H1: 2016

MEDIA*talk*

SPOTLIGHT ON PRIVATE EQUITY

BDO

INTRODUCTION

Media continues to be a highly dynamic and exciting sector of the economy; both in the UK and globally. Cutting edge technologies are constantly providing opportunities for new revenue streams for the industry and investors alike.

These factors inevitably drive mergers and acquisitions (M&A) and help to convince investors that strong returns can be achieved in the media sector.

Globally, the level of M&A in the wider entertainment/digital media sector was up by 7.5% by volume and 16.3% by value in 2015 as compared with the previous year.

One of the most striking trends is that at the global level, Asia-Pacific (APAC) has moved into second place (largely fuelled by China) behind the USA for 2015 media M&A by volume. The upsurge of Chinese interest in global media businesses was emphasised in the acquisition of Swiss-based Infront Sports & Media by China's Dalin Wanda Group for US$1.1 billion.

In the UK, our indicators suggest that 2015 marked a notable return to traditional publishing, broadcasting and content M&A. The change of subsector focus coincided with a drop in aggregate values in 2015, whilst the number of deals continued at levels well above the lows of the recession years.

In this edition of MEDIAtalk we take a deep dive into private equity, an asset class which continues to maintain average year-on-year investment levels of 18% of all M&A within the media space. However, investors have yet to be lured in numbers away from the predictable revenue streams of subscriber-based businesses or traditional media companies.

Interestingly, our analysis suggests that, in-line with the wider private equity market, investors in UK media businesses have been exiting investments at a tremendous pace in recent years.

Market data suggests that the return of trade buyers in force, the increase in secondary buyouts, and a relative re-opening of the IPO window (until recently) have presented favourable conditions for private equity funds to return money to their limited partners from successful investments in the media sector.

ANDY VINER
Head of Digital Media at BDO

The number of currently held UK media companies (being nurtured in private equity portfolios for the magic three to five years) also implies that the healthy exit trend is set to continue. This fact is also likely to impact the UK mid-market as many of the top UK media investors have historically exhibited a strong focus on the mid-market.

Overall, the UK remains a key heartland for innovative media development, continuing to benefit from embedded transatlantic dealflow. With global media companies looking to lead the market in keeping pace with technological developments, and an increasingly savvy user base, we anticipate that media will remain one of the most dynamic sectors for the remainder of 2016 and into 2017.

M&A TRENDS

UK MEDIA SECTOR

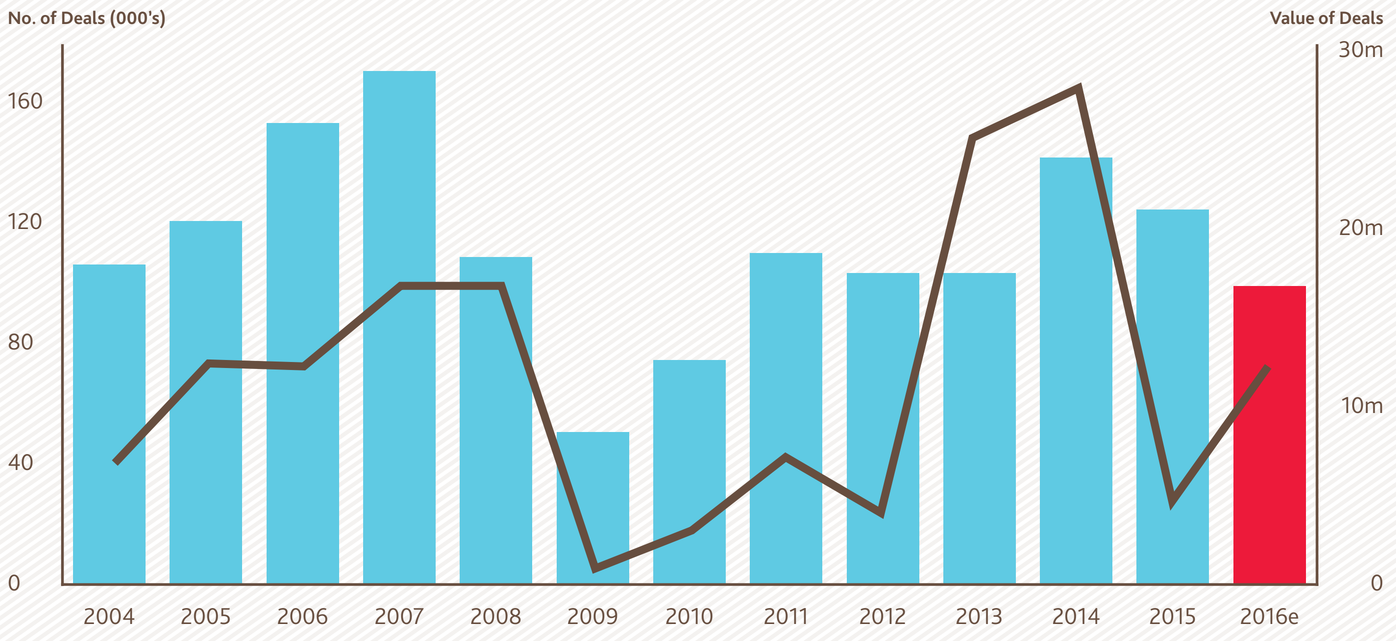
The volume of media sector M&A deals announced in the UK continues to run at levels well above the low of 2009. However, the value of UK media transactions recorded in 2015 ran below the highs seen in 2014, largely due to the absence of mega deals, particularly in the digital media space.

