Media Sector

M&A Insights

Analysis & opinions on European M&A activity

2008

PricewaterhouseCoopers

Welcome

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Welcome to the sixth edition of Media M&A Insights from PricewaterhouseCoopers. As always in this publication, we analyse the trends driving M&A activity in the European media sector, review predictions from the last edition, and set out our thoughts for 2008.

Media M&A activity was strong in the first half of 2007 although the impact of the 'credit crunch' began to be felt in the latter part of the year. Despite this second-half slow down, the UK market still produced record results for the year as a whole, and mainland Europe held steady. While UK deal completions rose by 9% to 75 last year, the total value of these deals soared – thanks in no small measure to the €13.5bn Reuters takeover by Thomson Corporation. Deal volumes in mainland Europe were practically level year-on-year at 103 while the overall value dipped.

Private equity (PE) activity in 2007 was concentrated in the mid-market, especially in the last six months of the year when difficulties in financial markets constrained larger deals.

The acquisition of digital capability continued to be a key driver behind deals, particularly in marketing services. This has been coupled with the re-positioning or, in some cases, re-invention of traditional print-publishing businesses to compete more effectively in the digital age.

The Corporate Finance Media team at PwC had a busy year in 2007, advising Bridgepoint and management on the MBO of Wolters Kluwer Education, Endemol NV on its sale to Mediaset, JobsGroup.net on its sale to DMGT, Title Research Group on the sale of Find My Past to DC Thomson and DMGT on the disposal of Northcliffe Retail.

The Transaction Services Media team was also very active throughout 2007. In the publishing sector, mandates included conducting financial, commercial and operational vendor due diligence for Reed Elsevier in its disposal of Harcourt Education Publishing and Guardian Media Group's sale of Trader Media; and acquisition due diligence for trade and PE bidders in the sale of Emap. In the broadcasting sector PwC undertook commercial and financial due diligence on SBS Broadcasting for ProSiebenSat1, as well as several projects for Permira-owned 'super indie' All3Media including MME Moviement and Objective Productions. The firm also provided commercial due diligence to Vitruvian Partners on its first acquisition, the internet search engine marketing company Latitude Group, and reviewed online classified and marketing services businesses for both trade and PE bidders.

As we further grow our practice, one of our continuing objectives is to maintain a dialogue and build on our relationships with companies throughout the media sector. We hope that this publication will help to facilitate this and look forward to hearing your feedback.

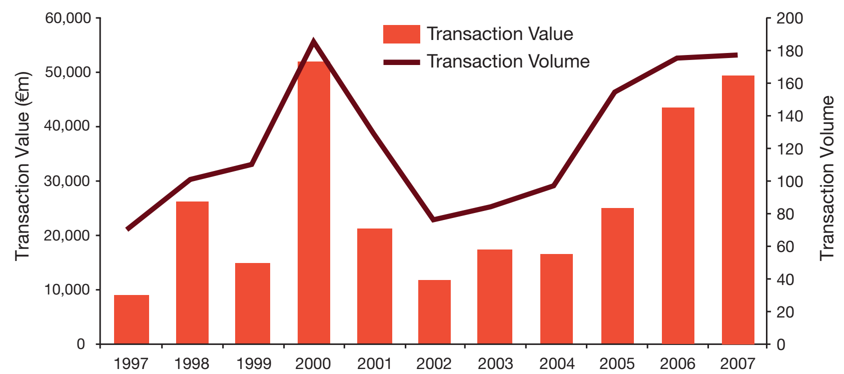
If you would like any further information or would like to comment on any aspect of this report, please do not hesitate to contact us.

Powerful performance despite the 'Crunch'

Last year saw a significant increase in media M&A activity in the UK and mainland Europe, continuing the upward trend which began in 2003.

However, 67% of the total deal value was realised in the first six months of 2007 with the global 'credit crunch' scuppering several larger deals in the year's second half.

