A strong start for big deals

US *entertainment, media and communications deal insights*

First quarter 2014 edition

May 2014

A publication from PwC's Deals practice

At a glance

Deal volumes flat but ***deal value*** *is anything but.*

Busiest sectors? *Advertising/Marketing and Internet lead the pack.*

Private equity *doubles down in the Communications sector.*

Spotlight article:

What's the hype around ***Multi-Channel Networks*** *(MCNs)?*

...and why deals in the ***digital video space*** *may just be getting started.*

pwc

Introduction

The EMC sector continued to provide a robust deal market in Q1 with the announcement of several megadeals and other innovative, game-changing M&A activity. As a result, we expect 2014 to be another active year for EMC.

Shown below are some key data points coming out of the first quarter. As you can see, there are interesting stories sprinkled throughout.

The Spotlight article in this issue titled ***Multi-Channel Networks and critical capabilities for the new digital ecosystem***, offers insight into the recent activity and immediate outlook for traditional media companies who may want to establish a scale position in the digital video world. **We welcome our new colleagues of Strategy&**, formerly Booz & Company, who authored the article. Together, better than ever before, we can help companies turn ideas into transformational digital businesses, such as with MCNs.

You will notice we have made some changes to the report aimed at making your reading experience an enjoyable one. We are open to feedback from our valued readers so please contact me directly with your thoughts.

Best regards,

Bart Spiegel

Bart Spiegel
Partner, Entertainment, Media & Communications Deals, PwC

PwC Q1 2014 Deals: At a glance

Money talks

▲ 32.5 billion more deal value over prior quarter

By the numbers

▼ 7 drop in number of deals quarter over quarter

Talk of the town

46.2 purchase price in billions. Comcast's announced acquisition of Time Warner Cable is the largest deal this quarter.

Leading the charge

Advertising & Marketing with 49 deals
Internet with 42 deals
Telecom with 29 deals

Dealmakers

18.2 percentage of US deals with a private equity purchaser

Looking overseas

58 number of deals by US acquirors of foreign targets

A spotlight on Multi-Channel Networks

Billions of eyeballs
A handful of recent acquisitions
A world of potential

Source: Thomson Reuters and PwC Analysis

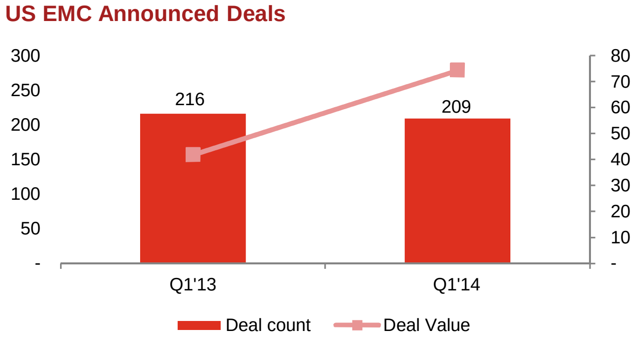
First quarter 2014 M&A trends

Announced deal volume remained steady versus the prior year with announced value of ~$74 billion, up ~$33 billion over the prior year

The significant increase in Q1'14 deal value of $32.5 billion when compared to Q1'13 was driven by a potentially game changing megadeal in the Cable space (Comcast's $46 billion acquisition of Time Warner Cable). Also, in the Internet/Information sub-sector, we see an example of Facebook exploring international growth with their $19 billion acquisition of messaging company WhatsApp.

Deal volumes remained steady versus with the prior year with 209 announced deals in Q1'14 versus 216 deals in Q1'13.

Comcast/TWC deal spikes transaction value



Source: Thomson Reuters
**Megadeals represent deals > $10 billion.*

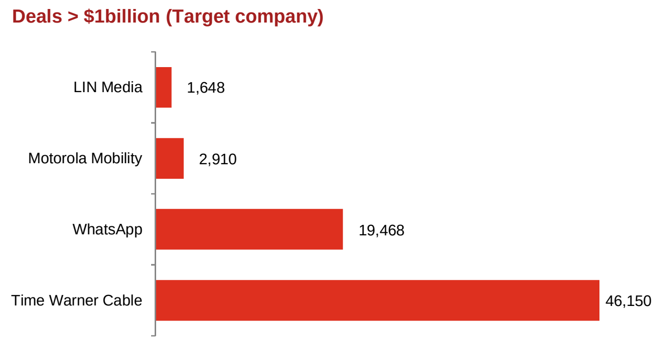
Thinking (really) big

The first quarter of 2014 saw several "megadeals" in EMC, with four deals in excess of $1B. Announced megadeals in Q1'14 had total transaction value of ~$70 billion versus four deals with total transaction value of ~$37 billion in Q1'13.

