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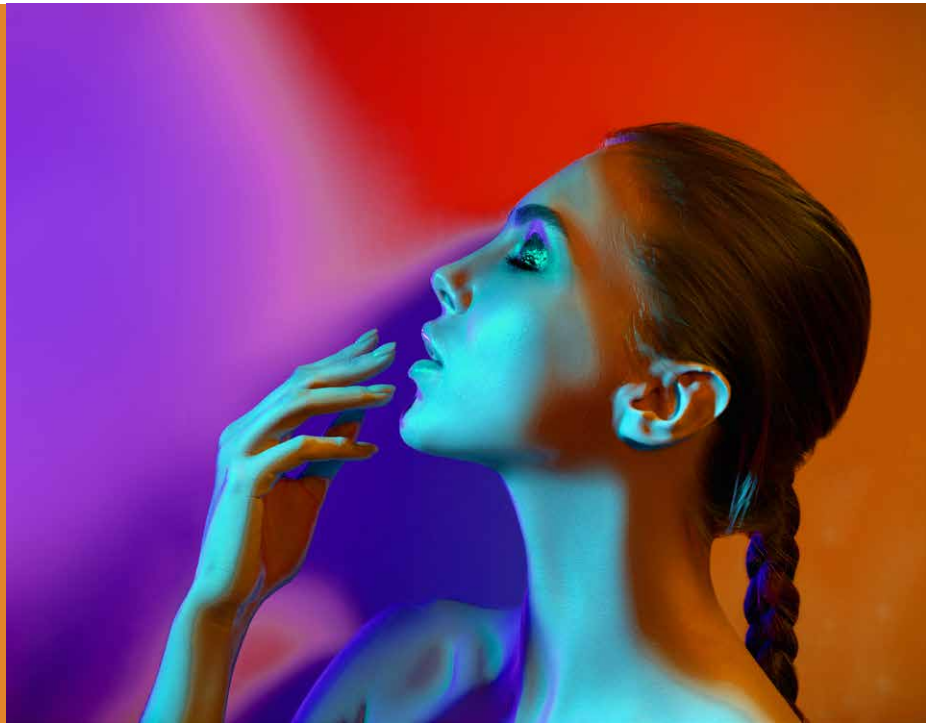
H2: 2018

MEDIA*talk*

A TIME OF BOLD TRANSITIONS

H2: 2018

MEDIAtalk



A WORD FROM ANDY VINER

GLOBAL HEAD OF MEDIA AND ENTERTAINMENT

2018 was a year in which businesses demonstrated their clear commitment to completing deals despite the significant global challenges. Certainly neither political tragedy/comedy, nor economic drama could prevent global media M&A from scoring a Hollywood ending with combined deal values exceeding US$120 billion for the year.

The US continued to dominate on the global stage for media transactions. Despite a cooling off of Chinese activity, Asia Pacific retained second place as other countries in the region stepped up to maintain its position. Meanwhile the UK attracted a record-breaking combined value of deals in spite of its own ongoing political saga.

Across all sectors, global leveraged buyouts experienced a record-breaking year for value and number of deals in 2018, accruing a combined value of well over US$0.5 trillion. Within the media sector, investors continued to transcend borders to locate premium targets and with US$1.2 trillion of dry powder waiting to be invested, private equity will undoubtedly be a powerful engine for media transactions in the year ahead.

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A WORD FROM ANDY VINER

continued

The media sector continues to undergo adjustment as companies fight to keep pace with the momentum of technological disruption.

'Digital', 'cloud', and 'streaming' services have become increasingly essential to the provision of content as consumers demand more mobile, more secure and more diverse and personalised media. For example, digital out-of-home (DOOH) advertising received considerable attention this year as companies explore ways to target consumers on the go. The transition is clearly evident in the world of marketing communications where access to data and tech expertise have been two major drivers of deal making and are set to remain motivating factors moving forward.

The year was not left wanting for big deals either. In this environment, it should come as no surprise that consolidation was a strong impulse amongst blue chip media players in order to remain relevant in reach and scale. AT&T managed to conclude the deal it first announced in 2016 to acquire Time Warner for a staggering US$85 billion and Disney bested Comcast in its equally impressive proposed US$71 billion acquisition of 21st Century Fox. The auctioning of Fox's regional sports networks, a by-product of the latter deal, may well provide further intrigue as American broadcasting companies continue to scale up and Fox considers its next move.

The UK proved to be fertile ground for US-based companies seeking market access, creative content and digital knowledge, making up 52% of all US outbound activity. In one of the most talked about deals this year, Comcast locked up their own mega-acquisition of Sky for £30.6 billion. The deal somewhat bucked the trend of traditional media chasing down the path of streaming leaders by instead fortifying their strength in cable markets and potentially locking up greater access to sports coverage, suggesting that there may well be more than one way to catch a technological rabbit.

Publishing, broadcasting and content, and advertising were major sectors in 2018 and there is good reason to think these will remain significant areas for future transactions. With ad revenue crucial to streaming media, it is also possible that a tech or streaming company explores options to increase their reach into the advertising world.

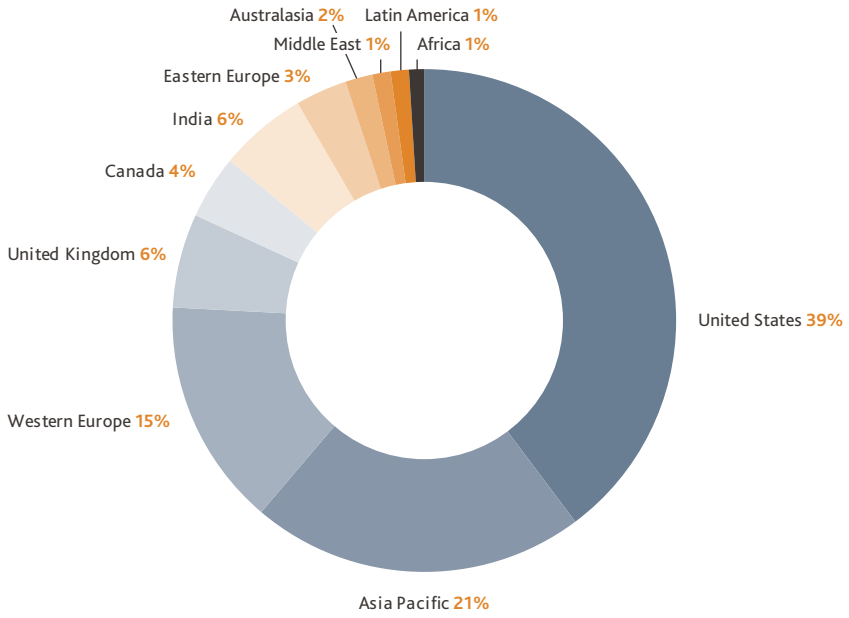
2019 is likely to be another year where political and economic uncertainty grab headlines. However, for the tenacious media sector there is good reason to be optimistic about the opportunities that exist for further growth in transactions strengthened by continued private equity interest. Countries including South Korea and India both saw increasing levels of activity in 2018, and represent markets that can deliver new sources of innovation. Big media players and investors with longer horizons are less likely to be put-off by short-term volatility and key markets will continue to offer enticing prospects for expansion. Moreover, the moves made in 2018 will carry momentum, spurring competitors to act. The year ahead represents a fascinating prospect full of opportunity. I hope that you enjoy this edition.

ANDY VINER
Partner
BDO

TRENDS AND ANALYSIS

GLOBAL TRENDS

FIGURE 1: GLOBAL MEDIA M&A DEALS BY TOP TARGET REGION IN 2018 (ACQUIREE)



IN H2 2018 FURTHER CONSOLIDATION OF US MEDIA HELPED TO INCREASE ITS SHARE OF GLOBAL DEALS BY 10% FROM 2017. THE INCREASE IN ACTIVITY TARGETING THE US CAME AT THE EXPENSE OF ASIA PACIFIC AND THE UK, DOWN BY 4% AND 6% RESPECTIVELY IN 2018 AS COMPARED TO 2017.