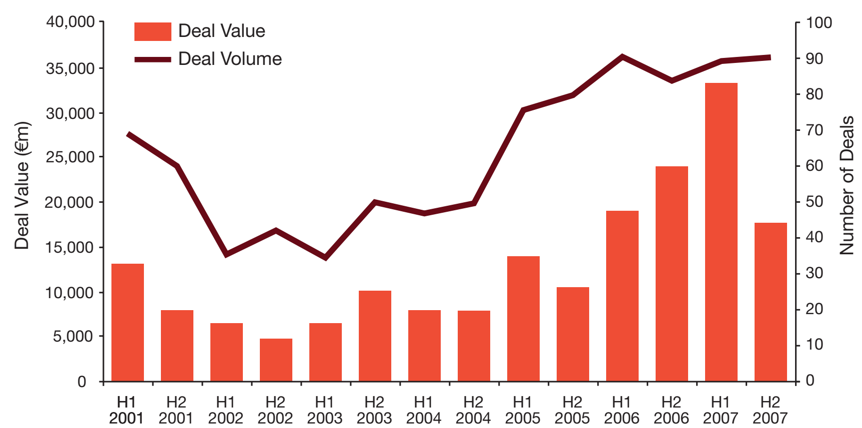
European Deal Activity 1997-2007



This chart covers M&A transactions completed between 1997 – 2007, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million.
Source: Dealogic, M&A Global

The total number of media deals in the UK and mainland Europe last year increased by 3% to 178 compared with 173 transactions in 2006. This performance approaches the levels seen at the market's peak in 2000 when 186 deals were recorded. A similar story emerged on the value front last year, with the combined value of European media deals surging to €50bn – a 16% increase on 2006 when deals totalling €43bn were recorded. Again this is only slightly down on 2000 when deals worth an aggregate €52bn were concluded. However, fewer mega-deals were transacted – particularly in H2 (the €3.3bn split-sale of Emap being the main exception), and deal pricing was generally more conservative.

European Deal Activity (Half-Year Analysis) 2001-2007



This chart covers M&A transactions completed between 2001 – 2007, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million.
Source: Dealogic, M&A Global

In terms of size, the top deals last year were the €13.5bn takeover of the UK news and information group Reuters by the US listed financial data provider Thomson Corporation; the €3.3bn acquisition of SBS Broadcasting in The Netherlands by Germany's ProSiebenSat.1 (both bidder and target were backed by the PE firms Kohlberg Kravis Roberts and Permira); and the €3.1bn LBO of EMI by Terra Firma Capital Partners.

Major European Deals 2007

Date	Value (€m)	Target	Target Country	Acquiror	Acquiror Country
May 07	13,450	Reuters*	UK	Thomson Corporation	US
Jun 07	3,300	SBS Broadcasting	Netherlands	ProSiebenSat.1 Media	Germany
Aug 07	3,140	EMI	UK	Terra Firma Capital Partners	UK
May 07	3,138	Endemol	Netherlands	MediaSet / Goldman Sachs Capital Partners	Italy
Dec 07	1,937	Sogecable (50%)*	Spain	Grupo Prisa	Spain
Dec 07	1,723	Emap (B2B)*	UK	Apax Partners / GMG	UK
Dec 07	1,579	Emap (Radio & Consumer Media)*	UK	Heinrich Bauer	Germany
Apr 07	1,065	Recoletos	Spain	RCS Media Group	Italy
Mar 07	995	Trader Media Group (50%)	UK	Apax Partners	UK
Feb 07	843	Blackwell Publishing	UK	John Wiley & Sons	US