The most significant announced deals in Q1'14 by transaction value were:

- **Comcast Corp's** proposed acquisition of **Time Warner Cable** – combining the largest and second largest cable operators in the US.[1] Additionally, Comcast and Charter Communications have recently announced a deal whereby Comcast will divest ~3.9m subscribers to Charter Communications reportedly worth $20 billion.[2]
- **Facebook's** proposed acquisition of **WhatsApp** – providing Facebook with access to over 500 million subscribers who use the messaging service each month.[3]
- **Lenovo Group's** transaction to acquire **Motorola Mobility Holdings** – reportedly driven by a strategy to combine their respective smartphone market shares.[4]
- **Media General's** acquisition of **LIN Media** – creating the second largest local TV broadcasting company.

Billion-dollar megadeals



Source: Thomson Reuters

[1] http://dealbook.nytimes.com/2014/02/12/comcast-set-to-acquire-time-warner-cable/
[2] http://money.cnn.com/2014/04/28/news/companies/comcast-timer-warner-cable-charter/
[3] https://blog.whatsapp.com/613/500000000
[4] http://www.anandtech.com/show/7726/some-thoughts-on-lenovos-acquisition-of-motorola-mobility-from-google

Quarter in review: Active sub-sectors

Advertising/Marketing and Internet continue to lead deals

US EMC announced deals by sub-sector

	Deal Volume			Deal Value*		
$ in millions	YTD Mar-13	YTD Mar-14	Variance	YTD Mar-13	YTD Mar-14	Variance
Advertising & Marketing	45	49	4	$ 59	$ 93	$ 34
Internet Related/Information services	45	42	(3)	25	20,619	20,593
Telecommunications	38	29	(9)	18,046	3,042	(15,004)
Publishing	28	30	2	120	832	712
Recreation & Leisure	14	18	4	672	20	(652)
Film/Content	9	14	5	338	1,054	716
Broadcasting	22	11	(11)	17,308	1,890	(15,418)
Cable	6	9	3	4,965	46,682	41,717
Music	3	4	1	-	10	10
Casinos & Gaming	6	2	(4)	236	62	(174)
Video Games	-	1	1	-	-	-
Total	**216**	**209**	**(7)**	**41,769**	**74,305**	**32,536**

** Represents transaction value and not enterprise value*
Source: Thomson Reuters, PwC analysis

Let's chat

Internet Related/ Information services

Internet related deal values increased to $20.6 billion driven by Facebook's $19.5 billion acquisition of WhatsApp.

Deal volume remained steady versus the prior year with continued interest from both Corporate and Private Equity. From a Corporate acquisition perspective, this sub-sector is also seeing some acquisition interest from other industries outside traditional Internet/Information services companies (e.g. Retail).

Another US smartphone company snapped up

Telecommunications

Communications deal value declined versus Q1'13 as the prior year period included Liberty Global's $16.4 billion purchase of Virgin Media. Excluding that transaction, announced deal value in Q1'14 increased $1.7 billion driven by communications equipment transactions such as Lenovo's acquisition of Motorola Mobility. This acquisition allows Lenovo to compete in the US smartphone market. Overall deal volume declined primarily driven by fewer Wireless transactions. Communications equipment and services transactions remained steady.

Slow-down in broadcasting after an epic year

Broadcasting

Deal volume and deal value declined in Q1'14, marking a slowdown in the consolidation of local broadcast stations. This slowdown may have been partially due to acquirors awaiting the FCC ruling on joint sales agreements ("JSAs"). Historically, broadcasters used JSAs to operate multiple stations in a local market where direct ownership of more than one station was prohibited. As of Mar-14, the FCC has ruled that broadcasters with JSAs that result in an effective ownership interest will be forced to sell over the next two years.

However, Q1'14 did include a significant transaction with Media General announcing its acquisition of LIN Media for $1.6 billion. The combined company will own 74 stations in 46 markets and reach 23% of the US market (pending regulatory approval).[5]

TV production builds momentum early

Film/Content

Film/content deal activity was strong in Q1'14 led primarily by television production deals and also included digital content, motion picture production and other content related deals. The television production sub-sector is already on pace to significantly exceed its total deal volume in 2013.

