US Media and Telecommunications Deals insights
Q1’19

Executive summary
Coming off of one of the most acquisitive years for the Media & Telecommunication sector in 2018, Q1’19 started the year off slow with a two-year low in deal volumes and a lack of new megadeals, suggesting some caution for investors in the face of uncertainty in the macro-economic outlook. However, with 155 new deals in the quarter and previously announced industry-reshaping deals coming to a close, we remain optimistic about the sector continuing into 2019 – particularly as it relates to the demand for streaming content and capabilities.

“Despite this being a relatively quiet quarter from an M&A perspective, make no mistake that established media companies are aggressively planning their next moves while emerging companies are hard at work finding their place in the ever evolving value chain.”

— Bart Spiegel, US Technology, Media & Telecommunications Deals Partner

<table>
<thead>
<tr>
<th>Value</th>
<th>Q1 2019 vs. Q1 2018</th>
<th>Q1 2019 vs. Q4 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2019</td>
<td>($6.7B)</td>
<td>- 82%</td>
</tr>
<tr>
<td>Q4 2018</td>
<td>($20.8B)</td>
<td>- 82%</td>
</tr>
<tr>
<td>Q1 2018</td>
<td>($37.6B)</td>
<td>- 82%</td>
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</table>

<table>
<thead>
<tr>
<th>Volume</th>
<th>Q1 2019 (155)</th>
<th>- 36%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2018</td>
<td>(172)</td>
<td></td>
</tr>
<tr>
<td>Q1 2018</td>
<td>(244)</td>
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Trends and highlights

• Deals volume reached a two-year low in Q1’19 with 155 deals, a decrease of -10% over the prior quarter and -36% over the prior year same quarter.

• Announced deal values also reached a two-year low at $6.7B, representing a decrease of 68% over the prior quarter and 82% over the prior year same quarter. The absence of megadeals during Q1’19 was the main driver of the decrease.

• Internet & Information and Advertising & Marketing continued to lead the sub-sectors in deal volume, with 45 and 40 deals announced, respectively; however both sub-sectors lagged behind all quarters in 2018.
Highlights of Q1'19 deal activity

Deal value and volume overview

Q1’19 saw deal volumes hit a two-year low with 155 total deals. Along with deal volumes, announced deal values hit a low in Q1’19 with $6.7B. This contraction in value is attributable to the lack of megadeals, especially compared to the $27.5B of announced megadeal value in Q1 2018 from two transactions – Blackstone Group LP-led investor group investment in Thomson Reuters’ Financial & Risk business and Altice USA Inc.’s spin-off to it’s shareholders.

Largest transaction

Nexstar’s sale of TV Stations – 11 stations to TEGNA Inc for $740m and 8 stations to EW Scripps Co for $505m – had a combined deal value of $1.25B, which was the largest transaction with a disclosed deal value in Q1’19.

$1.3B

0 mega deals

Listing of transactions over $500m

<table>
<thead>
<tr>
<th>Announced</th>
<th>Target</th>
<th>Target industry</th>
<th>Acquirer</th>
<th>Transaction value ($mil)</th>
</tr>
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<tbody>
<tr>
<td>3/20/19</td>
<td>Nexstar Media-TV Stations (11)</td>
<td>Broadcasting</td>
<td>TEGNA Inc</td>
<td>740</td>
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<tr>
<td>3/11/2019</td>
<td>STX Productions LLC</td>
<td>Motion Pictures / Audio Visual</td>
<td>Investor Group</td>
<td>700</td>
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<td>3/11/2019</td>
<td>NGINX Inc.</td>
<td>Internet Software &amp; Services</td>
<td>F5 Networks Inc</td>
<td>670</td>
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<td>2/7/2019</td>
<td>Webroot Inc</td>
<td>Internet Software &amp; Services</td>
<td>Carbonite Inc</td>
<td>619</td>
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<tr>
<td>3/20/2019</td>
<td>Nexstar Media-TV Stations (8)</td>
<td>Broadcasting</td>
<td>EW Scripps Co</td>
<td>505</td>
</tr>
</tbody>
</table>

Megadeal outlook

While 2019 is off to a slow start in terms of new megadeals, we’ve seen significant progress on previously announced megadeals this year. So far in 2019, Disney’s acquisition of 21st Century Fox closed, and the US Court of Appeals upheld AT&T’s acquisition of Time Warner, bringing to a close the DOJ’s attempt to undo the merger. Meanwhile, NBCU has begun its reorganization efforts to integrate Sky with the media giant’s existing international operations. With road blocks cleared, we have entered a new age of media giants.