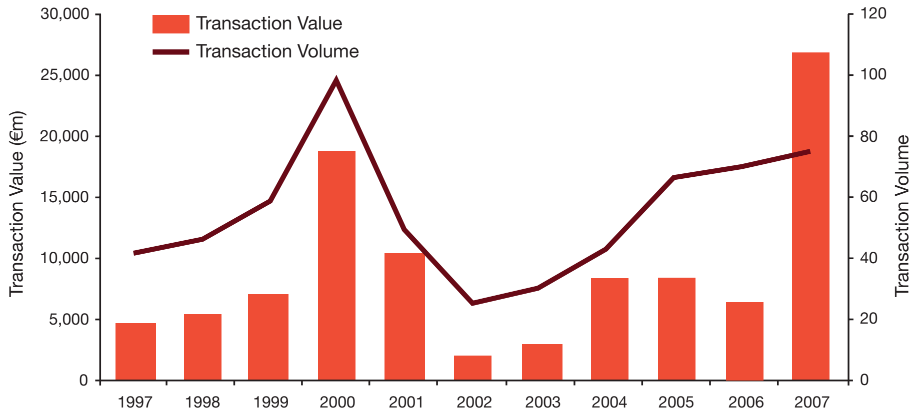
*Pending as at 31 Dec 2007
Source: Dealogic, M&A Global

Record year for the UK

Despite the second-half slow down, the UK media M&A market held up well during 2007 with a strong recovery following its relatively subdued performance in 2006.

Thanks to the €13.5bn Reuters deal, 2007 was a record year for the UK, with deal values comfortably outstripping the previous peak seen in 2000.

UK Deal Activity 1997-2007



This chart covers M&A transactions completed between 1997 – 2007, involving stakes greater than 10%, where the target was from the UK and the deal value was disclosed and greater than €10 million.

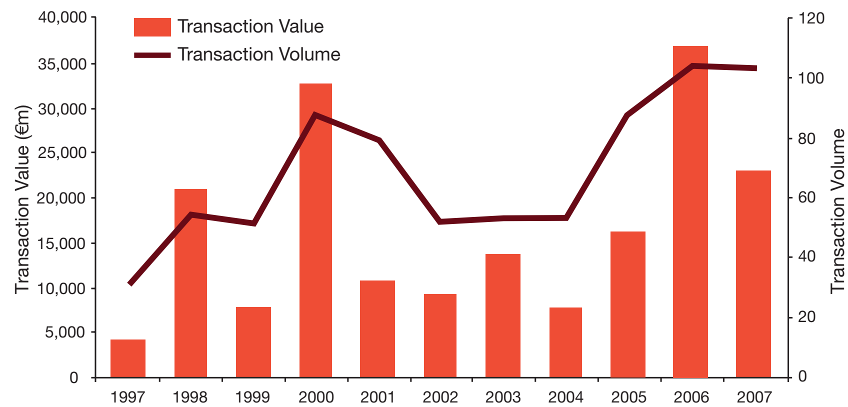
Source: Dealogic, M&A Global

UK deal volumes increased by 9% year-on-year, bringing the transaction total to 75, compared with 69 in 2006. The aggregate value of these deals, meanwhile, increased by a massive 329% to total €26.6bn – up from €6.2bn in 2006. Seven more deals were achieved in H2 than H1 although the aggregate value was markedly lower at €8.3bn against €18.3bn in H1. However, it should be noted that the €13.5bn Reuters acquisition accounted for nearly 74% of the combined value of UK deals in the first half of 2007 and 51% for the year as a whole.

Continental Europe holds steady

The media M&A market remained buoyant in continental Europe last year with deal volumes in line with those seen in 2006 although aggregate values declined.

European Deal Activity (Excluding UK) 1997-2007



This chart covers M&A transactions completed between 1997 – 2007, involving stakes greater than 10%, where the target was from Europe (excluding UK) and the deal value was disclosed and greater than €10 million.

Source: Dealogic, M&A Global

Last year, 103 media transactions were completed in mainland Europe compared with 104 in 2006. The combined value of these deals fell by 38% to €23bn compared with €37bn in 2006 (the value figure in 2006 was skewed by the €7.7bn acquisition of VNU in The Netherlands).