As noted in our 2013 year-end Deal Insights, geographic location will hold no bar as media players (both foreign and US) continue to look abroad for content. Cross-border deals in this subsector increased from five in Q1'13 to nine in Q1'14. Q1'14 cross-border deal activity included six US targets acquired by foreign companies ("inbound") and three foreign targets acquired by US companies ("outbound").

Sports deals climb

Recreation & Leisure

Recreation & leisure deals increased in Q1'14 versus Q1'13 driven by deals for sporting teams, fitness facilities and golf/country clubs. With respect to sporting deals announced, the majority were related to soccer teams and other soccer related businesses.

[5] http://dealbook.nytimes.com/2014/03/21/media-general-to-buy-lin-media-creating-large-tv-broadcaster/?_php=true&_type=blogs&_r=0

Private equity play

In Q1'14, private equity backed announced deals represented ~18% of total EMC deals. While this represents a slight increase in percentage terms from their overall industry participation in the prior year, the volume of deals has remained consistent (~38). From a sub-sector perspective, Internet-Related/Information Services, Advertising/Marketing and Recreation/Leisure were all areas of PE investment interest.

- Communications emerged as a new hot sector for PE in Q1'14 (7 deals versus 4 in PY)
- Advertising and Internet related/information services continue to be two of the most active sectors for PE

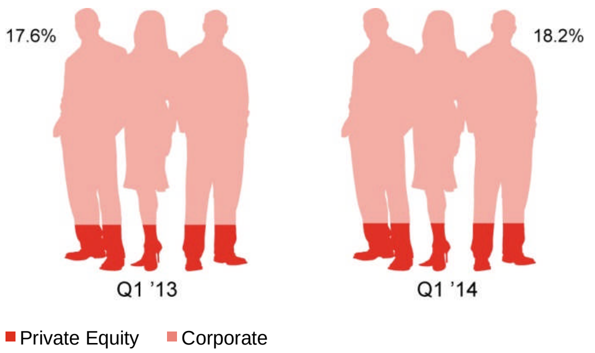
Outbound deals

The number of announced deals by US companies acquiring overseas targets ("outbound deals") increased slightly in Q1'14 when compared with Q1'13. Telecommunications and Internet related sub-sectors continue to remain the most active in completing acquisitions. That being said, we are still seeing significant interest in overseas markets across the sub-sectors.

- Three big sectors are Advertising & Marketing, Communications and Internet related/information services.
- Communications took a leap (accounted for 24% of outbound deals in Q1'13 vs 40% in Q1'14)

Private equity responsible for 18% of all US deals

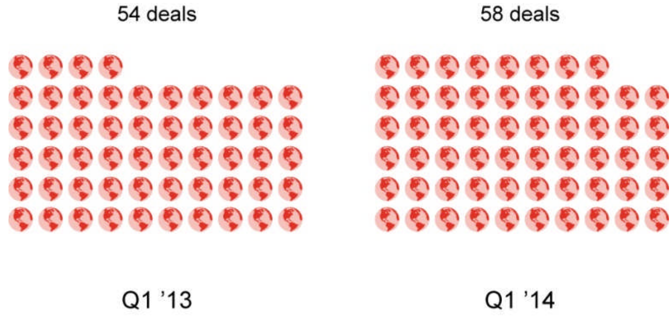
US EMC deals: corporate vs. private equity mix



Source: Thomson Reuters

58 cross-border deals by US acquirers

EMC cross-border deals by US acquirers

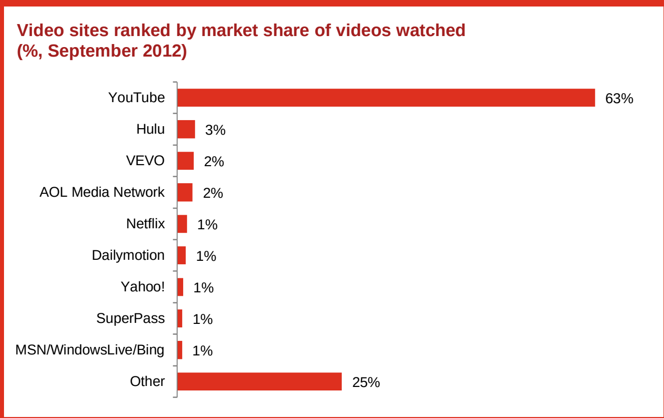


Source: Thomson Reuters

Spotlight: Multi-channel networks and critical capabilities for the new digital video ecosystem

Media companies are in a race to engage and entertain younger audiences on digital platforms and to accelerate content and business innovation at scale. Multi-Channel Networks (MCNs) have recently emerged as potentially highly attractive businesses to support those strategic objectives. Strategy& examines what video ecosystem trends are compelling media companies to consider adding MCNs to their digital portfolios.