The number of global media M&A deals continued to build on a solid first half with deal volumes increasing by 11% in H2. The year was rife with news of anxiety over trade stability, socio-political tensions and economic uncertainty, however this did not limit media M&A activity. Despite the difficult context, H2 2018 witnessed an increase on H2 2017 deal volumes by 22%. In part, this was aided by continued access to inexpensive financing that also created a favourable environment for private equity activity. 2018 saw an increase in the number of high-profile megadeals announced, including AT&T's acquisition of Time Warner for US$85 billion and Disney's acquisition of most of 21st Century Fox (Fox) for US$71 billion. Competition amongst acquisitive firms looking to consolidate in response to technology disruption led to some remarkable deal values including Comcast's acquisition of Sky for £30.6 billion.

The US increased its share of M&A deals as both an acquiror and a target region through 2018, leading to further consolidation within the global media sector. The US was able to outpace other countries and regions adding an additional 10% as a target location for M&A compared to 2017 volumes. The Asia Pacific region continued to rank second as a target region for deals, but saw a 5% reduction in market share as compared to 2017 with a drop-off in Chinese activity. South Korea was the most active country within the Asia Pacific on both target and acquiror sides of media transactions. Japan and China followed behind South Korea, ranking in second and third respectively for combined target

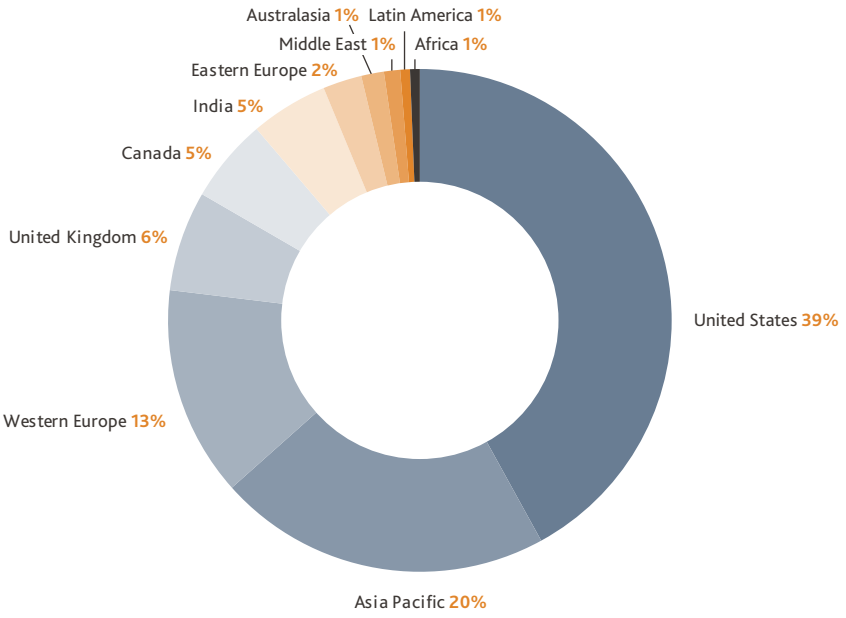
and acquiror M&A transactions. On the buy-side the focus remained closer to home, with domestic deals dominating acquisitions.

Western Europe (excluding the UK) also held its place from 2017 as the third most prolific region in terms of combined M&A activity. However, as a target of M&A activity, Western Europe had a 3% decline in market share and on the acquiror side its share declined by 5%. France only just tipped Germany to the top spot in terms of most active Western European country.

The UK remained a key player on the global stage for media deals in H2 2018, increasing its share as a target region by 1% over H1 as a weak pound continued to attract international bidders. On the buy-side, UK market share declined by only 1% despite the significant domestic political uncertainty. However, on a year-on-year basis, the impact of Brexit was more pronounced, with target and acquiror market share declining by 6% respectively, despite an overall increase in UK media deal activity and record breaking values.

As a target region, India doubled its global share, growing to 6% in 2018 compared to 2017. On the buy-side of deals, India increased its share from 2% up to 5%. Canada maintained its combined global market share, but dropped in the rankings behind India. As a target of M&A transactions, Canada increased market share by 1% in 2018, however on the acquiror side its market share declined by 1% in 2018 compared to 2017 volumes.

FIGURE 2: GLOBAL MEDIA M&A DEALS BY TOP ACQUIROR REGION IN 2018



ON THE BUY-SIDE THE DOMINANT US ALSO GREW ITS SHARE OF DEALS, UP BY 4% IN 2018 OVER 2017. AS THE US INCREASED ITS SHARE, ACQUISITIONS ORIGINATING IN ASIA PACIFIC DECLINED BY 1%, IN WESTERN EUROPE BY 5% AND IN THE UK BY 6%.

THE COMPETITION FOR CONTENT

In 2018, the global battle for viewers heated up causing the appetite for original content to intensify. In order to secure its position, Netflix committed itself to the goal of having 50% original content on its platform and has demonstrated this commitment by coughing up more than US$12 billion in 2018 for this purpose. Expanding beyond TV, for example screening original films such as 2018's The Outlaw King at major international film festivals, Netflix has shown that it is willing to heavily reinvest to maintain its market position.

Viewers in the US have already begun the move from traditional multichannel services provided by telcos and broadcast satellite to streaming services and virtual platforms, with the sector losing c. 1.2 million subscribers in Q3 2018 according to media research group Kagan. No wonder, then, that traditional broadcast companies have begun to invest heavily to consolidate. After losing out in the Sky sweepstakes, Disney has made clear its desire to compete with the likes of Netflix in the delivery of bespoke content. As Comcast completed its £30.6 billion acquisition of Sky, Disney has continued to pursue its acquisition of assets from Fox for US$71 billion subject to the auction of Fox's regional sports networks in response to competition concerns from regulators. The deal will contribute to the success of Disney+ by bolstering its television and film portfolio. Moreover, the acquisition of Fox also gives Disney controlling shareholder status in streaming service Hulu and extends the reach of its sports platform, ESPN, into Europe, India and Latin America.

Disney already has its finger in the pie holding a 60% stake in streaming platform Hulu, but is now preparing to launch a true rival subscription platform by the end of 2019, Disney+, which can leverage an enviable backlog of content. Disney has dug into deep pockets to commission new live-action shows based around Star Wars and Marvel characters. In October and November, Netflix began the pre-emptive move of cancelling its Marvel shows beginning with Iron First, Luke Cage, and Daredevil. The remaining two shows, Jessica Jones and The Punisher, are expected to follow suit once their new seasons have seen release.

Meanwhile Facebook Watch has already garnered over 50 million views per month in the US and is now being rolled out worldwide. With Facebook spending c. US$1 billion to create original TV content in 2018 it is determined not to rely solely on licensing content from other providers. The novelty of Facebook Watch is combining the viewing experience with social media commentary, with one episode of an original talk show garnering 23 million views and over 16,000 comments.

Spotify conducted its unconventional direct listing on the New York Stock Exchange in April and is adjusting to life as a listed company. Investors were pleased by the announcement of its bid for original content and somewhat surprised by how quickly it put the new growth opportunity on the table.

GAMBLING ON SPORTS STREAMING AND DATA

Amazon managed to pull ahead of Apple and Microsoft as the world's most valuable company at a market cap of US$797 billion in January 2019. Amazon's position could be boosted further upon launch of their much-speculated subscription sports streaming service. The service is believed to be in development for launch in 2022 when the freeing up of rights to various sports leagues, including the UK's Premier League, will produce a flurry of activity amongst competing broadcasters and new streaming outlets. All of which looks set to drive deal activity.

With the acquisition of Sky, strong in sports broadcasting, Comcast should also be expected to have its focus on this area. But sports streaming services, including Eleven Sports and DAZN Group, could also challenge for these rights. In March, Dentsu acquired an undisclosed stake in DAZN, a live sports streaming service, for an undisclosed consideration. The deal will allow DAZN to expand further into Asian markets after having secured rights to Japanese baseball leagues, as well as UEFA Champions League and the Europa League. DAZN has also submitted bids for Champions League and Europa League rights across additional markets. Late in 2018 reports emerged that DAZN's content unit was on the auction block with a number of interested trade and private equity parties vying to snap it up.