As 2019 continues, we are waiting to see how this new group of mega conglomerates reshapes the media landscape, with streaming platforms acting as their first target: e.g. announcements of Disney+, Comcast Flex, and a forthcoming streaming service from WarnerMedia to launch later this year.
Highlights of Q1’19 deal activity (continued)

Key announced transactions

There were no singular announced deals in Q1’19 in excess of a billion dollars. However, there were two announced divestitures by Nexstar Media with a combined value in excess of $1.3b:

1. TEGNA Inc / Nexstar Media Group Inc. – 11 TV Stations (Broadcasting) ($740m): TEGNA Inc’s announced an acquisition of 11 television stations from Nexstar Media Group expands TEGNA’s broadcasting and media presence. The 11 stations span eight markets including Memphis, Tennessee and Hartford.

2. EW Scripps Co. / Nexstar Media Group Inc. – 8 TV Stations (Broadcasting) ($505m): Concurrently with the first transaction, EW Scripps’s announced an acquisition of eight television stations from Nexstar Media Group, which expands EW Scripps’s broadcasting and media presence in seven markets.

Nexstar’s divestitures of 19 stations help clear regulatory hurdles for its pending merger with Tribune Media, announced in 2018.

Deal value and volume as percent of total

Deal size for Q1’19

- Deals with announced value of $100m or less represented a significant portion of overall deals, contributing 56% to total deal volume in Q1’19. This is a consistent theme within the Media and Telecom sector, where a large number of deals either have no disclosed deal value, or are smaller, more speculative deals across a diverse group of sub-sectors.

- Although deals between $500m and $1b represented only 14% of deal volume during the year, they contributed to 48% of announced deal value in Q1’19. However, we note that deals with value between $101m and $500m contributed almost an equal amount, at 43% of announced deal value.

Private equity highlights

Despite the overall decline in the Media & Telecom market, PE volumes remained proportionally strong at 27%, continuing 2018’s upward momentum and matching the 2-year high reached in Q4’18. From a value perspective, PE deals accounted for 37% of total announced value.

From a value perspective, key private equity investments in the sector include Hony Capital & TPG’s investment in STX Productions, an investor group led by Tencent’s investment in Reddit, a private investor group’s investment in the Atlanta Falcons, and various PE firms’ investment in Lime. While PE deal volumes were concentrated in the Internet & Information sub-sector, deal values demonstrate a diversification of PE interest. Notably, key PE deals primarily include minority investments – further illustrating caution in the quarter.

Deal volumes: PE vs. Corporate mix
Announced deal volume and value by sub-sector

- **Internet & Information** and Advertising & Marketing continued their long-running trend of being the most active sub-sectors in terms of volume, representing 29% and 26% of total deal volume, respectively.
- **Internet & Information, Telecommunications, and Film / Visual Content** were the leading sub-sectors in terms of announced deal value, primarily driven by the previously mentioned transactions over $500M.
- **Publishing** and Recreation & Leisure remained consistent with prior quarter in terms of deal volume, with Recreation & Leisure also increasing in deal value. The latter being focused on activity around live or interactive events – such as sports teams or group sporting activities.

### Regional analysis for Q1’19

**Inbound deals**
- In Q1’19, there were 28 inbound deals with foreign acquirers of US-based targets totally $1.6B in announced deal values. This represents a two-year high as a percent of volumes and announced values at 18% and 23%, respectively.
- Inbound volumes have mirrored overall industry trends, with concentrations in the Internet & Information (nine deals) and Advertising & Marketing (eight deals) sub-sectors.
- Consistent with prior quarters, the UK and Canada led Q1’19 deal volumes, with 29% and 18% of inbound deal activity, respectively, while Chinese investment has grown from just 5% in 2018 to 11% in Q1’19.
- From a value perspective, the largest deals were the aforementioned investments in STX Productions and Reddit.