Youtube tops the digital video market



Source: Nielsen, September 2012: Top U.S. Online Video Sites and Sports Brands (Newswire).

In digital video, YouTube has emerged as the largest player attracting 1 billion monthly unique visitors – equal to 40% of the global online population. These viewers watch over 6 billion hours per month – one hour per human being on earth[6]. Recently, new entrants to the media and entertainment business – the so-called Multi-Channel Networks (MCNs) – have emerged to build nascent businesses on top of YouTube and other digital video platforms' scale, and form a new, still emerging piece of the growing digital video ecosystem.

The growth of these businesses as a new digital access point by traditional media companies to their target audience has not gone unnoticed. Major media companies have recently begun targeting MCNs for potential acquisition.

Recent Deals

Q1 2014 saw intensifying deal activity between major media companies and MCNs. Most notable by value was Disney's announced acquisition of Maker Studios for at least $500 million. Smaller deals like Big Frame, which sold to DreamWorks through AwesomenessTV (itself a recent acquisition) for $15M also took place. German broadcaster ProSiebenSat.1 took a 20% stake in MCN Collective Digital Studio, supplementing organic efforts to build up its own MCN Studio 71, which launched in August 2013.

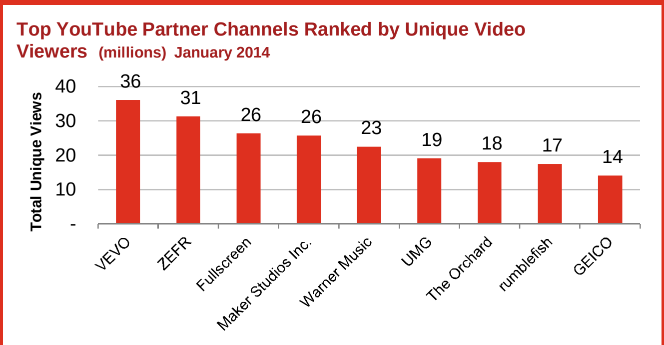
What are Multi-Channel Networks?

MCNs are independent networks aggregating thousands of channels. Some MCNs have also started to produce their own content. MCNs partner with video platforms such as YouTube to syndicate, monetize and manage content they curate from digital video talent. And some also utilize their own online and mobile platforms for featuring video content. MCNs such as Fullscreen and Maker Studios attract 3-4 billion video views monthly[7].

[6] http://www.youtube.com/yt/press/statistics.html

[7] http://variety.com/2013/digital/news/maker-studios-unveils-new-programming-strategy-exclusive-1200738113/ and http://techcrunch.com/2014/03/05/fullscreen-cro-vp-content/

A close race: MCNs ranked



Source: comScore, Releases January 2014 U.S. Online Video Rankings (Press Release).

Content on these digital-native video networks is noticeably different. While talent and shows are frequently organized in verticals not dissimilar to cable networks, from news to comedy to lifestyle verticals such as cooking, beauty, music or gaming, the execution of the content differs in story selection, voice, production style, and talent. The tone is frank, often unfiltered, and relatable to a younger demographic. Formats are dominated by entertainment, are shorter and vary in production value. Topic selection is in tune with what is "en vogue" with younger audiences this very moment. In fact, the content on MCNs increasingly triggers the next viral trend.

Why focus on MCNs?

In the face of these changes, media and entertainment companies are seeking to gain access to attractive digital audiences at scale. They are in a race to build up new capabilities critical for success in the video entertainment ecosystem of the future. To do so, they can develop capabilities in-house or look externally for acquisitions. Judging by the recent M&A volume, media companies may increasingly be choosing the inorganic option. They are looking to acquire:

Demo leadership: YouTube has become the aggregator-of-choice of video content for Millennials, who are consuming more and more video. A highly desirable audience for advertisers, young adults have become increasingly challenging for traditional media companies to engage in broadcast television. MCNs excel in this audience; for instance, ~80% of the Maker Studios audience is in the 13-34 age bracket[8].

Engaged audiences: MCN viewers are highly engaged in the content. In January 2014, Fullscreen viewers averaged 40.6 minutes, twice the time spent by the most-engaged viewer of a traditional media player's YouTube channel[9].

New capabilities and technologies: Traditional media companies need to augment their own content development capabilities in order to produce content for younger audiences and drive greater innovation. Large MCNs can provide these companies with access to the talent, ideas, and storytelling angles that allow content innovation for Millennials at scale.