In October, Swedish PE house EQT Partners sold its stake in Sportradar, a multinational sports data provider headquartered in Switzerland. The 35% stake held by EQT was sold to Canada Pension Plan Investment Board (CPPIB), a pension fund sponsor and PE firm, and Technology Crossover Ventures, a PE firm based in Menlo Park, California. The deal, which valued Sportradar at US$2.4 billion, will allow the company to significantly expand its customer base and move into the American market.

Sportradar is one of two sports data providers that has teamed up with the National Basketball Association (NBA) to provide real-time data to sportsbooks and gambling sites. The deal between data providers and the sports league was made possible in May when the US Supreme Court overrode a federal law banning sports gambling outside of Nevada. As a result of the ruling, any US state that wishes to will be able to legalise sports betting. The other data provider to the NBA, Genius Sports Group, also saw action from PE firms this year. UK-headquartered Apax Partners acquired a majority stake in Genius Sports Group, a data provider to the Premier League, Major League Baseball and the PGA Tour. Apax acquired a majority stake in the company from Three Hills Capital Partners, another UK-based PE house, for an undisclosed consideration in July. With eight US States already having passed legislation to legalise sports betting and another twenty-one having introduced bills to do the same, there is significant growth potential for sports media and investors will be getting excited at the prospect of raking in their winnings.

SYNERGIES IN STREAMING

SiriusXM, a satellite radio company with a strong in-car market, sent a shot across the bow of streaming music leaders Spotify and Apple Music by acquiring Pandora in an all-stock transaction worth US$3.5 billion in September, with the deal having completed in Q1 2019.

The deal makes SiriusXM the "world's largest audio entertainment company" in terms of revenue and builds its distribution channels. Pandora provides a streaming service based on an algorithm that generates user playlists based upon consumption and preferences. As a non-interactive service (i.e. the user cannot search and select what they want to hear), it differs markedly from the aforementioned competitors, but it maintains certain synergies with SiriusXM that make the deal an intriguing proposition. Like Pandora, SiriusXM is also non-interactive being essentially a satellite alternative to terrestrial radio. Thus their integration in this regard is unlikely to cause confusion. SiriusXM will also add over 70 million additional users to its current base of 36 million with relatively little overlap given their very different offerings. Increasing its possible subscriber base and taking advantage of Pandora's streaming capabilities may finally get SiriusXM out of the car.

The acquisition provides options for SiriusXM and a path for down-selling services based on cheaper Pandora-based packages. At the same time, it significantly boosts SiriusXM's streaming presence. For Pandora, it provides the financial stimulus that has been necessary for a company struggling to convert free-users to paid-subscribers. The deal could also revive Liberty Media's (owner of SiriusXM) pursuit of iHeartRadio, a Texas-based radio and podcast streaming service that filed for bankruptcy in Spring 2018. The synergies that tie SiriusXM to Pandora can be copied over to iHeartRadio. The opportunity for cross-selling will be enticing for three companies who have struggled to improve their subscriber base.

iHeartRadio took steps to secure its own podcasting content by acquiring Stuff Media for US$55 million in September. Stuff Media, based in Georgia USA, is a leading provider of edutainment programmes that boasts over 61 million global downloads and streams per month including the popular How Stuff Works podcasting business. The acquisition is intended to enhance iHeartMedia's position as a podcasting platform, while providing a larger audience for Stuff Media's original content. Whereas music streaming platforms will struggle to develop original content while licensing music from industry behemoths, the world of podcasting and edutainment may offer more opportunities and deal flow is likely to follow.

On the continent, LBO France acquired a majority stake in the sixth largest advertising consultancy in France, My Media in June. In August, LBO also announced that it was planning to acquire an undisclosed stake in Deezer, a music streaming competitor to Spotify, for a consideration of US$185 million. Alongside LBO, the acquisition included a raft of international co-investors, including Saudi investment firm, Kingdom Holding Company, Dubai-based media company, Rotana Holding, US investment firm, Access Industries, and French Telecoms firm, Orange. The new investment increased Deezer's valuation to €1.16 billion and is projected to open up new markets. Deezer will now have two investors who own record labels, Access and Rotana. Deezer has already announced that it will begin to distribute Rotana's content across Middle East and North African markets. Access is the owner of Warner Music Group.

AGENCIES NAVIGATING CLOUDS AND OCEANS

Consumer demand for intelligent and personalised services has reinforced the need for access to real-time data. Tech-enabled marketing companies that have proven themselves skilful in this area are prime targets for acquisition.

For example, Israel-based Datorama, a market intelligence and analytics platform that employs AI to support analysis and insights, was acquired in July by US cloud-based marketing platform, Salesforce. The reported US$800 million deal fortifies Salesforce's capability to provide clients with the ability to make data-driven decisions and optimise marketing. Datorama will allow Salesforce to leverage a platform that is already employed by companies such as Ticketmaster, Trivago, Unilever, Pernod Ricard, Foursquare and PepsiCo. The high-price tag of the deal underlines the necessity that has been ascribed to owning not just access to data but having the ability to extract rapid insights for business decisions.

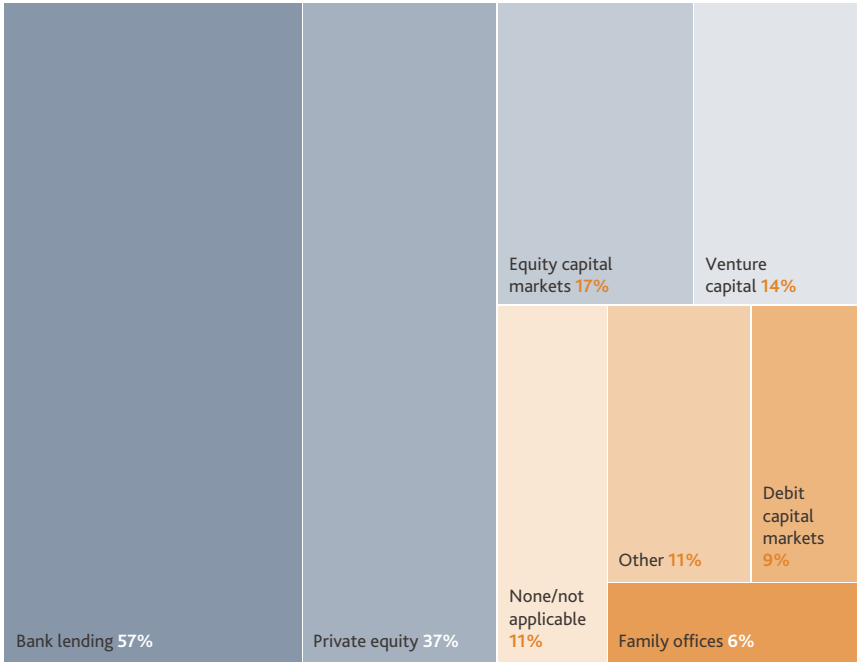
The marketing giants are increasingly hungry for innovation with technological expertise and access to data at the top of the list of desires in order to keep pace with digital transformation. One solution has been to chase down "tech and talent" deals scooping up nimble, specialist agencies that provide deep expertise alongside technological solutions. The objective will be to add flexibility to larger firms and boost offerings across the online ad-space in order to compete in a changing ad industry.

For example, access to data will have been a major consideration for InterPublic Group (IPG) in their acquisition of Acxiom Marketing Solutions (AMS) that was completed in October. IPG, a global provider of marketing solutions, acquired AMS, an Arkansas-based provider of information management solutions and data provider for global marketers, for US$2.3 billion, providing IPG with access to data covering two billion global consumers. This ocean of data will be complemented by AMS' expertise in data management, modelling and strategy with the ability to develop personalised, audience-focused advertisements. IPG is not the only large-cap advertising and PR firm exploring options to diversify its revenue base. In the UK, Dentsu followed up a busy H1 by making further acquisitions that build the company's analytics and creative credentials. In H2, Dentsu added Argentina-based Global Mind, Scotland-based Whitespace, Swiss company Namics and US-based Digital Evolution Group to its list of 2018 acquisitions.