We predict that in 2016 deal volumes will continue to run well above the recession lows and that the aggregate value of deals will bounce above 2015 levels.

In the publishing arena, the high profile sale of the Financial Times Group by Pearson saw the publisher of the 127-year-old newspaper hotly pursued. The newspaper was ultimately acquired by Nikkei of Japan for a gross cash consideration of £844 million.

Pearson also sold stakes in The Economist Newspaper, with 20% going to the company in a share buyback, and 30% sold to Exor of Italy.

FIGURE 1: UK M&A VOLUMES AND VALUES (MEDIA SECTOR 2004 - 2016E) [1]



THE VOLUME OF MEDIA SECTOR M&A DEALS ANNOUNCED IN THE UK CONTINUES TO RUN AT LEVELS WELL ABOVE THE LOW OF 2009. HOWEVER, THE ABSENCE OF MEGA DEALS MEANT THAT THE VALUE OF UK MEDIA TRANSACTIONS RECORDED IN 2015 WAS BELOW THE HIGHS SEEN IN 2014.

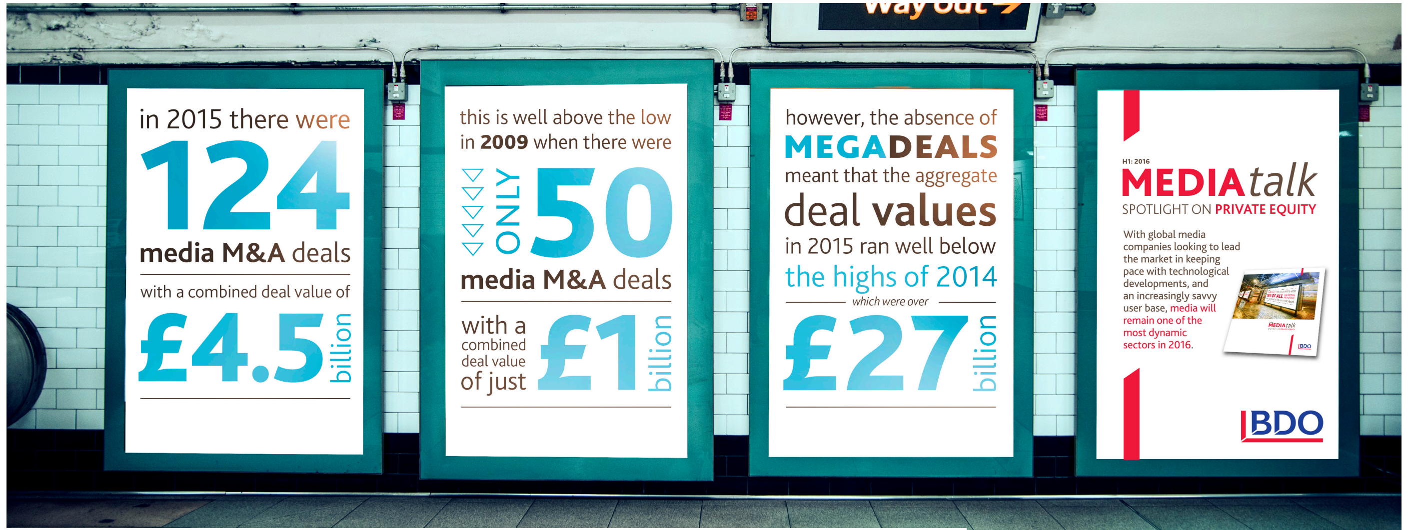
We predict a further slight dip in the number of deals in 2016, although the value of deals will bounce back to surpass the drop seen in 2015.

No. of deals   Value of deals

1. Source: Mergermarket and BDO

M&A TRENDS

UK MEDIA SECTOR



In broadcasting and content, ITV snapped up Netherlands-based Talpa Holding (a company established in 2006 by Big Brother producer John de Mol) for a cash consideration of approximately £355 million. Since 2009, Talpa has created 75 shows airing in more than 180 countries, including the award winning talent competition The Voice. In the mid-market, Providence Equity Partners acquired Chime Communications, the international sport, entertainment and communications group. WPP was a significant Chime shareholder and made a joint offer with Providence for the purposes of the Takeover Code.

In the music streaming sector, a consortium of investors acquired a 6.40% stake in Spotify (the provider of digital music streaming services) for an estimated value of £343 million, valuing Spotify at US$8.53 billion.

Amongst the private equity investors in the company, the participation of Sweden-based telecoms group, Telia Company AB, demonstrates the continued appetite for transformational activity within the media sector, particularly across technology and media sectors.

As we approach the middle of 2016, some notable deals are already being announced. For example Markit Group (the listed UK-based provider of financial information services) has tabled a £4.2 billion merger of equals with IHS, the listed US-based provider of information, analytics, research and analysis on a range of sectors.

Meanwhile, Johnston Press has acquired The Independent "i" from Russian media magnates, Alexander and Evgeny Lebedev.