With access to data from thousands of online video channels, YouTube networks may possess the digital tools and processes to generate insights that can help content creators develop and build audiences.

Access to online video ad dollars: Advertisers are following video viewers to digital platforms. According to eMarketer, 75% of media buyers are likely or very likely to shift advertising dollars from TV to digital video. [10] Media companies are adapting in order to service advertising customers and compete in a crowded advertising ad market.

Learning agenda: MCNs can provide media companies with significant opportunity for learning and experimentation, e.g. around what works in short-form originals for digital platforms, around OTT distribution, and around building direct relationships with viewers. Learning how to make existing TV and film content even more successful online, as well as how to build fans for digital-first originals and monetize them via advertising and other revenue streams can be a critical new capability that drives value.

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[8] http://variety.com/2013/digital/news/maker-studios-unveils-new-programming-strategy-exclusive-1200738113/

[9] https://www.comscore.com/Insights/Press_Releases/2014/2/comScore_Releases_January_2014_US_Online_Video_Rankings

[10] http://www.marketingpilgrim.com/2013/08/advertisers-moving-ad-dollars-from-tv-to-online-video-options.html

Looking Ahead, More Deals

The history of digital media on the internet has proven that it is very challenging for traditional media and entertainment incumbents to build innovative, highly scaled offerings with large user bases on their own. There are two primary reasons for this:

1. **Old playbooks for new platforms:** Incumbents may attempt to "export" the success they have had in their natural media domain to the digital world. They may use many of the same structures, systems, processes, and talent to do so. However, the experience over the last few years has shown that a digital "win" has to be genuinely earned – and that more often than not this takes a fresh, new approach.

2. **Plan, plan, plan instead of launch & learn:** Many digital-native successes cannot be planned well. While MCN content selection can be very data-driven and far from random, there is also an element of scrappiness – testing an idea in the market quickly and cheaply, and then iterating on it. The ability to do this hinges on a very specific capability system that includes culture as much as systems and processes.

That being said, incumbent media and entertainment companies also bring capabilities to the table that are complementary to those of most MCNs. Large media players often have strong agency and marketer relationships, cross-platform packaging and brand integration prowess, and leading entertainment brands that can accelerate the advertising monetization of MCNs. Looking beyond advertising, some major content producers have capabilities in licensing, merchandising, and packaging shows for output on traditional TV, gaming, ecommerce that can diversify revenue streams.

Acquisitions or investments in MCNs can be a bold strategic move for media and entertainment incumbents who want to establish a scale position in the digital video world and gain access to critical capabilities. Key challenges will be to:

- Decide which MCN will likely add the complementary capabilities that will deliver a sustainable competitive advantage (and therefore viable ROI)
- Find ways to leverage the acquired asset without "breaking" it. As acquisitions of the past have demonstrated, a business-as-usual integration can limit or even destroy the digital-native capabilities of the asset and thus cause significant value leakage
- Keep the cost of content in line with the revenue and monetization potential

Despite these challenges, the MCN approach to digital video curation provides a potential template for how the "channels" business of traditional cable media could evolve outside its traditional ecosystem moving forward.

We expect the MCN space to continue to have significant deal activity going forward. While several of the widest-reach MCNs have been fully or partially acquired, new players will continue to emerge offering yet new views on how content will need to evolve along with highly dynamic audience taste.

About PwC's Deals practice

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 & 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, through developing strategies for capturing post-deal profits, to exiting a deal through a sale, carve-out, or IPO. With more than 9,800 deals professionals in 75 countries, we can deploy seasoned deals teams that combine deep entertainment, media & communications 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 complete and 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. For purposes of our publication, we have focused on the following sectors:

- Communications
- Recreation & Leisure
- Film/Content
- Cable
- Broadcasting
- Internet Related/Information Services
- Publishing
- Advertising & Marketing
- Casinos & Gaming
- Music
- Video Games

Our analysis was based primarily on individual EMC sectors as defined by ThomsonReuters, with the exception of Telecommunications and Internet Software & Services and E-Commerce, which we have renamed as Communications and Internet Related/Information Services, 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. Private equity transactions are defined as acquisitions of initial platform companies only. Subsequent add-on acquisitions by private-equity-controlled platform companies are herein classified as corporate transactions.

As has been the case over each of the past several years due to undisclosed deal activity, FY13 and FY14's disclosed deal volume was significantly lower than total EMC deal volume. Although transactions with disclosed deal values are indicative of overall EMC sector trends, the high volume of undisclosed deal activity is also indicative of growing middle-market deal activity in the space.

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