The continued evolution of 'cagencies', consulting firms dipping into the realm traditionally locked-down by advertising agencies, will also have attracted close scrutiny from the big five global agencies. The incursion into ad space by consulting firms such as Accenture, through its programmatic wing Accenture Interactive, caused a big stir during H1 2018. Accenture's continued activity through the second half of 2018 confirmed its resolution to be a major player in programmatic advertising, having spent the remainder of the year acquiring digital marketing agencies spanning China, Brazil, France, Germany, and Sweden, most recently snapping up US-based social advertising company, Adaptly.

Martin Sorrell's vessel, S4 Capital, embarked on a couple of notable deals in the latter half of 2018. In July, S4 Capital secured a deal to acquire MediaMonks in a deal estimated to be valued at €300 million, beating WPP, Accenture and Inflexion in the bidding. After listing on the London Stock Exchange via a reverse takeover of cash shell Derriston Capital, S4 also completed the acquisition of MightyHive for US$153 million. Both deals are designed to appeal to a model of efficiency providing cost effective and technologically savvy solutions to customers. Combining the Netherlands-based MediaMonks with US-based MightyHive will provide an expansion of services across new geographies, but even more importantly for Sorrell, the two acquisitions follow through on his plan to create a company that has data, content and technology at its core.

BDO MEDIA*talk* SURVEY: WHAT SOURCES OF FINANCE ARE YOU MOST LIKELY TO RAISE IN THE NEXT 12 MONTHS?



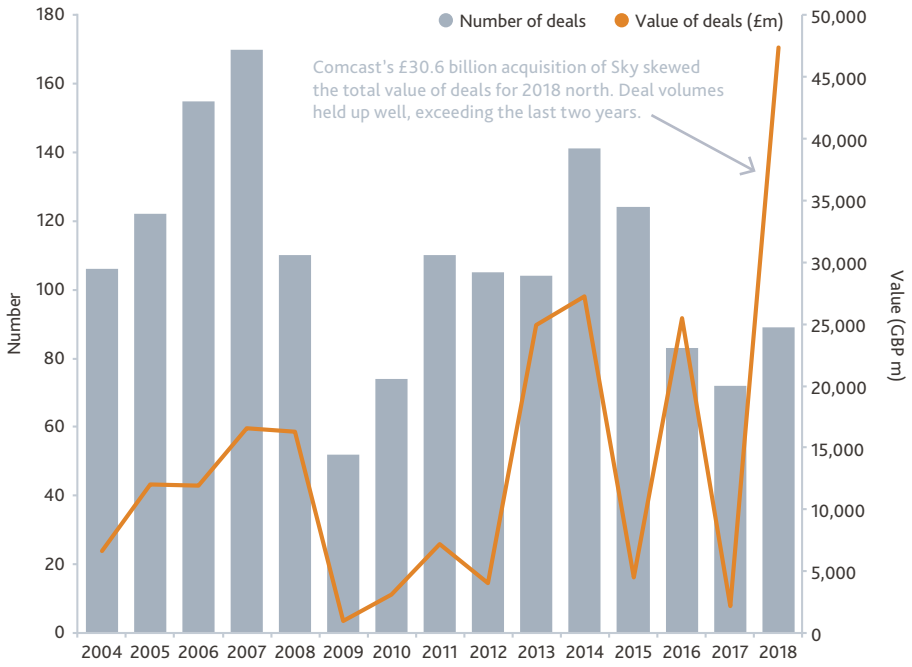
BANK LENDING AND PRIVATE EQUITY WERE THE TWO MOST SOUGHT AFTER TYPES OF FUNDING. THESE TWO SOURCES OF FINANCING WERE ALSO FAVOURED FOR BUSINESSES THAT IDENTIFIED THE UK AS MOST ATTRACTIVE FOR M&A OPPORTUNITIES.

UK MEDIA SECTOR

M&A TRENDS

In the UK across all media, combined M&A deal values for the year shot through the roof primarily because of Comcast's much publicised acquisition of Sky. The deal pushed the value of UK-based media M&A to a record-setting level, surpassing values for at least the past twenty years. As in H1, the UK's global share of media M&A declined relative to other regions. Nonetheless, 2018 still saw a good number of deals announced before the close of the year with acquisitive companies keen to push deals through before Brexit crunch-time.

FIGURE 3: UK M&A VOLUMES AND VALUES (MEDIA SECTOR 2004-2018)



THE VOLUME OF TRANSACTIONS OUTPACED THE LAST TWO YEARS DESPITE A DECLINE IN UK GLOBAL MARKET SHARE. COMCAST'S £30.6 BILLION MEGA-DEAL FOR SKY MEANT THE YEAR ENDED ON A RECORD BREAKING HIGH NOTE FOR DEAL VALUE.

Inbound UK deals continued to be driven by US interests as American firms were the prime movers making several notable acquisitions of UK media businesses. In March, New York-based Brandtech company You & Mr Jones added a content and innovation hub to its assets announcing the acquisition of a majority stake in London-based creative agency, Gravity Road. You & Mr Jones has remained active, more recently acquiring a majority stake in Inside Ideas Group, comprising Oliver, Dare, Adjust Your Set, and Aylesworth Fleming for an undisclosed consideration.

Music Publishing was the key refrain in 2018 as Sony, Hal Leonard Corporation and Round Hill Music enlarged their respective catalogues by acquiring in the UK music retail and publishing space. In November, Sony Corporation of America completed the acquisition of the final 60.2% stake in EMI Publishing from a consortium led by Mubadala for US$2.3 billion. EMI is now a wholly-owned subsidiary of Sony.

The second half of 2018 included a number of deals within the broadcasting space, such as Pittsburgh-based NEP Group's acquisition of SIS LIVE, a satellite uplink firm, for an undisclosed consideration in October. The deal is intended to strengthen NEP's live sports, broadcast and entertainment clients across the globe.

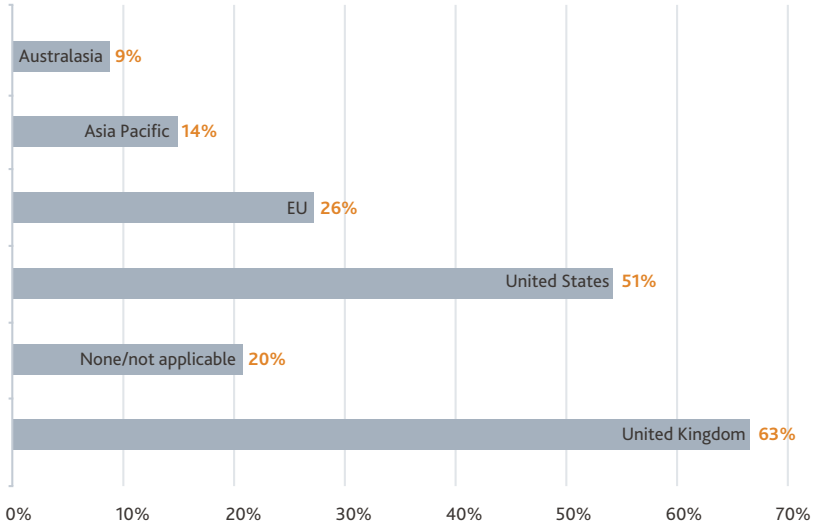
In September, Valence Media Group completed a deal to procure a 32% stake in the UK-based motion picture operator Fulwell73 for a consideration of c. £45 million. The transaction stands to boost the content offerings for both companies enabling Fulwell73, who will continue to operate independently, to pursue further growth and expansion.

UK marketing services firms were less sought after as targets in 2018 as compared to 2017, however there was clearly a demand for digital businesses, especially data and digital marketing. For example, in October UK-based marketing solutions firm Communisis was acquired by New Jersey-based IT service management outfit, Output Services Group (OSG), a company backed by New York-based PE house Aquiline Capital Partners, in a deal valued at £154 million. OSG stands to become the largest platform for outsourced customer communications following the deal. In turn, Communisis has delisted from the London Stock Exchange in order to continue operation as a private company.