FIGURE 2: HEAT MAP [1]

	£5m-30m	£60m-300m	< £5m	> £300m	£30m-60m	Total
Publishing	5	6	2	5	3	21
Broadcasting and content	2	4	1	2	2	11
Digital media	3	2	1	2	1	9
Marketing services	3	2	3	1	0	9
Advertising	2	1	1	0	1	5
Events management	1	0	1	0	0	2
Online information	1	0	1	0	0	2
Public relations	1	0	1	0	0	2
Total	18	15	11	10	7	61

PIPELINE TRENDS

As we look at trends within the pipeline for UK media M&A, publishing, broadcasting and content, digital media and marketing services subsectors are seeing a significant number of companies coming up for sale, particularly within the mid-market deal value bracket. As these trends are realised in the months ahead, the question will be whether trade buyers continue to dominate the buying spree, or whether private equity investors (who globally are reported to be sitting on dry powder in excess of US$1 trillion) will venture into the world of new media with full blooded intent.

Note 1: The Intelligence Heat Chart is based on UK Media 'companies for sale' stories tracked by Mergermarket in the last 12 months (to 17/05/2016). Opportunities are captured according to the dominant geography (UK) and sector (Media) of the potential target company.

Note 2: The Heat Chart of predicted deal flow is based on the intelligence collected in the Mergermarket M&A deals database relating to companies rumoured to be up for sale, or officially up for sale, in the UK. It is therefore indicative of likely activity in the months to come. The intelligence comes from a range of sources, including press reports, company statements and Mergermarket's own team of journalists. The data does not differentiate between deals that could happen in the short or long term.

PIPELINE M&A INDICATORS SUGGEST THAT THE PUBLISHING, BROADCASTING AND CONTENT, DIGITAL MEDIA AND MARKETING SERVICES SUBSECTORS ARE SEEING SIGNIFICANT NUMBERS OF COMPANIES COMING UP FOR SALE, PARTICULARLY WITHIN THE MID-MARKET DEAL VALUE BRACKET.

1. Source: Mergermarket and BDO

HOT SECTORS

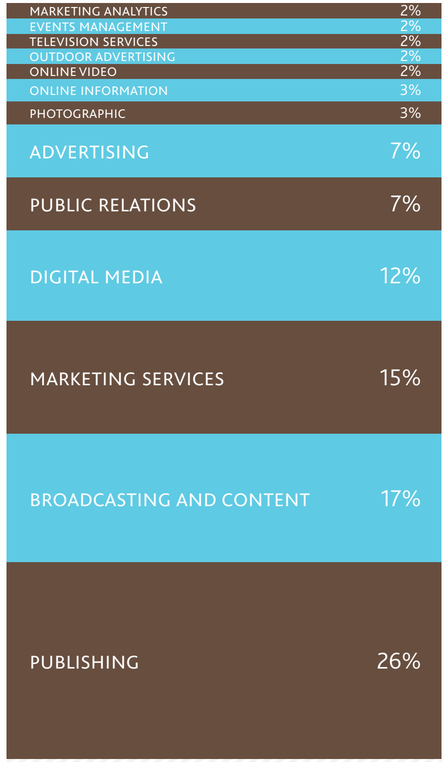
MEDIA M&A

As we reported in the previous edition of MEDIAtalk, 2015 marked a notable swing towards traditional media M&A. The fickle nature of statistics being what it is, the nearly-but-not-quite sale of Dunnhumby (the Tesco-owned IP-heavy analytics company that pioneered the Club Card scheme) could have altered the statistical landscape. At the height of the auction, Dunhumby was reportedly commanding offers in the region of £700 million.

Whilst Dunnhumby's CEO has hinted in the press that Dunnhumby may yet be sold in the future, the customer science company recently returned to the acquisition trail, taking a strategic equity stake in Aptaris, an enterprise marketing and promotions management technology innovator. The deal follows Apple acquiring Semetric, the UK-based provider of online analytics solutions to the music industry.

Traditional publishing M&A remained strong in the UK in 2015. As well as those deals cited above, Trinity Mirror acquired the remaining 80% stake in newspaper publisher Local World Holdings from Daily Mail and General Trust. In 2016 to-date the traditional media trend has remained strong, although we are seeing an increase in the level of digital media, digital agency and digital marketing deals being announced, which is in-line with the M&A pipeline indicators.

FIGURE 3: UK MEDIA M&A TRANSACTIONS BY SUBSECTOR 2015 [1]



2015 MARKED A NOTABLE SWING TOWARDS TRADITIONAL MEDIA M&A IN THE UK, WITH PUBLISHING, BROADCASTING AND CONTENT AND MARKETING SERVICES LEADING THE CHARGE.

The insatiable demand for content continued to fuel M&A as Canada's Entertainment One acquired Astley Baker Davies (ABD), the UK-based company engaged in the production and creation of the pre-school animation series Peppa Pig.

Meanwhile, ITV also acquired a 75% stake in Twofour Group (a company engaged in producing broadcast programming and communications content for distribution on multimedia platforms) from LDC. Sky, which is rarely off of the acquisition trail, acquired an undisclosed majority stake in Blast! Films, the UK-based company engaged in the production of documentaries and dramas for television channels.