**Outbound deals**
- There were 46 outbound deals with US acquirers of foreign targets in Q1’19, with announced deal value of $1.3B, up from 37 in Q4’18.
- 57% of outbound deals were European targets, with the UK, Spain, and Germany having the highest volumes.
- Outbound deals showed similar volume concentrations in Internet & Information (16 deals) and Advertising & Marketing (10 deals), as well as Telecom (nine deals).
- The largest announced deal value was Modern Media Acquisition Corp’s acquisition of music streaming platform Akazoo Ltd. in the UK for $380m, further demonstrating growth in the Music & Audio Content sub-sector.
Media & Telecom sub-sector highlights

Sub-sector highlights in Q1 2019

Despite an overall volume slowdown in Q1’19, we see momentum in specific industries, including sports & podcasts:

- **Advertising & marketing**: Quarter after quarter, Advertising & Marketing has led the way in deal volume; reaching a peak of 82 announced deals in Q3’18. Since that time, there has been a steady decline, with 59 deals announced in Q4’18, and 40 deals in the current quarter. While the trend is somewhat consistent with the broader sector as we kick off 2019, there is a question around the trajectory of Advertising & Marketing deals for the remainder of the year.

  Despite the influence of the large advertising holding companies in the industry, deal volume has historically been generated from a cross-section of companies looking to improve their ad tech capabilities, while also capitalizing on the move to digital marketing. The question is whether such deals have reached saturation and are beginning to subside, or is this more of a blip caused by overall caution in the market, with deal volume likely to return to recent levels?

- **Recreation & leisure**: While Recreation & Leisure deals in FY18 were centered around live events and recreational activities, the current quarter’s announced deals include investments in a number of sporting teams. In fact, four of the eleven announced deals in the sub-sector relate to the acquisition or minority investment in US based sporting franchises. The most notable are the sale of 10% of the NFL’s Atlanta Falcons to an investor group, and 5% of NBA team, the Minnesota Timberwolves, to its majority owner.

  Sporting franchises have long been seen as trophy assets for high net worth individuals and families, however, the current valuations suggest more serious interest in the assets. Evidence of this are the rising prices being paid for expansion teams in newer sporting leagues, such as MLS. This coincides with sporting franchises diversifying their revenue streams, including embracing all-things digital, and the growing demand for live event content.

- **Music / Audio content**: Though historically a quieter sub-sector with less deal activity, podcasts are changing the game for Music / Audio Content, with Q1’19 continuing the upwards momentum seen throughout 2018. The popularity of podcasts is growing across all age groups and gaining audience share from more traditional audio sources like radio, attracting rapidly growing advertising revenue.

  The podcast market is ripe for M&A activity, as potential targets in the space include content networks, hosting services, distribution platforms, and advertising and analytics services. In Q1’19 alone, Spotify announced the acquisitions of podcast producers Cutler Media and Gimlet Media and podcast production platform Anchor. As podcasts continue to grow in popularity, look for podcast-related companies to continue to drive sub-sector trends.

Streaming ahead: Making UX + content strategy work together

As the video streaming market becomes even more saturated, there will likely be only a small number of clear, dominant players, and new entrants will need to be able to compete or capture market share en masse.

During March 2019, PwC surveyed a nationally representative sample of Americans who have access to the internet via an online survey conducted by a leading global research firm. The survey found that the correlation between content to value is equal to that of experience to value. Read more about these findings in our new Consumer Intelligence Series report available [here](https://pwc.com/cisstreamingahead).

As we stream into 2019, key value drivers include deep content libraries, artificial intelligence, and data dexterity – pertinent trends which contributed to M&A activity in the sector in 2018 and are likely to continue along into 2019 as more media giants enter the streaming space.
About PwC Deals

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 divestiture 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 and for industry research and insights visit 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.