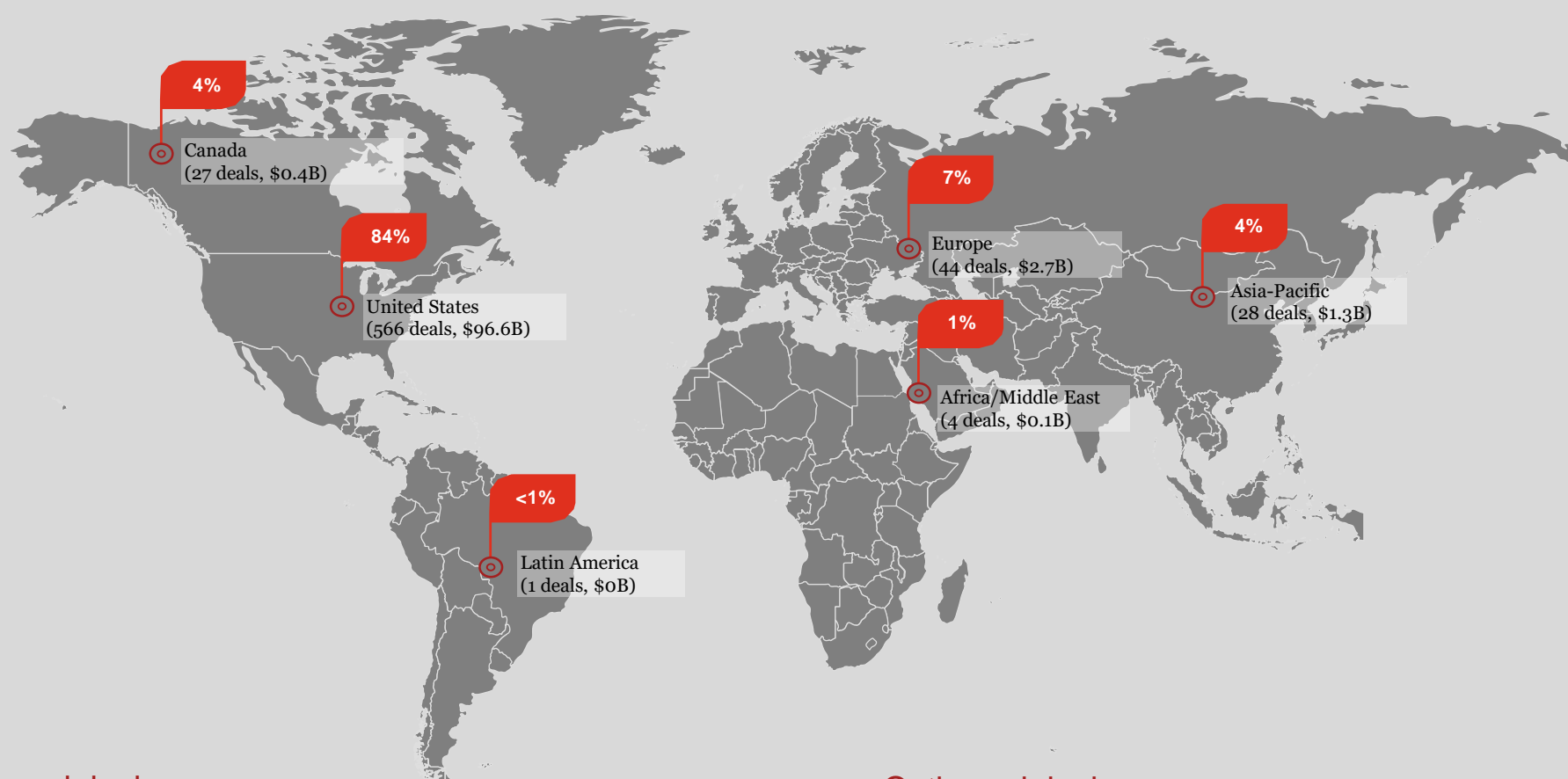
YTD volumes experience modest growth, while values surges

- Overall, announced YTD Q3 2018 deal values grew 71% over the prior year with \$101.4B across the Media & Telecom sector. Following a strong first half, Internet & Information continues to lead deal values with an additional \$9.9B in value this quarter for a YTD total of \$40.6B.
- While Q3 2018 saw record high volumes, YTD deal volumes of 698 represents modest growth of 1% over the prior year, with strong growth in Advertising & Marketing, Internet & Information, and Broadcasting offsetting a decline in Telecom deals.
- Broadcasting deal volumes continue at a strong pace with 41 deals, a 32% increase over the prior year. Deal activity has been driven by required divestitures to meet regulatory approval for the announced merger of Gray / Raycom and the abandoned merger of Sinclair / Tribune, as well as EW Scripps' divesting of radio assets.