No single country dominated the media stage in mainland Europe last year, with the largest target deals split between The Netherlands and Spain, with Germany and Italy active on the bidding front. This illustrates the continued breadth and resilience of the market. The largest acquisitions in continental Europe in 2007 were by Germany's ProSiebenSat1.Media of SBS Broadcasting and Italy's Mediaset which led a €3.1bn consortium bid for Endemol in The Netherlands (including the acquisition of a 75% stake from the Spanish telecommunications firm Telefonica). In addition, Spain's largest media group, Prisa, gained control of Sogecable, the local broadcaster, with its €1.9bn purchase of a 50% stake triggering an offer to shareholders controlling the remaining 50%.

In terms of emerging markets, Central and Eastern Europe – particularly Poland, Hungary, the Czech Republic and the former Soviet bloc – are beginning to offer opportunities for Western-style M&A, as is Turkey.

Bigger deals forced off the agenda for now

While the low-mid market sector demonstrated considerable resilience last year, several larger deals – valued at more than €500m – had to be abandoned or put on 'hold'.

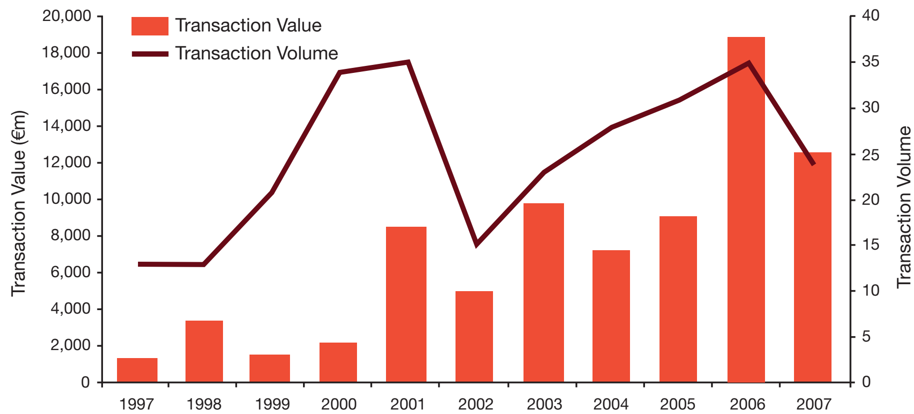
No less than 18 €500m-plus deals took place in 2007 compared with 13 in 2006. Eleven of these larger deals were transacted in the first six months of 2007. This compares with seven in the second half of the year when a number of significant deals had to be abandoned, delayed or restructured, due to the credit crunch.

The €17bn auction sale of the listed cable television giant Virgin Media was abandoned, while in the US the $19bn acquisition of Clear Channel by Bain Capital and Thomas H Lee hit funding difficulties.

Private equity players adapt to changing markets

Private equity interest and activity in the European media market did not disappear last year, despite the cold wind sweeping through the credit market. Firms have, however, had to adapt to the new conditions.

European Private Equity (Buy-Side) Activity 1997-2007



This chart covers M&A transactions completed between 1997 – 2007, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million.

Source: Dealogic, M&A Global

Deal activity by unquoted equity players declined slightly in 2007 following a record year in 2006 in the European media sector. Deal volumes returned to 2003 levels last year with 24 deals (2006 – 35). The aggregate value of these transactions was down to €12.5bn from €19bn in 2006 (with 2006 inflated by the €7.7bn PE backed purchase of VNU). PE accounted for 25% of the aggregate value of European media deals overall in 2007, compared with 44% in 2006 and 36% in 2005.

'Mega' PE-deals were mainly confined to the UK with Terra Firma's €3.1bn buyout of EMI and the €1.7bn disposal of Emap's business-to-business (B2B) interests to Apax (in partnership with Guardian Media Group) although the €3.3bn ProSieben/SBS merger in The Netherlands was also PE-backed.