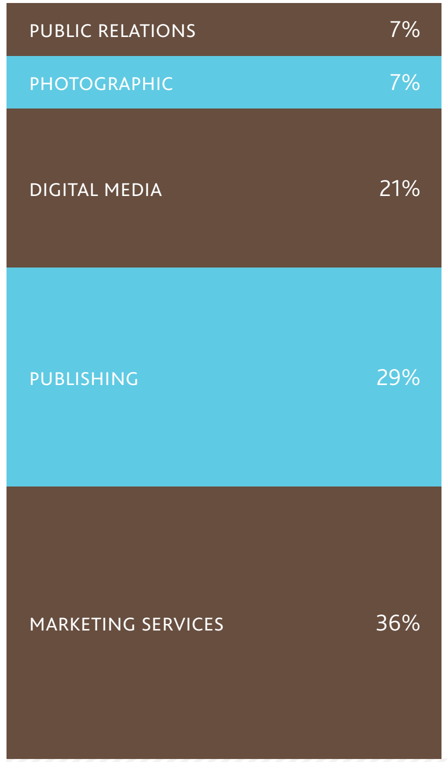
1. Source: Mergermarket and BDO

In general, the UK television landscape has long been undergoing change, as BT Group and Sky have continued to make inroads in vieing for viewers attention. In addition, the rise of new original content producers in the form of Amazon or Alibaba of Asia, has made for an industry subject to rapid changes. Currently the UK government is weighing up plans for the future of Channel 4, with privatisation, or partial privatisation that brings in a strategic bidder (perhaps even of the ilk of BT Group) all reported as possibilities alongside other substantial reforms.

The government has also set out plans for the future of the BBC. The plans include increasing the licence fee level in-line with inflation for five years from 2017/18, and opening up the BBC's programme-making to greater competition by removing the in-house guarantee for all television content spend, except news and news-related current affairs.

Meanwhile ITV (who's Chairman, Archie Norman indicated his intention to step down this year) has been the subject of continual speculation concerning potential acquirers. Names such as Liberty Global and Comcast have been mooted but to-date without meaningful traction. As the landscape of UK television undergoes significant change, opportunities may well emerge for new markets and big ticket M&A.

FIGURE 4: UK MEDIA PE TRANSACTIONS BY SUBSECTOR 2015 [1]



The private equity subsector breakdown for 2015 reflects a continued preference for traditional media, and a cautious approach to the range of subsectors not generally seen as able to provide the dynamics to generate the kind of Internal Rate of Return (IRR) to justify the investment of limited partner funds.

Publishing captured the increased attention of private equity in 2015. Endless acquired an undisclosed majority stake in Ink Global, the UK-based publisher of inflight magazines for airlines.

Lonsdale Capital Partners, along with management of Ocean Media Group (the UK-based magazine publisher and exhibition organiser) acquired the company in a management buyout (MBO) from Ion Equity for an undisclosed consideration.

Meanwhile, the management of Briefing Media, the UK-based media company that publishes newspapers and magazines, acquired the company in an MBO backed by Lyceum Capital Partners, from Kester Capital, for an undisclosed consideration.

IN 2015 PRIVATE EQUITY FIRMS CONTINUED TO DEMONSTRATE A STRONG PREFERENCE FOR TRADITIONAL MEDIA, AND A CAUTIOUS APPROACH TO THE FULL RANGE OF MEDIA SUBSECTORS. THOSE THAT DID INVEST IN DIGITAL MEDIA COMPANIES TENDED TO FAVOUR BUSINESSES WITH FAIRLY PREDICTABLE, SUBSCRIPTION-BASED FEE MODELS.

1. Source: Mergermarket and BDO

HOT SECTORS

MEDIA M&A

In the digital media space, information providers to the financial services continue to be in vogue with private equity. The subscription-based models of these companies provide private equity investors with fairly reliable revenue forecasts, and also a means of managing the interest on the debt used to conduct the initial leveraged buyouts.

The Mergermarket Group (a portfolio company of BC Partners) recently acquired C6 Intelligence Information Systems, the UK-based provider of actionable risk intelligence and data, for an undisclosed consideration.

The deal forms one of several recent bolt-on acquisitions which indicate that BC Partners is currently operating a buy-and-build strategy with Mergermarket. Elsewhere, serial media investor LDC acquired PEI Media Group (a UK-based company that provides financial information services to a range of investors) in an MBO for an undisclosed consideration.

Private equity firms were also fairly active at the public relations and marketing services end of the scale. Apart from the Providence Equity/Chime Communications deal cited above, the sectors also saw rising media acquirer the US-based investment bank Teneo Capital, and a portfolio company of BC Partners, acquire Blue Rubicon, the UK-based strategic communications and reputation management firm, from LDC.

Meanwhile Bridgepoint acquired a 40% stake in Marketing VF. Also the management of Adare Group acquired the company in a secondary MBO, backed by Endless, from Caird Capital.

At the venture capital end of the long term asset class, investors have a more adventurous appetite for media investments, albeit taking smaller equity stakes in an effort to breed up the next "unicorn" (company valued at >£1 billion). Examples include Quill, a producer of content that helps to drive online sales founded by serial online entrepreneur, Ed Bussey, into which Smedvig Capital invested £5 million in 2014. Another example would be London-based Lost My Name, a company which creates personalised books based around a child's name. In 2015 Google Ventures led a US$9 million Series A investment round with Greycroft, The Chernin Group, Allen & Co, and Cris Conde also reportedly participating.