YTD Q3 2018 US announced deal volume and value, by sub-sector



Announced deal values by acquirer region for YTD Q3 2018



Inbound deals

- Q3 2018 saw a two-year record high number of inbound deals, with 40 deals this quarter and 140 year-to-date, or 15% of total volume in both periods. Inbound deals represented 12% and 4% of quarterly and year-to-date deal values.
- While Canada leads in terms of inbound volumes, representing 26% of deals with foreign acquirers, Spain leads in terms of announced deal value with Madrid-based Amadeus' acquisition of TravelClick for \$1.5B.

Outbound deals

- While inbound deals hit a 2 year peak, outbound deals of foreign targets by US-based acquirers hit a 2 year low in Q3 with 38 deals in the quarter and 149 year-to-date. Announced values of outbound deals were \$1.9B and \$61.1B quarterly and YTD, respectively.
- The largest outbound deal by value in Q3 2018 was Kroenke Sports & Entertainment's all cash offer of \$0.8B to buy the remaining shares of Arsenal Holdings PLC.

Year-end 2018 outlook

Internet & Information

Internet & Information continued to be a hot sub-sector, with the 72 announced deals in Q3 2018 setting a new record, and being almost double the number of deals announced in the corresponding quarter in 2017. Disclosed deal value of \$9.9B was consistent with the prior quarter, with three deals in excess of \$1B. The largest announced deal was Adobe's acquisition of Marketo, a cloud-based marketing platform for

for B2B customers. While this deal blurs the lines between Internet & Information and Advertising & Marketing, it demonstrates the appetite for investors to acquire rather than build digital platforms in order to enhance their service offerings. Specifically, cloud based platforms that compliment a company's existing services can increase a company's reach across industries and customers.

Advertising & Marketing

Similar to Internet & Information, the Advertising & Marketing sub-sector remained extremely active in Q3 2018; with the 82 announced deals in the quarter being the highest in the past three years. Announced deal value for the quarter of \$3.2B was driven largely by Interpublic Group's acquisition of Acxiom Marketing Solutions for \$2.3B.

One key driver of deal volume in the sub-sector has been increased interest in companies that offer experiential marketing and related technology.

PwC's [Consumer Intelligence Series survey](#) found that 65% percent of consumers say that a positive experience is more influential than advertising or marketing. Companies that are able to create successful experience related initiatives and technology are proving to be attractive acquisition targets. For instance, in Q3 2018, QMS Media Limited acquired TGI Systems Corporation, a company that provides a range of unique fan engagement tools to help clubs, agencies and rights holders optimize their brand exposure and enrich the consumer experience at major events.

Music / Audio Content

In the current quarter we expanded and rebranded our traditional "Music" sub-sector to now also specifically include Audio Content. The rationale for the change has been the increased prevalence of podcast related M&A, which while not music specific, relate to the production and streaming of audio content.

This new category had a strong quarter, with nine announced deals surpassing any recent quarter. Announced deal value of \$2.7B was led by Sirius' announced acquisition of online streaming company Pandora.

In addition, there were four deals involving podcast production companies. The podcast industry is growing significantly, with Apple's platform now hosting over 500,000 active podcasts in over 100 languages. Where just five years ago, the average number of podcast listeners in the US was just \$23m, that audience grew over 325% to \$98m so far this year, or roughly 30% of the US population, according to PwC's [Global Entertainment & Media Outlook 2018-2022](#). Given this, we would expect acquisitions in the space to likely continue to grow in coming quarters.

Convergence 3.0

Beyond the 'blurred lines' of technology and media and the sub-sectors in-between comes Convergence 3.0 – the confluence of new technology, capabilities and heightened consumer expectations. Convergence is not only challenging TMT players to compete along every point of the value chain, but also to build engaging, trustful relationships directly with the consumer.

In today's ecosystem, companies are striving to connect with consumers, to build relevance and to reinvent business models – all while doing so at the right scale with the right technology and as effectively as possible.

As competition builds for engagement and advertising dollars, many of the strategies we hear companies talk about center around innovation - from finding new revenue streams or new ways to monetize users, to developing new platforms and new ways to provide a personal and immersive experience to the consumer using the power of data.

PwC recently curated a series of events at New York City's Advertising Week, focused on Convergence 3.0 and its impact across the sector.

About PwC's Deals Practice

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

PwC's Deals group can advise entertainment, media and telecommunications companies and 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 20,000 deals practitioners worldwide, 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 & telecommunications industry, please visit [pwc.com/us/tmtdeals](https://www.pwc.com/us/tmtdeals) and for industry research and insights visit [pwc.com/us/tmt](https://www.pwc.com/us/tmt).

About the data

Our analysis highlights the on-going changes in the Media & Telecommunications industry due to technology advances, the convergence of traditional and new media, and ever-shifting consumer preferences.

Our analysis was based primarily on individual Media & Telecommunications sectors as defined by Thomson Reuters, with the exception of Telecommunications and Internet Software & Services and E-Commerce, which we have renamed as Telecommunications 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 Media & Telecommunications 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.