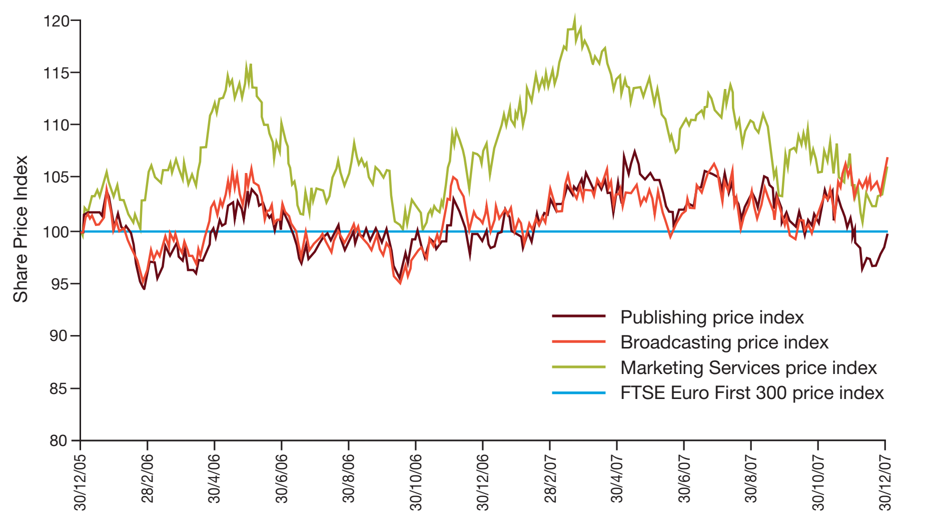
The high levels of PE investment over the last three or four years has created a strong pipeline of media businesses seeking realisations. The thirst among the PE houses for profitable exits has been enhanced by the more limited availability of debt refinancing facilities. However, with secondary and tertiary deals also made more difficult, the ball seems to be firmly back in the trade buyers' court.

As PE firms adapt to the challenging debt-financing environment, longer 'hold' periods may become necessary with the negative impact of this on returns offset by more ambitious 'buy & build' programmes to drive further 'value creation'. This is likely to generate numerous infill acquisitions.

Modest public market performance

The European media sector performed broadly in line with the stock market overall during 2007.

Comparative Indices for 2007



Note: This chart shows index prices relative to the FTSE Euro First 300 price index, which has been fixed at 100.
Source: Dealogic, M&A Global

After its significant de-rating from 2001 – 2004, the media sector has been in the 14 -17x 12 month forward Price Earnings (P/E) range. However, the market reached a peak in March of 2007 and was in steady decline through the second half of the year, ending up broadly in line with the rest of the FTSE.

Top 10 digital deals double in value year-on-year

Across the European media industry, companies are investing in digital capability and, in some cases, re-positioning or re-inventing their existing businesses to compete in the new world.

The top 10 digital deals in 2007 amounted to a combined value of €2.4bn versus €1.2bn in 2006. What constitutes a 'digital deal' can be highly subjective, but even when based on conservative estimates 21% of total media deal volume in Europe last year had a strong digital component. This trend towards digitalisation was most evident in the marketing services segment with deals such as Publicis Groupe's €137m acquisition of the French digital agency Interactif. The company will be merged with Publicis' existing digital advertising operation, Digitas, itself acquired by Publicis at the end of 2005 in a bid to fast-track its global digital offering.

Major Deals in the Online / Digital Sector 2007

Date	Value (€m)	Target	Target Country	Acquiror	Acquiror Country
Oct 07	700	Bureau van Dijk	Belgium	BC Partners	UK
Sep 07	357	Immobilien Scout (66%)	Germany	Deutsche Telekom	Germany
Jun 07	284	auFeminin	France	Axel Springer	Germany
May 07	215	Zanox	Germany	Axel Springer	Germany
May 07	208	Last.fm	UK	CBS	US
Jan 07	179	Late Rooms	UK	First Choice Holidays	UK
Sep 07	139	Meilleurtaux	France	CNCE	France
Jun 07	137	Business Interactif	France	Publicis Groupe	France
Oct 07	115	Wer Liefert Was?	Germany	SEAT PagineGalle	Italy
Aug 07	101	Nextedia	France	Lagardere	France