Several of the suiters for Dunnhumby were known to have been big-hitting private equity houses. Had that deal gone through, the statistical perspective of aggregate private equity investment into the media sector would also have looked significantly different. The question is; when will private equity wade in to less familiar waters? History suggests that where one goes, the market can quickly follow.

SPOTLIGHT ON PRIVATE EQUITY

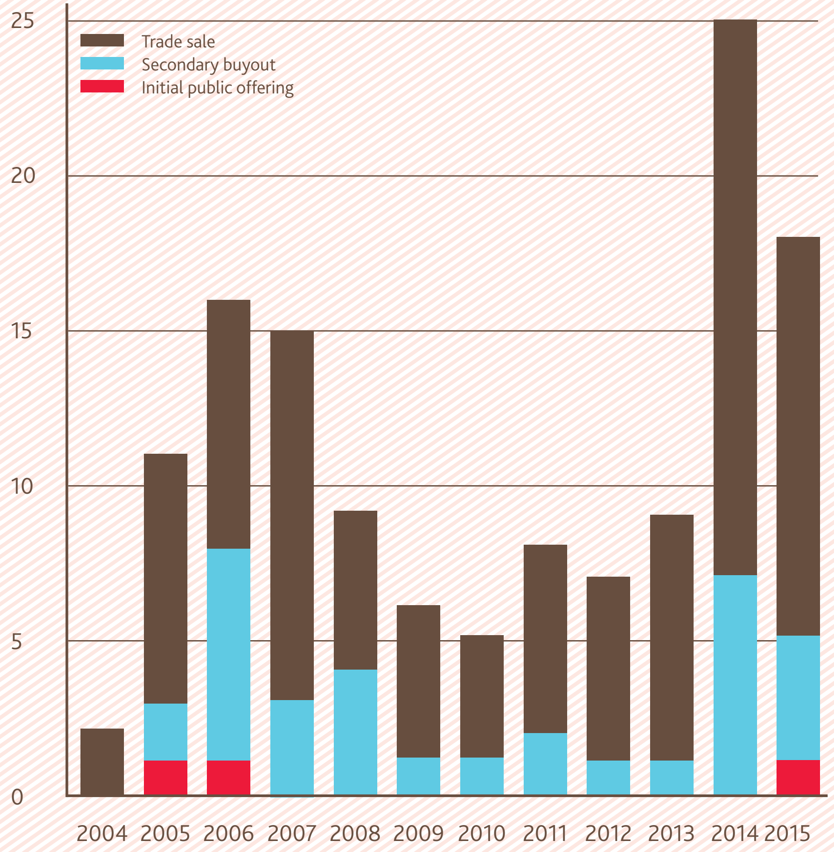
TRENDS AND ANALYSIS

Market data suggests that private equity has accounted for an average of 18% of all UK media M&A deals in the last five calendar years to 2015. In the last three years that percentage has demonstrated moderate growth.

In-line with the wider UK private equity market, where investors have demonstrated a phenomenal increase in the number of exits realised in recent years, the number of exits of UK media portfolio companies has also seen notable growth.

IN RECENT YEARS, THE NUMBER OF EXITS OF UK MEDIA PORTFOLIO COMPANIES HAS SEEN CONSIDERABLE GROWTH, SPURRED BY THE SIGNIFICANT RETURN OF TRADE BUYERS, AN INCREASED APPETITE FROM PRIVATE EQUITY FOR SECONDARY BUYOUTS, AND THE REOPENING OF THE IPO WINDOW AS A FEASIBLE MEANS OF EXIT.

FIGURE 5: PRIVATE EQUITY EXITS OF UK MEDIA PORTFOLIO COMPANIES [1]



1. Source: Mergermarket

SPOTLIGHT ON PRIVATE EQUITY

TRENDS AND ANALYSIS

The most significant change to the exit climate in the years since the financial crisis has been the return of trade buyers as a means of exit for private equity investors. They have finally been able to realise investments and return money to limited partners.

While not running at the same levels as strategic buyer interest, in the last two years, private equity houses have also increased their appetite for secondary buyouts of media businesses. In some cases they have made substantial acquisitions, followed by a buy-and-build strategy of acquiring smaller, strategic compliments for the central business.

As such, secondary and tertiary buyouts have returned to the market in force, and private equity houses have provided each other with another means of exit. A notable example is Ocean Outdoor UK, acquired by LDC for a consideration of £35 million in 2012 from Smedvig. Following this, Ocean Outdoor acquired Signature Outdoor for an estimated £15 million in 2014. Ocean Outdoor was finally sold by LDC to Searchlight Capital Partners for an estimated £100 million in 2014.

Private equity exits of UK media companies are primarily being driven by a resurgence of trade buyers and an upturn in secondary buyouts, with 31 trade acquisitions from private equity in the last two years (as compared to 14 in the previous two years).

While not yet having the kind of impact on the UK media sector as it has in other sectors, the reopening of the IPO window as a legitimate means of exit (a method often preferred by private equity) has allowed investors to run dual-track exit strategies, preparing a company for the IPO runway while potentially attracting any trade buyers at the same time.