In the first half of 2018, French and Canadian companies were also hot on UK-based targets with a primary goal of soaking up original content. This included February's acquisition by France-based Banijay Group of 7 Wonder Productions for an undisclosed amount, and Canada-based Entertainment One's acquisition of Whizz Kid Entertainment for £6.9 million in April. Both deals expanded the acquiror's presence internationally and added additional programming content to their respective bases.

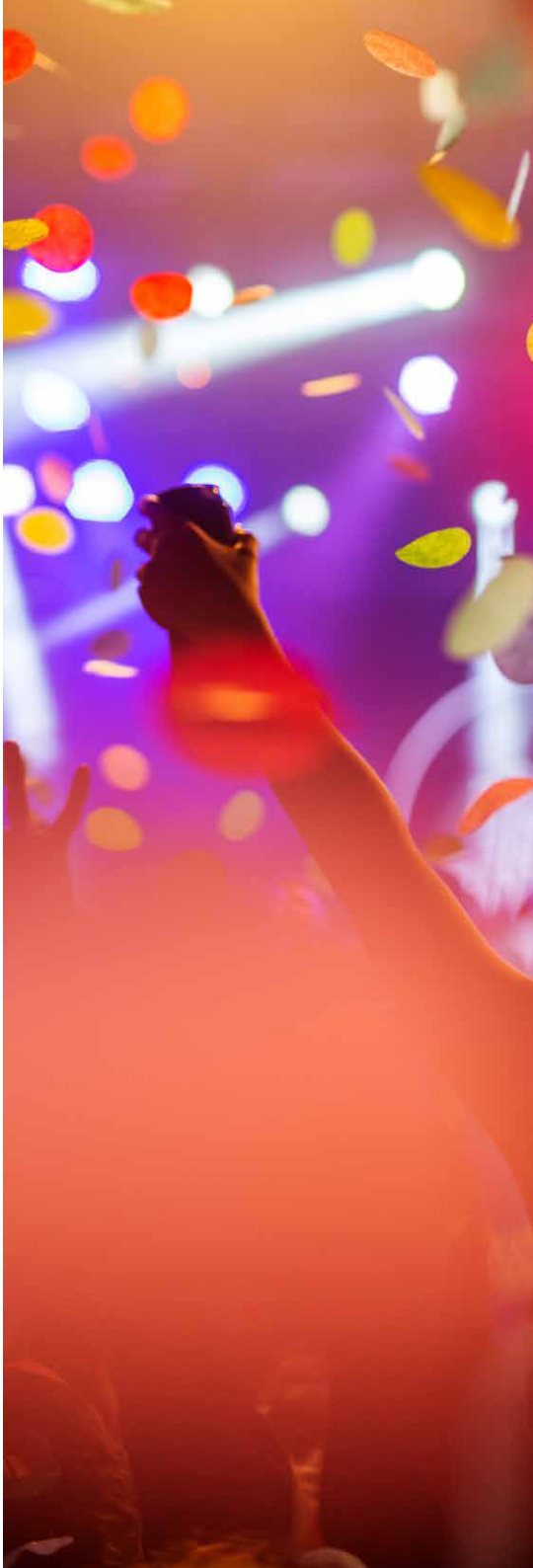
In October, German music publishing and recording rights management company BMG Rights Management acquired World Circuit, a world music record label specialising in Cuban and West African artists, for an undisclosed sum. World Circuit artists will be able to reach a significantly wider audience as a result of the deal while BMG will gain the rights to new content as well as reissues.

BDO MEDIA*talk* SURVEY: WHICH TARGET REGION IS MOST ATTRACTIVE?



NB: respondents were asked to select their top three regions.

OUR SURVEY FOUND THAT THE MAJORITY WOULD BE SEEKING DOMESTIC DEALS IN THE COMING YEAR WITH THE US AS THE PRIME TARGET FOR OUTBOUND DEALS, RECEIVING 51% OF VOTES. THE EU RANKED THIRD WITH 26% OF VOTES AND THE ASIA PACIFIC AND AUSTRALASIA FOURTH AND FIFTH WITH 14% AND 9%, RESPECTIVELY. THOSE RESPONDENTS WHO WERE KEEN ON THE UK WERE ALSO MOST LIKELY TO SUGGEST THE EU AS AN ATTRACTIVE REGION FOR M&A.



MEDIA M&A
HOT SECTORS

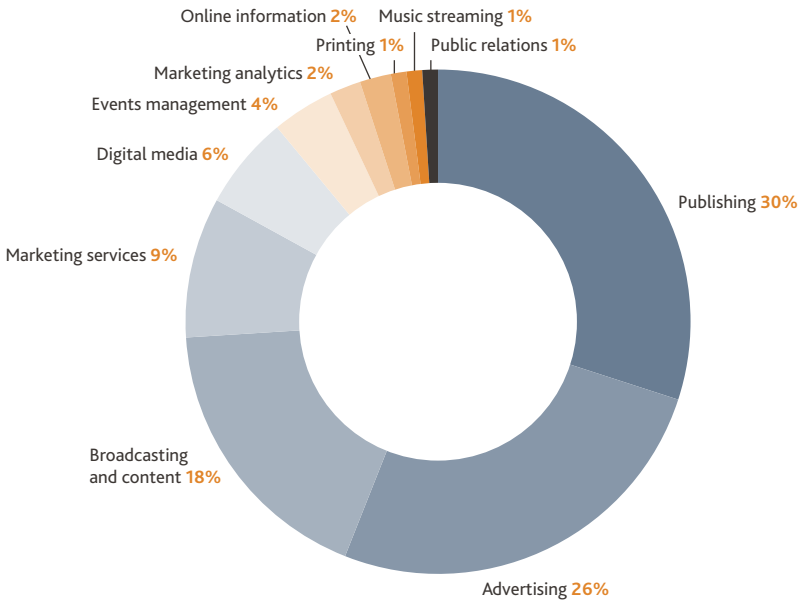
The top three UK media sectors for M&A – publishing, advertising, and broadcasting and content – made up a combined 74% of all deals in 2018, a 17% increase for the same sectors in 2017. Marketing services dropped from third place to fourth in volume of UK media transactions with a 9% share of deals.

Following on from a strong first half of the year, publishing closed 2018 as the hottest subsector for transactions, making up 30% of all M&A deals. Claverley Group, a UK-based publishing and marketing solutions company, completed two notable acquisitions. In April, Claverley acquired a 51% stake in children's magazines publisher, Kennedy Enterprises, which has an annual output of four million copies across 25 titles. Claverley followed this up by acquiring Cubiquity in October. Whereas the Kennedy deal secures access to a successful array of children's content, the acquisition of Cubiquity marks the novel expansion of Claverley's services into print management. Both deals were secured for an undisclosed consideration.

The acquisition of the UK's biggest food media brand, BBC Good Food, was completed for an undisclosed amount in September by Immediate Media, a UK-based special interest content and platform company. The acquisition is Immediate's first since being acquired itself by German publishing firm Hubert Burda in 2017. Immediate is already home to popular brands including Radio Times, BBC Gardener's World and Hitched and the deal will make it the largest food media publisher in the UK.

Exponent Private Equity, who originally sold BBC Good Food to Hubert Burda, made its own acquisition in the publishing space in H2, announcing the acquisition of Dennis Publishing Media in July for an undisclosed consideration from private investors Dick Pountain and Ian Leggett. The auction process was undertaken to allow Dennis, a publisher of computer and gaming magazines, to build its print and digital platforms. Specialist media is purported to be key to publishing growth, with readers focusing on specific areas of interest when making purchasing decisions. In this vein, gaming and e-sports have become significant subjects attracting attention. Earlier this year, UK Interactive Entertainment, the British games industry body, reported a 12.4% increase in growth. Sales of consoles and software were key to this growth, but appetite for related publications is sure to follow.