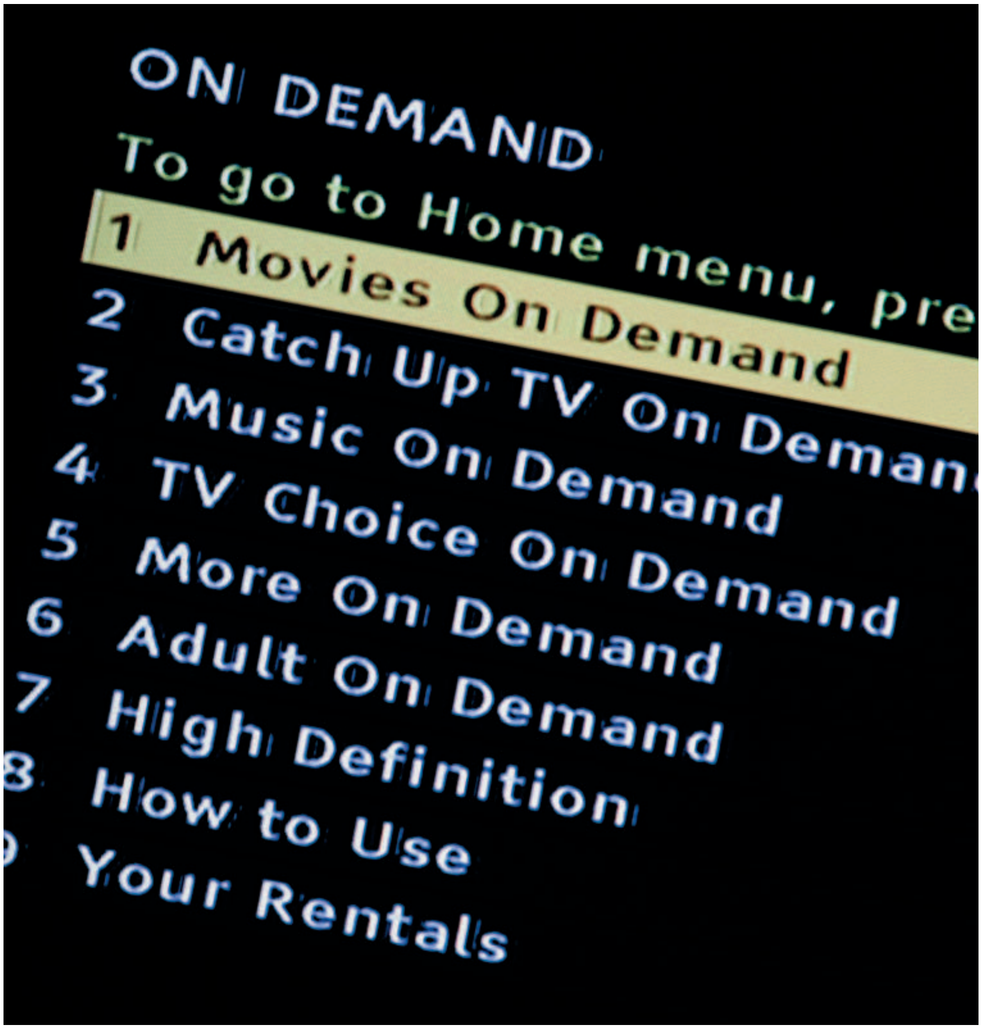
Source: Dealogic, M&A Global

While Latitude Group has a war chest for acquisitions following its sale of a major stake to PE house Vitruvian last year, smaller players such as the UK-based marketing communications and advertising company Mission Marketing and AiM-listed Digital Marketing Group (DMG) are also seeking acquisitive expansion. Mission Marketing has made a series of acquisitions over the last two years, most recently buying RLA Group which specialises in on-and-offline communications and media buying. DMG is aiming to provide a range of integrated digital direct marketing services and database marketing skills with a 'buy-and-build' approach.

From the ‘traditional’ print-publishing sector, Germany’s Axel Springer and PubliGroupe (PG) of Switzerland jointly acquired Berlin-based Zanox, a leading service provider for performance-based online marketing. The move was designed to enable Axel and PG to expand their internet-based sales activities. Last year Axel Springer also acquired a stake in auFeminin.com – the leading womens’ portal in Europe. Even the acquisition of the UK publisher Blackwell by John Wiley of the US was motivated by the need for the specialist publications sector to consolidate as it gears up for the challenges of the digital era.