Whilst capital markets are still subject to a degree of volitility, the UK continues to demonstrate strong liquidity and a healthy appetite of cash rich companies to pursue their strategies with vigour, amid a current climate of low interest rates and where an influx of non-bank lenders provide an alternative means of lending.

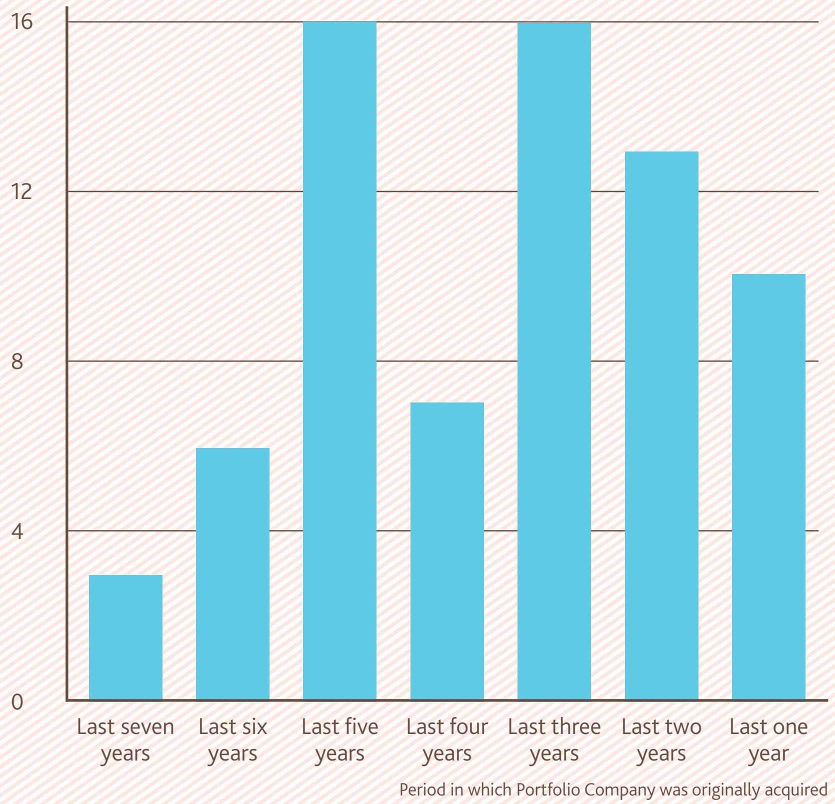
In terms of the number of UK media companies aquired within the last seven years, that are still owned by a private equity house, data indicates that the exit pipeline will remain healthy.

This in itself will continue to fuel deal flow for trade and private equity alike. Of those UK media businesses reportedly resident in portfolios today, 39 of them were acquired within the magic period of between three and five years ago. Depending on the type of business and the strategy applied by the private equity house, these are the businesses that will be coming onto the radar for being considered for future exit.

On the apple tree of private equity portfolios, these are the UK media businesses that are ripening, and are likely to be ready for harvest in the coming months, particularly for those investors most active in media investment in the UK.

THE NUMBER OF ***CURRENTLY HELD*** UK MEDIA COMPANIES (BEING NURTURED IN PRIVATE EQUITY PORTFOLIOS FOR THE MAGIC THREE TO FIVE YEARS) IMPLIES THAT THE HEALTHY EXIT TREND IS SET TO CONTINUE.

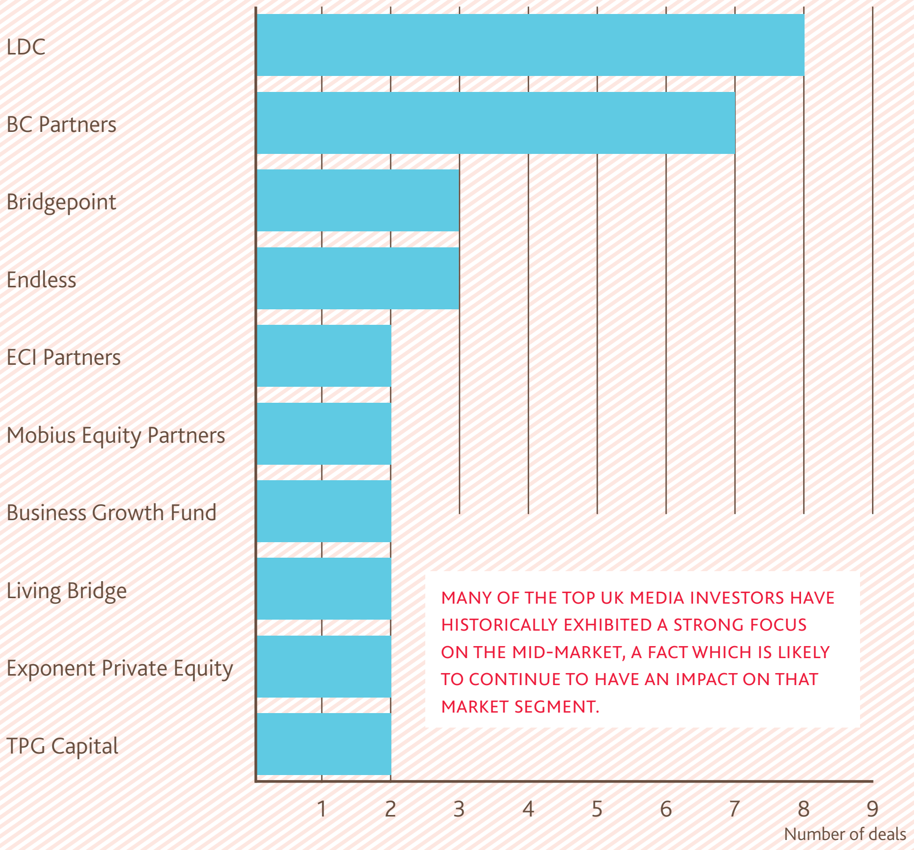
FIGURE 6: NUMBER OF UK MEDIA COMPANIES *CURRENTLY OWNED* BY PE FIRMS [1]