FIGURE 4: UK MEDIA M&A TRANSACTIONS BY SUBSECTOR 2018



PUBLISHING LED THE WAY FOR DEAL ACTIVITY IN 2018. ADVERTISING PLACED SECOND WITH OVER A QUARTER OF ALL DEALS. AFTER HAVING A STRONG FIRST HALF, BROADCASTING AND CONTENT ENDED THE YEAR IN THIRD WITH MARKETING SERVICES DROPPING INTO FOURTH PLACE FOR TRANSACTIONS.

Advertising made up 26% of UK media M&A deals in 2018, moving back into second position (same as 2017) after broadcasting and content temporarily took its spot in H1. The out-of-home (OOH) advertising space has become a prominent subsector with digital screens becoming increasingly widespread. The popularity of digital out-of-home (DOOH) has a lot to do with the ability to tailor ads based on location and depending on time of day and weather. JC Decaux has to this point been the market leader in OOH advertising, but Global Radio UK, operator of commercial radio stations, made several acquisitions in 2018 that put it squarely in the OOH industry and on almost level pegging with the market leader at close to 35% market share.

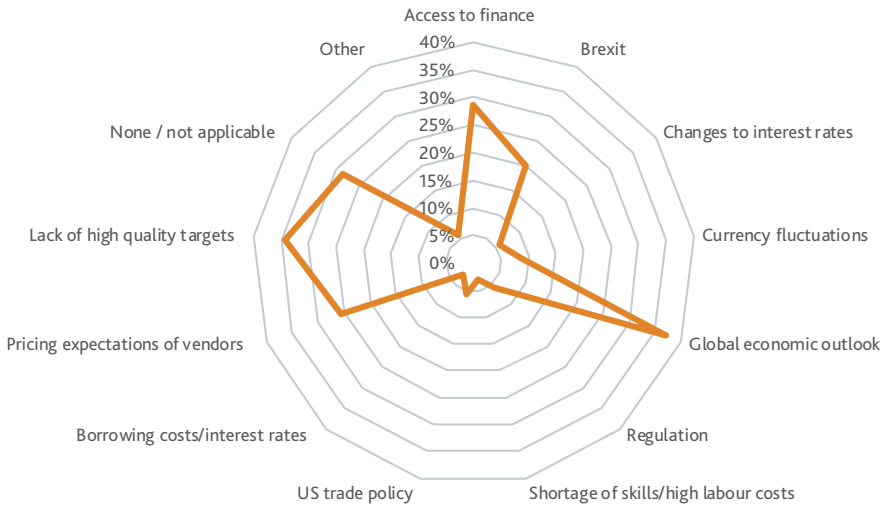
In September, Global announced a deal for outdoor advertising company, Primesight, from PE firm GMT Communications Partners. The deal was immediately followed by the acquisition of Outdoor Plus, a provider of digital ad sites, from Inflexion Private Equity Partners. Global completed a third acquisition of Exterion Media, a company providing custom media solutions for outdoor advertising, from Platinum Equity for an estimated value of approximately £450 million in November. Exterion Media, who will provide Global with access to the European market, also holds a crucial contract with Transport for London, which claims to make up 20% of all UK OOH advertising and 40% of London's

OOH market. The other eye catching deal in the DOOH sector, was the reverse acquisition by Ocelot Partners of Ocean Outdoor from Searchlight Capital for an estimated enterprise value of £200 million, which followed previous private equity exits by both LDC and Smedvig Capital. The prospects for further deals in the sector look strong, a story that will continue to attract interest from trade and PE buyers.

In H1, broadcasting and media was noted for leaping into second position with Comcast's £30.6 billion mega-deal for Sky attracting most of the attention. In H2, major UK television broadcasters increased their holdings of production companies essential to content strategy. For example, BBC Studios acquired the remaining 51% stake in Lookout Point, a UK-based producer of television dramas in July. In October, ITV acquired an additional 35% stake in US-based Thinkfactory Media, a producer of reality series, documentaries, mini-series and other specials and events, having already acquired a 65% stake back in 2013.

While events management deals targeting the UK had a very strong first half in 2018, activity diminished in H2 such that it finished the year with a 4% market share, still up by 1% on 2017. Meanwhile the market share of digital media remained consistent across the two halves of the year, comprising 6% of all deals, a share that increases to 9% with the addition of online information and music streaming.

BDO MEDIA*talk* SURVEY: WHAT POTENTIAL THREATS MIGHT AFFECT YOUR WILLINGNESS TO ENGAGE IN M&A ACTIVITY?



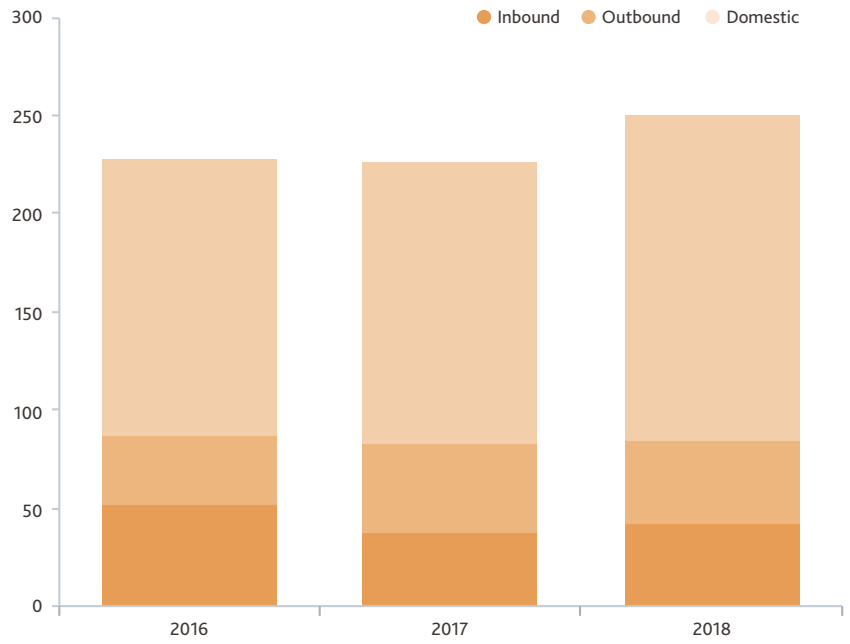
THE PRIMARY CONCERNS FOR BUSINESSES WITH A STATED INTEREST IN PURSUING M&A IN 2019 WILL BE THE GLOBAL ECONOMIC OUTLOOK AND LACK OF HIGH QUALITY TARGETS. ACCESS TO FINANCE AND PRICING EXPECTATIONS ARE ALSO AREAS OF CONCERN.

TRENDS AND ANALYSIS

USA IN FOCUS

Flouting political uncertainty, the hiking of interest rates and global economic concern, the US saw a 10% increase in the number of media deals announced in 2018 as compared to 2017. Despite a fall in the combined value of US media deals, a record-breaking surge of new technology will continue to impact traditional media companies as they face disruption and the need to consolidate to compete.