In the classified advertising sector, the rush to acquire leading digital sites by print-based publishers to mitigate the erosion in ‘traditional’ print classified advertising continues. This has been demonstrated by companies such as Daily Mail & General Trust which, over the last few years, has bought recruitment, property, dating and car websites, and continues to invest heavily.

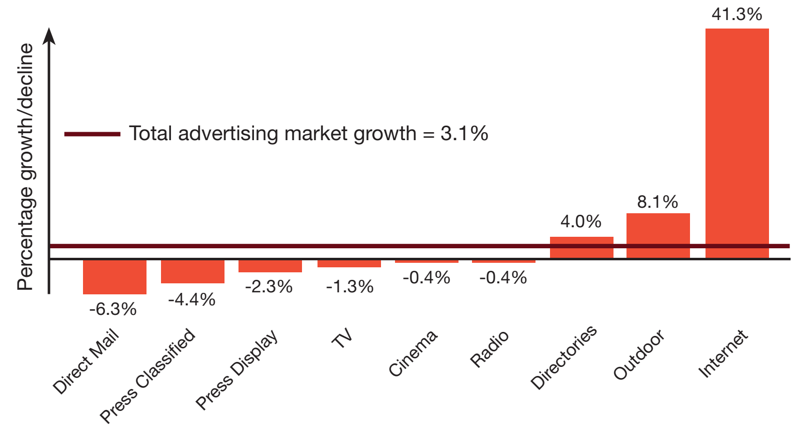
Even in the broadcasting sector, acquisitions of digital only channels – such as Chart Show TV have complemented broader investments in digital spectrum and broadcasting technology. This movement is in anticipation of the full digital switch-over, which has already been completed in parts of Germany and Scandinavia and is scheduled to occur across Europe between 2008 and 2015.



Online advertising heads for the sky

The rapid growth in online advertising is radically changing the advertising landscape. This is generally at the expense of more traditional media and is causing its companies to re-evaluate their portfolios and acquire greater online exposure.

UK Advertising landscape is being transformed – Year on year H1 2006 and 2007



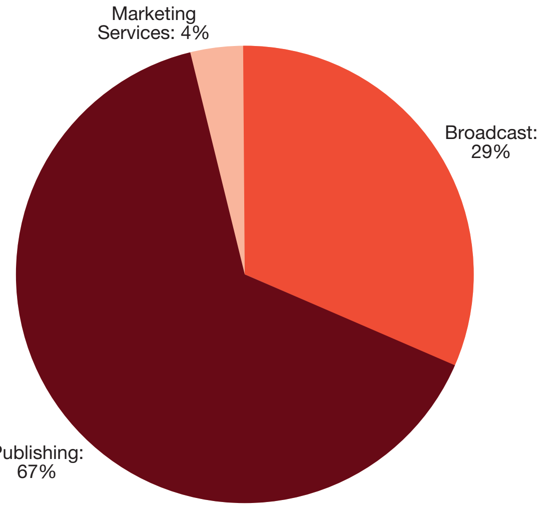
Source: PricewaterhouseCoopers / Internet Advertising Bureau, The Advertising Association / WARC.
WARC estimate for directories.

While traditional advertising mediums – notably direct mail, press classified and press display advertising – have been hit hard by the exponential rise of internet advertising, it is not all bad news with some indications that there might be room in the market for internet and traditional advertising to happily co-exist. ZenithOptimedia has increased its forecast for UK newspaper advertising growth in 2008 to 1.1%. There is also a buzz in radio and cinema advertising. Zenith predicts cinema advertising growth of 1.8% this year while growth in internet advertising is forecast to drop back to 22.6%.

Publishing has the greatest share of M&A value

Publishing and Broadcasting dominate the European media M&A market in terms of deal value, although the market is more evenly split in terms of deal volume.

