PRIVATE EQUITY PERFORMANCE IMPROVEMENT

MEDIA & ENTERTAINMENT

Media Buzz: 6 Moves to Add Value for Private Equity

The Media & Entertainment (M&E) industry is at an inflection point. Consumer behaviors are shifting, monetization models are evolving and digital disruption is reshaping how content is created, distributed and consumed. For private equity investors, the stakes — and opportunities — have never been higher.

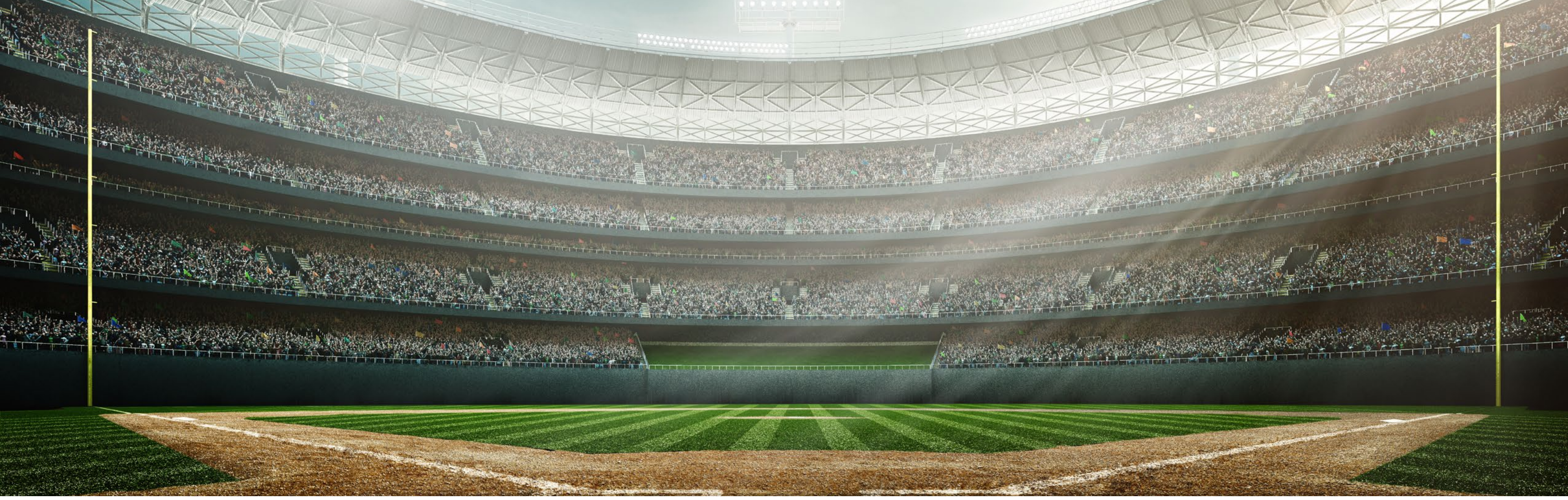
How do we provide high-quality experiences that satisfy customer demand while protecting margins and ensuring long-term viability?

Companies must balance delivering high-quality experiences with optimizing costs and driving sustainable growth. Covering a wide range of entertainment offerings and players — including distributors, content producers, live event producers, rights holders and betting platforms, among others — M&E companies face a fundamental question: how do we provide high-quality experiences that satisfy customer demand while protecting margins and ensuring long-term viability?

While merger and acquisition (M&A) activity can be a catalyst for transformation, private equity (PE) firms in particular — with their focus on adding value over the holding period — must deploy targeted, practical strategies to improve performance and optimize cost structures to achieve profitability and scalable growth.

To succeed in this highly competitive landscape, M&E companies must take steps to:

- Streamline the operating model
- Control costs
- Establish a governance model
- Optimize real estate
- Enhance technology
- Control carve-out costs



The Market

The M&E sector is expanding, fueled by increasing consumer demand for diverse and innovative content.

The value of the global M&E industry was estimated to be $2.56 trillion in 2023 and is expected to grow at a compound annual growth rate of 6.79 percent to reach $5.28 trillion in 2032.[1] PE and venture capital firms are capitalizing on strategic consolidation, oftentimes coupled with transformation and digital innovation. Several recent, high-profile media mergers and acquisitions underscore investor confidence, and current trends highlight a robust focus on transformative deals in content creation, distribution, emerging media technologies and live events.

From live events to digital content, e-sports and emerging platforms, M&E companies face a common challenge: reducing costs while maintaining content quality and audience engagement.

Here are six key actions that PE firms and other investors can deploy to reduce costs while building value over time.