1. Source: Mergermarket

SPOTLIGHT ON PRIVATE EQUITY
TRENDS AND ANALYSIS

FIGURE 7: PE HOUSES BUYING OR SELLING UK MEDIA COMPANIES (LAST THREE YEARS) [1]

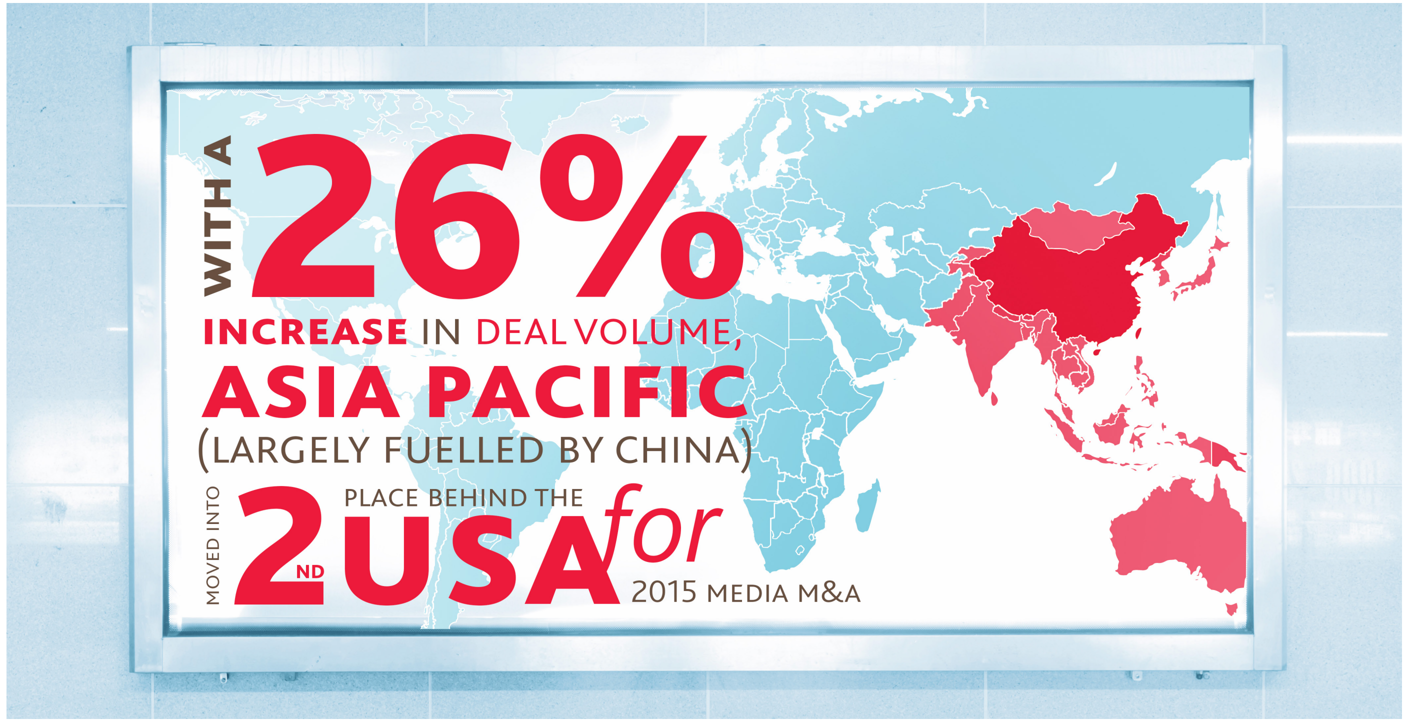


1. Source: Mergermarket

GLOBAL
TRENDS AND ANALYSIS

Returning to M&A, the USA continues to dominate global media trends accounting for 47% of deals in 2015.

The cross-border relationship between the USA and the UK remained strong as 62% of all non-UK based acquirers of UK media companies in 2015 were based in the USA. For example, You & Mr Jones (US-based company engaged in creating and distributing content using technology to help businesses to build brands) acquired a majority interest in the crowdsourcing firm Mofilm. Mofilm's technology connects to a crowd of over 30,000 filmmakers, providing them a platform to create content for some of the world's leading brands.