2007 European Deal Value per Sub-Sector



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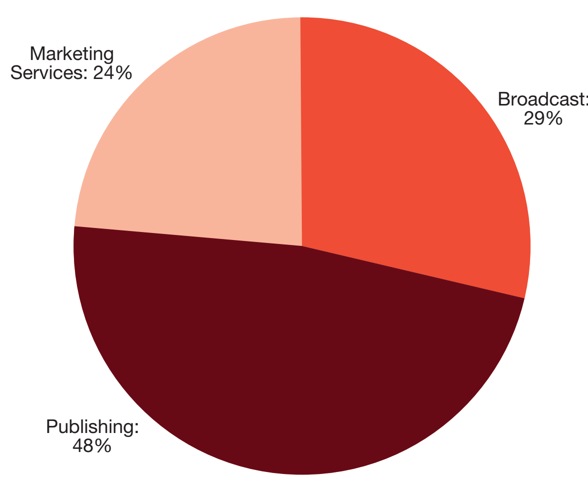
2007 European Deal Volume per Sub-Sector



This chart covers M&A transactions completed in 2007, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million.
Source: Dealogic, M&A Global

Last year the publishing sector – inflated by the Reuters deal – increased its share of the European media M&A market as a whole, in terms of both deal value and volume, to account for 67% by value (2006 – 62%) and 47% by volume (2006 – 42%).

Fuelled by the acquisition of digital agencies, the share of overall deal volume accounted for by marketing services rose to 24% (2006 – 21%) with total value down to 4% from 7% in 2006. The broadcasting segment's share of the European media M&A market fell slightly last year to 29% of deal value (2006 – 32%) and 29% of deal volume (2006 – 37%).

Review of 2007

PwC's media market predictions for M&A performance in 2007 were considerably exceeded, particularly in the UK.

Although we correctly forecast a rebound in the UK's media M&A market in 2007 – given the relatively low base established in 2006 – even we were surprised by the height of the bounce. Particularly in the first half of the year, helped by Reuters, this revival was far more robust than anticipated.

We forecast that the PE industry would have a strong year in 2007 and, for the most part, it did, although it has been forced to adapt to the changing market conditions which emerged in late summer.

We expected to see traditional media companies seeking to acquire greater online capabilities to face the challenges presented by online channels. This prediction, too, has largely been borne out.

Forecasts for 2008

The re-positioning and/or re-invention of traditional companies to succeed in the Digital Age will accelerate.

If 2007 saw traditional media coming to terms with online and digital alternatives, then 2008 should see still further acquisitions and far-reaching changes to business models and strategies to enable them to compete effectively in the new digital world. This trend will be most evident in the business-to-business (B2B) and marketing services sectors, but will spread to consumer media. There is likely to be increased consolidation in key sectors – notably local and regional newspapers and listings directories, and some broadcasters are likely to become digital-only providers.

A challenging year for private equity.

There is likely to be increased concentration of PE activity in the low to mid-market, unless the larger deals market re-opens for business. There is likely to be a dilemma over exits in terms of timing – whether to keep deals in portfolios and continue to 'add value' or to exit investments despite concerning conditions.

Sustained deal volumes, more conservative deal values.

In volume terms, Europe's media M&A market has reached a plateau, albeit at a high level. We anticipate a strong year in terms of deal levels in Europe over the next 12 months with transaction totals running at around the same mark as 2007 with 175 deals. There is always at least one mega-deal to take the market by surprise and 2008 is likely to be no exception. Even so, we expect the combined value of deals to ease down to around €40bn.

Conclusion

Overall, 2007 was a buoyant year for media M&A in both the UK and mainland Europe, although the first half of the year was more upbeat than the second.

We expect Europe's media M&A market to be more turbulent going forward, following on from the trends observable in the second half of 2007, with problems in the credit markets and cloudy economic fundamentals. Nevertheless, and despite the challenges, media is set to remain an attractive and active M&A market with tremendous potential to exploit the opportunities afforded by the digital/online evolution.

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