Streamline the Operational Model

Mergers often bring operational redundancies, but they also create opportunities to integrate strengths, optimize workflows and drive efficiency. By integrating thoughtfully, merging organizations can enhance efficiency, improve collaboration and position themselves for sustainable growth. Pre-deal due diligence can begin to identify those overlapping areas, but often there can be problems integrating certain areas of the business, especially when companies have their own way of operating within the different segments of the M&E industry. Companies must do the hard work both before and after the deal to identify opportunities to streamline operations and sustainably manage costs.

While it can be tempting to implement organizational wide changes, it's important not to mess with the "circus" so as not to erode margins.

Unique to the M&E industry is the mix of creative and management leadership, which requires the ability to speak the language of both groups. Without mutual understanding, cost cutting during the integration process can be seen as heavy handed and threaten content quality in the long-term.

[1] https://www.businessresearchinsights.com/market-reports/media-and-entertainment-market-102952#:~:text=Media%20And%20Entertainment%20Market%20Report,6.79%25%20during%20the%20forecast%20period.

Case study

Challenge:

A&M supported the merger of two global multi-billion-dollar sports and entertainment brands, identifying operational synergies and the one-time execution costs.

Approach:

Prior to the deal closing, A&M led pre-acquisition integration governance planning across nearly 15 functional areas that included developing a new operational model and identifying synergy opportunities.

Outcome:

A&M's efforts led to more than $100 million in run-rate savings by eliminating redundancies and implementing strategic cost reductions. The client also implemented a comprehensive tracking mechanism to drive synergy realization and manage one-time costs.

Focus on Cost Optimization

Media companies have significant opportunities to enhance efficiency by aligning people, processes and systems. Optimizing operations can unlock substantial value while improving agility and positioning the company for long-term growth.

Cost optimization is a fundamental driver of value creation in today's market. With compressed margins, rising content costs and shifting monetization models, achieving operational efficiency is critical for long-term profitability as investors seek to maximize returns through strategic cost management, ensuring businesses remain agile while capitalizing on industry shifts.

The media industry faces challenges such as changing consumer behaviors, evolving distribution models and the fragmentation of advertising revenues. In this environment, cost efficiency is a key lever for value creation.

Cost optimization isn't just about quick cuts — it's about reinvesting strategically in areas that drive long-term growth and competitive advantage.

> **Establishing a governance structure can be the catalyst for enhancing spending controls and approval processes.**

Establish a Governance Model

Cutting costs is only the first step — driving long-term cost efficiency requires a structured governance model. For that reason, companies must create a mechanism to govern policies and procedures that will ensure cost optimization in the future.

Key to achieving this goal is implementing management reporting and performance metrics to monitor and report performance. These can be organization-wide initiatives or functional controls, but each procedure should be documented and rolled up into a coherent, holistic approach to maintaining savings from cost reductions.

Establishing a governance structure can be the catalyst for enhancing spending controls and approval processes. Rather than adding bureaucracy, a culture of governance can eliminate bottlenecks and duplicative policies that can dampen efficiencies.

Many merging companies endeavor to rationalize vendors and provider resources, renegotiating terms or licensing. Post-acquisition, a governance mechanism can maintain cost controls by creating policies and procedures to regularly re-evaluate and renegotiate agreements.

Companies can drive profitability through initiatives such as:

01 Streamlining Content Investment

02 Rationalizing Technology Infrastructure

03 Optimizing selling, general and administrative costs

04 Enhancing Operational Efficiency

Optimize the Real Estate Footprint

M&E companies can find real savings by rationalizing real estate holdings, optimizing space utilization and aligning footprints with strategic priorities. Workplace strategies are evolving, and companies must take a data-driven approach to align their real estate footprint with business needs, workforce preferences and operational efficiencies.

Real estate rationalization can include optimizing the use of or consolidating locations in a particular geographic area. Consolidating studio spaces and post-production facilities can enhance resource sharing, reduce overhead costs and improve scheduling flexibility. Additionally, centralizing storage facilities for physical media assets — such as film reels, tapes or print archives — can lower real estate expenses while improving accessibility and preservation.

Expanding shared services across locations allows M&E companies to optimize operations by reducing the need for redundant site-based functions, and centralizing key functions such as finance, HR, IT and content operations can create efficiencies while driving consistency across the organization. By strategically consolidating locations and leveraging nearshoring or offshoring where appropriate, companies can streamline workflows, improve service delivery and enhance scalability. Doing this strategically can still provide the flexibility to address regional market needs and guarantees that operational improvements do not come at the expense of local responsiveness or audience engagement.