FIGURE 5: ANNOUNCED MEDIA M&A DEALS INVOLVING US-BASED MEDIA BUSINESSES 2016 – 2018

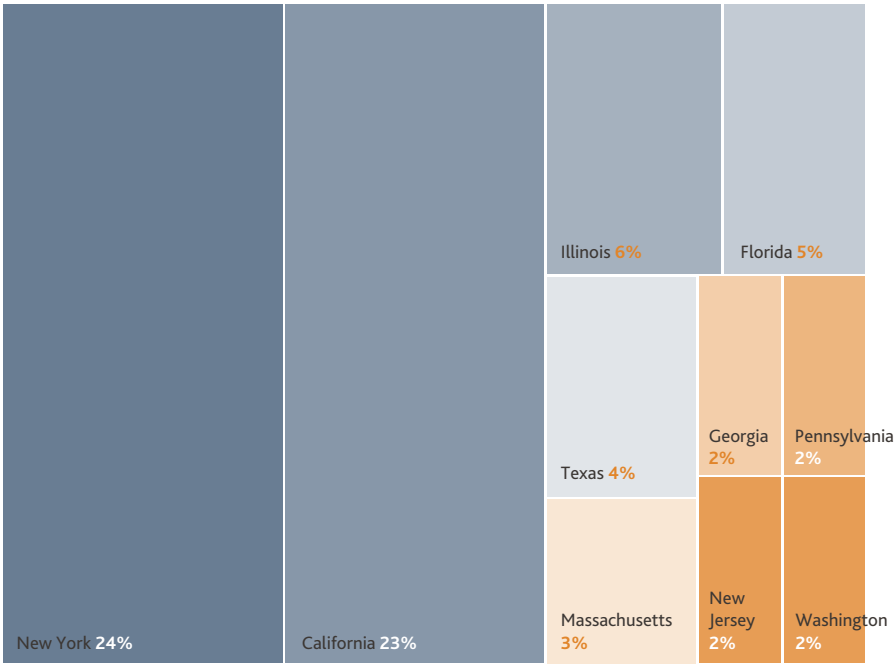


MEDIA M&A IN THE US HAS BEEN REMARKABLY CONSISTENT BETWEEN 2016-2018. THE VAST MAJORITY OF DEALS CONTINUE TO BE DOMESTIC IN FOCUS WITH INBOUND AND OUTBOUND DEALS COMBINING FOR AN APPROXIMATELY SIMILAR SHARE YEAR-ON-YEAR.

Consolidation within the US broadcasting and content space was given greater impetus following the conclusion of AT&T's two year process to acquire Time Warner for US$85 billion. Despite the deal being allowed to proceed after US government objections were thrown out by a District Court judge in June, the US government launched an appeal that was heard by judges in December. Under the Trump administration, the Department of Justice (DOJ) has been piling more scrutiny on potential anti-trust cases.

The DOJ also filed a civil antitrust lawsuit against the proposed US$3.6 billion merger of Raycom, an Alabama-based broadcasting company that owns 51 television stations in 43 local markets, and Gray Television, a Georgia-based broadcasting company and owner of 92 television stations in 56 local markets. On 14 December, the DOJ conditionally approved the deal provided that Gray and Raycom divest stations across nine markets. EW Scripps, an Ohio-based broadcasting company, has already benefitted from the divestiture, acquiring two ABC-affiliated stations from Raycom Media in August for US$55 million.

FIGURE 6: TOP 10 US STATES FOR INBOUND AND DOMESTIC MEDIA M&A ACTIVITY BETWEEN 2016-2018

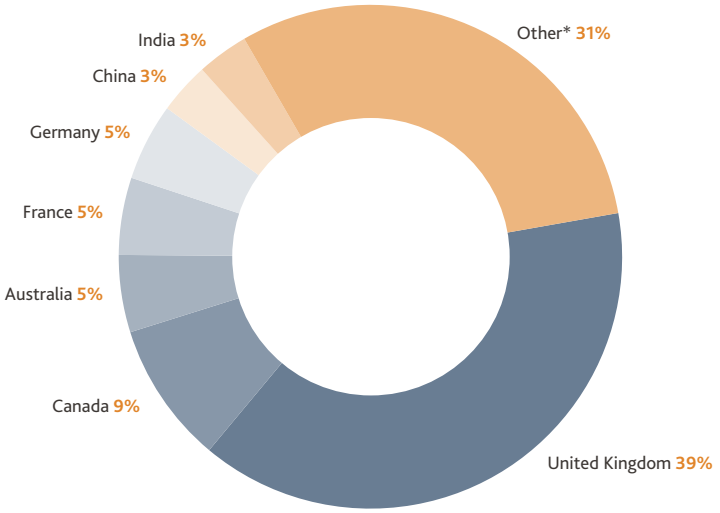


UNSURPRISINGLY, NEW YORK AND CALIFORNIA ATTRACT THE MAJORITY OF ATTENTION WHEN IT COMES TO TRANSACTIONS TARGETING US MEDIA COMPANIES. HOWEVER, OTHER STATES ARE MAKING THEIR CASE AS CENTRES OF TECHNOLOGY AND INNOVATION INCLUDING TEXAS, ILLINOIS AND WASHINGTON, AMONGST OTHERS.

As expected, the top states for inbound and domestic transactions between 2016-2018 were well-developed centers for innovation and business, New York and California. However, there were prominent deals outside of the two leading states. Another bid for consolidation was made in December by Nexstar Media Group, a Texas-based broadcasting company, which announced a cash transaction of US$4.1 billion for all outstanding shares in Tribune Media, a Chicago-based media and entertainment firm which owns 42 local stations. The deal makes Nexstar the largest regional broadcasting company in the US, reaching nearly 39% of all households. However, the company has already declared that it is willing to divest some assets in order to appease regulators. The acquisition may reduce the chances of Nexstar continuing to pursue Fox's 22 regional sports networks up for auction as part of the Disney acquisition of Fox.

The UK was by far the most significant country as a target for US-based companies between 2016-2018. In 2018, the UK made up over half of all US outbound M&A activity. This included several high-profile acquisitions such as Comcast/Sky and Sony/EMI but also several notable deals in the publishing, broadcasting, and advertising sectors. US-based companies have looked to the UK for content and access to the European market, a trend that may well be impacted by the outcome of Brexit.

FIGURE 7: TOP TARGET COUNTRIES FOR US OUTBOUND MEDIA M&A ACTIVITY 2016-2018



*'other' includes all countries where deals make up 2% or less of overall outbound activity

THE UK WAS A KEY SOURCE OF TARGET ACQUISITIONS FOR US-BASED MEDIA COMPANIES BETWEEN 2016-2018. WITH 9% OF OUTBOUND DEALS TARGETTING CANADIAN COMPANIES, CANADA PLACED A DISTANT SECOND TO THE UK WITH AUSTRALIA, FRANCE AND GERMANY EACH HOSTING 5% OF US OUTBOUND DEALS.

Canada ranked a distant second to the UK as a target country between 2016-2018. For American firms, Canada also provided a source of innovation. For example, in April US-based PE house Updata Partners acquired an undisclosed stake in the martech business Flyp Technologies for a consideration of US$32 million. The investment will provide Flyp with funding to pursue growth by expanding its service offerings.

In 2018, India came second to the UK with just under 10% of all outbound US media deals. For example, in October Grey Group, a wholly-owned WPP company, acquired an undisclosed majority stake in Autumn Worldwide, an India-based social media and digital marketing agency. Another WPP company, GroupM Worldwide, the world's largest media investment group, acquired a 50% stake in Madhouse, an India-based mobile media and advertising business in August.

As the Trump administration careers toward an increasingly hostile relationship with China, deals have slowed down considerably between the two countries with China only receiving 3% of US outbound M&A activity between 2016-2018 and value plummeting by just over 65% between 2017-2018. Dealmakers are stuck between these rising tensions and opportunities to consolidate. However, it is encouraging that some deals were still able to traverse the hurdles. Creative Artists Agency, a US-based entertainment and sports agency, entered the Chinese sports market through its acquisition of Momentum Worldwide, a China-based sports marketing firm, for an undisclosed consideration in August. The seller, Chinese venture capital firm, Legend Capital will re-invest in the merged business.

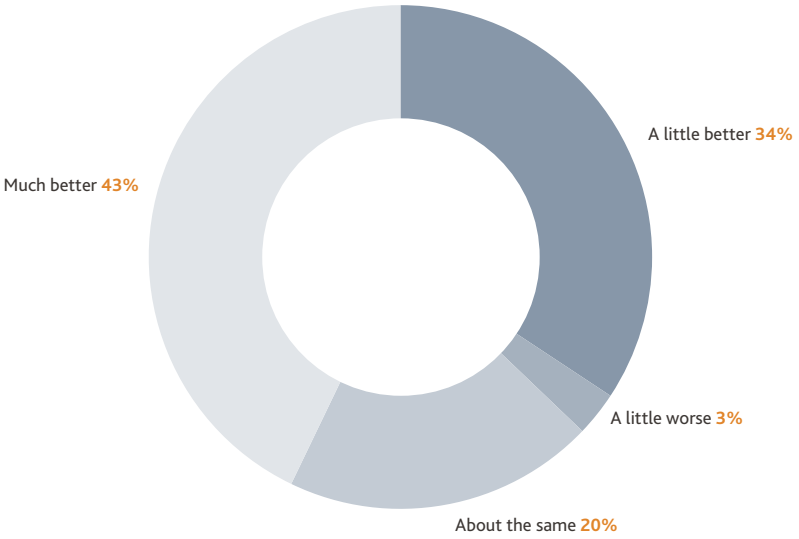
There is still a considerable amount of activity to be garnered from the deals that were announced in 2018. Disney has expanded a list of already enviable assets and has plans for expansion into streaming. With this behemoth on one side and OTT platforms Netflix and Amazon on the other, for competitors such as Sony, Comcast and Lionsgate further big ticket consolidation may yet have to play through.