GLOBAL
TRENDS AND ANALYSIS

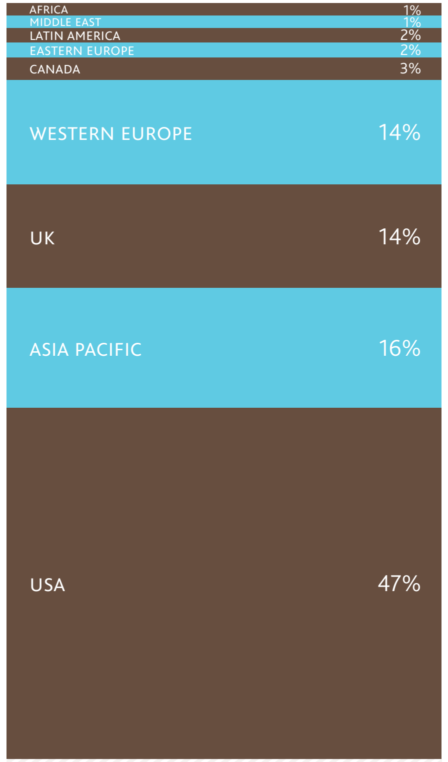
Another notable transatlantic deal saw BBDO Worldwide (the US-based provider of advertising and marketing services, and a subsidiary of Omnicom) acquire an undisclosed majority stake in Wednesday Agency Group, the UK-based creative agency that provides advertising and marketing services.

Asia Pacific has emerged as a dominant market in media M&A, surpassing the UK and Western Europe as the second largest market in 2015. The uplift is being powered by China which accounted for over 74% of deals in APAC.

However, in terms of acquisitions of UK companies, APAC accounted for only 14% of non-UK acquirer deals; well behind bidders from the rest of Europe, which accounted for 24%. Within Western Europe, France (which accounted for 41% of media deals in the region) overtook Germany on 31%. The strength of the UK market is illustrated by the fact that it accounted for the same percentage share as the rest of Western Europe.

At the global level, the larger marketing communications networks continued to undertake deals across the globe. WPP, dentsu, Publicis and Omnicom topped the billing. Marketing technology was reportedly the top global sector, followed by mobile and digital media, a trend which is likely to impact upon the UK.

FIGURE 8: GLOBAL MEDIA M&A DEALS BY REGION IN 2015 [1]



THE USA CONTINUES TO DOMINATE GLOBAL MEDIA TRENDS, ACCOUNTING FOR 47% OF DEALS IN 2015.

WHAT DOES 2016 HOLD ?

As we look ahead to the second half of 2016 it is clear that a range of factors are having an impact, as total spending on UK M&A fell 51% in Q1 2016 compared with Q1 2015. However, the appetite to do deals has held up with the number of UK deals done in Q1 2016 down only 16% on Q1 of the M&A boom year of 2015.

While the start of 2016 has experienced volatility in capital markets (in conjunction with a slow-down in Chinese growth and low oil and commodity prices) there are strong reasons for optimism.

The wider perspective confirms that the UK has established a record as one of the best-performing developed economies in the last few years, with only the USA rivalling its growth. This strength has resulted in more deals, with 2015 becoming one of the UK's biggest years for M&A in terms of both volume and value.

The potent combination of the weakening pound and low interest rates provides solid conditions for the second half of 2016 outstripping the first half, particularly when weighed with the strong history of the UK as a friendly place to do business.

Recent years have also seen UK companies become more active in overseas M&A. The years 2014 and 2015 saw almost 1,200 outbound deals worth a combined US$224.2 billion.

Corporations are looking for options abroad and are seeking investments in regions such as the USA and APAC. As China navigates the shock of low prices, the region may also present attractive opportunities for hungry UK investors.

Global media players have a number of irons in the fire that could also impact deal trends in 2016. In recent times Amazon has completed partnership deals with Showtime, Starz and other services which now allow Amazon Video to be a new hub of additional services for consumers.

Recent reports suggest that Apple may have put its streaming plans on hold, a fact which may allow Amazon to make inroads into Netflix's market.

Apple is reportedly sitting on a considerable war chest, but despite its acquisition of Beats Music and Beats Electronics for US$3 billion in 2014, its preference has been for smaller acquisitions. This hasn't stopped analysts from continuing to table Internet radio platform, Pandora, as a potential target for Apple.

Meanwhile, Facebook, always ready to undertake a big deal, seems to be focused on new machine learning capabilities, messaging and augmented reality, making future buys possible.

WHAT DOES 2016 HOLD ?

As Google presses ahead following its 2015 restructuring under the new holding company Alphabet, it will be interesting to see where it hits the acquisition trail. Buys in marketing technology, Wi-Fi, wireless connectivity and Cloud are all possible candidates for consideration.

Overall, we expect to see further interest in ad-tech and in the role of technology transforming the nature of media businesses.

As deal makers increasingly make use of SMMAPs to conduct due diligence for M&A deals (according to a recent survey by Intralinks) the worlds of media and transactions are in one sense converging.

As IP-heavy businesses place a greater emphasis upon forensic due diligence, the question remains as to what point big private equity money will break out of a tendency for traditional media investing, and foray into the cutting edge world of tech-media.

Coming soon...

In a future edition we will address the significant growth seen in the world of programmatic ad buying, and the potential of messenger bots, recently opened up to Facebook's messenger platform.

Whilst analysing the likely impact of these developments upon M&A, we will also consider the role of programmatics and bots with respect to the evidence for the fast growth of ad blocking and ad fraud, and assess their implications for ad revenue and for M&A in the subsector.

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