Enhance Technology Platforms

Technology rationalization begins with identifying the organization's various applications and determining any advantages through consolidation. By consolidating technology spend, companies are better equipped to compete when benchmarking against peer media groups.

By consolidating applications, hardware, services and data centers and rationalizing software licenses, companies can realize savings and efficiencies. When technology platforms are optimized companies can find cost savings in labor through third-party support.

We find many of our clients have large investments in systems that are essentially redundant such as multiple CRM, ERP, and communication systems such as Teams and Slack. Compounding the issue are poorly managed licenses, cloud contracts, usage gaps, unnecessary customizations, and the list goes on an on. A comprehensive assessment of actual business needs frequently unlocks value.

When technology platforms are optimized companies can find cost savings in labor through third-party support.

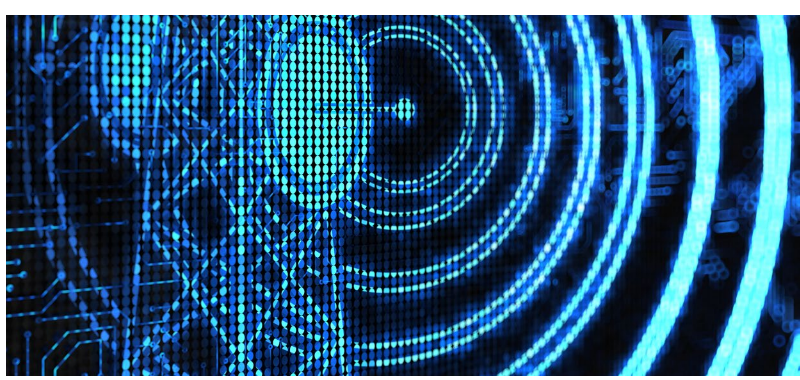
Minimize Costs During Carve-Outs

During carve-outs, including when carving out a company from a large conglomerate, investors often incur unnecessary costs when establishing a new standalone entity. In many cases, the carve-out target is heavily reliant on the services of the parent company, including recruitment services, payments and intellectual property. If the acquiring company is not careful, they can overspend to establish the new standalone organization.

These new companies may not have the resources to optimize processes or apply leading edge technology — especially during carve-outs and under transition service agreement terms. Many are used to operating in a large corporate environment and pulling resources from the corporation.

To minimize the cost and complexity of the transition, acquiring companies should set up a separation management office (SMO) to prepare for Day 1 operations of the stand-alone company. This office can identify the correct people, processes and systems that will be required to support operations. The SMO can differentiate between the capabilities that should be allocated over those that are segregated from the parent company and then analyze any gaps and provide recommendations to smoothly transition on Day 1.

The SMO often plays a critical role in managing the transition between the parent company and the standalone entity, which includes negotiating and overseeing a transition service agreement (TSA) that defines the cost, timing, scope and necessary support during the separation. To support a seamless Day 1, the SMO must develop a high-level post-separation work plan that outlines key operational milestones to separate from the TSA, identifies internal resource needs and establishes third-party service agreements where necessary. By proactively addressing these elements, the SMO helps create a stable foundation for the new business while minimizing costs and disruption.



How Can M&E Companies Unlock Value Creation?

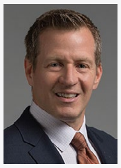
For PE firms, driving value quickly means optimizing costs and streamlining operations — but cutting in the wrong places can weaken the very product that makes the business successful. In M&E, missteps that disrupt content, talent or audience experience can have lasting consequences. With intense competition and shifting consumer expectations, there's little room for trial and error.

To get it right, investors need a strategic approach that identifies redundancies and efficiencies without undermining the core business. Thoughtful due diligence and purpose-built solutions help guarantee that companies can unlock value while preserving the creative and operational strengths that set them apart. To thrive in this evolving landscape, M&E companies need tailored solutions that drive efficiency while preserving creative and operational strengths.

How Can A&M Help?

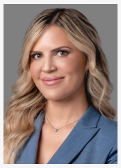
A&M partners with M&E companies to drive transformative change, maximize value and achieve sustainable growth in a rapidly evolving industry. We're a trusted partner, serving clients across the M&E spectrum — from content producers and distributors to live events companies and betting platforms — delivering insights and results that create lasting impact. Our deep industry experience and operational knowledge in navigating complex business challenges, senior-led leadership and end-to-end M&A advisory expertise offers a customized set of advisory services that our clients rely on to drive strategic growth for companies and their investors.

KEY CONTACTS



Jeff Shaffer
Managing Director
Los Angeles, CA

jshaffer@alvarezandmarsal.com



Kathleen Voss
Senior Director
Los Angeles, CA

kvoss@alvarezandmarsal.com

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