2019
PROSPECTS AND POTENTIAL

There are very real prospects of a global economic downturn that will affect markets in 2019. The real arbiter of things to come will be confidence. The greater the expectation of prolonged instability, the more likely it is that investors flinch. However, with c. US$1.2 trillion of dry powder, private equity is well positioned to ignite further growth.

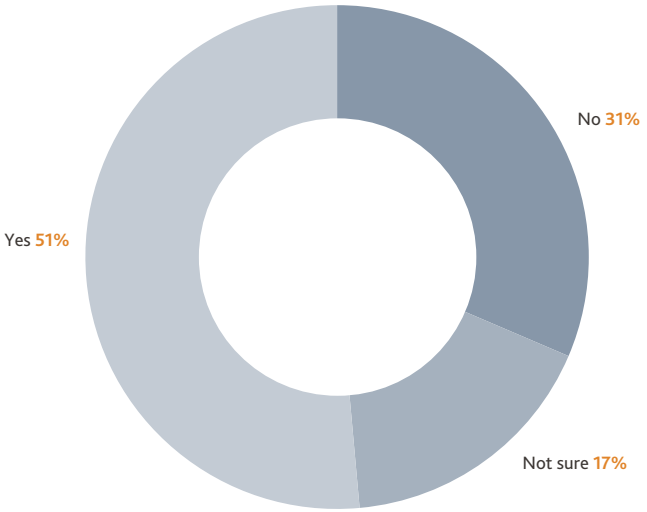
In the UK, the media sector may prove more immune to the worst effects of Brexit as media companies are less likely to rely on supply chains. On the contrary, it seems certain that the UK will remain a strong media market and a weakened Pound could mean that UK businesses actually increase in popularity with international acquirors.

BDO MEDIA*talk* SURVEY: COMPARED WITH 2018, DO YOU EXPECT YOUR BUSINESS WILL PERFORM BETTER OR WORSE IN 2019?



IN OUR SURVEY OF MEDIA BUSINESSES, 77% OF RESPONDENTS WERE POSITIVE ABOUT THEIR BUSINESS PROSPECTS IN 2019. 43% SAID THAT 2019 WOULD BE MUCH BETTER THAN 2018 AND 34% SAID IT WOULD BE A LITTLE BETTER. ONLY 3% OF RESPONDENTS BELIEVED THAT 2019 WOULD BE WORSE THAN 2018.

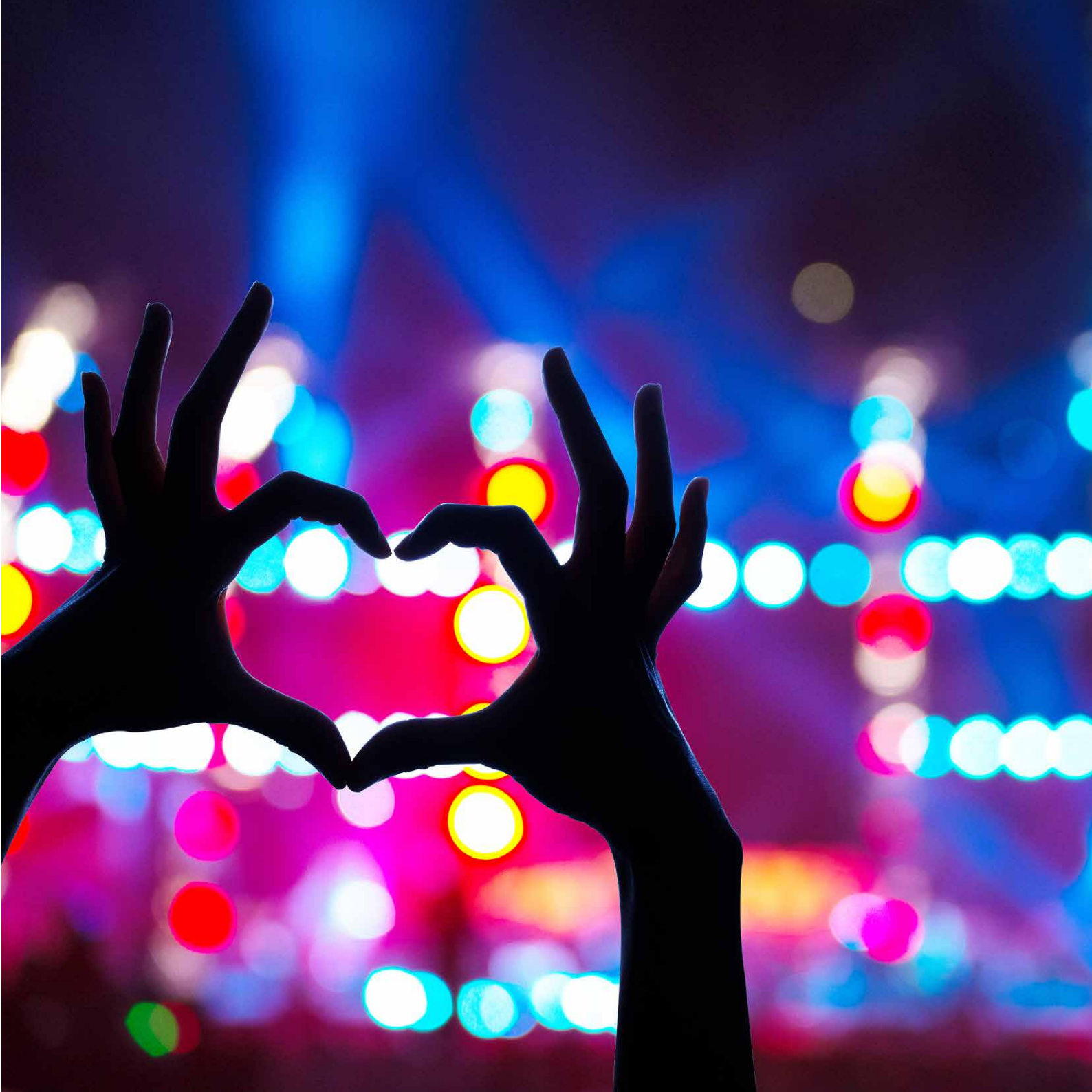
BDO MEDIA*talk* SURVEY: IS M&A A GROWTH STRATEGY YOU INTEND TO PURSUE IN 2019?



NB: total results may not add to one hundred based on rounding.

OUR SURVEY SUPPORTED THE LIKELIHOOD OF A BUSY 2019 AS MORE THAN HALF OF RESPONDENTS DECLARED AN INTENTION TO USE M&A AS A GROWTH STRATEGY IN 2019. ANOTHER 17% WERE UNDECIDED, PERHAPS WAITING FOR GREATER POLITICAL AND ECONOMIC CERTAINTY.

2019 will also carry the momentum of deals struck in the past year. Disney's tremendous scale following an exciting 2018 could push competitors into further deals. This includes the likes of Netflix and Amazon who helped cause much of the initial disruption. Gaming will be enticing and their heavy reliance on ad revenue means that deals could well be sought to shore up the bottom line. In a January letter to shareholders, Netflix confirmed that one of its biggest competitors for screen-time is multiplatform videogame sensation Fortnite. The admission could suggest a further blurring of the boundaries between media as companies vie for the attention of consumers. 2019 is well positioned to bring some interesting deals as the tech tsunami continues to wash away boundaries between media.



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