Technology, media and telecommunications

May 2017

Alvarez & Marsal

Technology

M&A activity in Q1 2017 illustrates some of the technology industry's most dynamic segments:

Fintech: Warburg Pincus took a 35 percent stake in Avaloq, a Swiss unicorn (a startup with a valuation over €1 billion). Avaloq is a leader in integrated and comprehensive banking solutions. In Q1 2017, Vista Equity Partners acquired Toronto-based DH Corp, a technology business serving the banking industry.

Advertising technology: Cable operator Altice acquired Teads (a firm offering "outstream" ads). The outstream video advertising format enables advertisements to be displayed outside of a video stream, such as within content on a webpage or in the middle of a text article. At the same time, Verizon is finalising the acquisition of Yahoo and its ad tech business.

Self-driving cars: Intel's purchase of Israeli company Mobileye for $15 billion in March was a concrete highlight of the increasing interest in that sector. Concurrently, a legal dispute emerged between Google's self-driving car division (Waymo) and Uber about alleged technology theft.

The consolidation of the hosting business continues, with Claranet and HEG's subsidiary PlusServer currently in the market with several PE houses interested.

A&M view

Fintech M&A: driving financial institutions' digital transformation

In a December 2016 report, White & Case, a law firm, indicated that fintech startups disrupted the financial industry with services in payments (e.g. PayPal, Square), peer-to-peer lending and crowd funding (over 84 percent growth in value in 2015 versus the previous year), insurance price comparison websites (e.g. MoneySuperMarket), etc. At this point, there is a recognition by fintech businesses that they only address a small part of the financial service product range. At the same time, 54 percent of larger financial institutions plan to collaborate actively with fintech companies. M&A is a foremost part of this collaboration with BBVA, Santander, UniCredit and China Construction Bank all having a clearly defined fintech acquisition strategy.

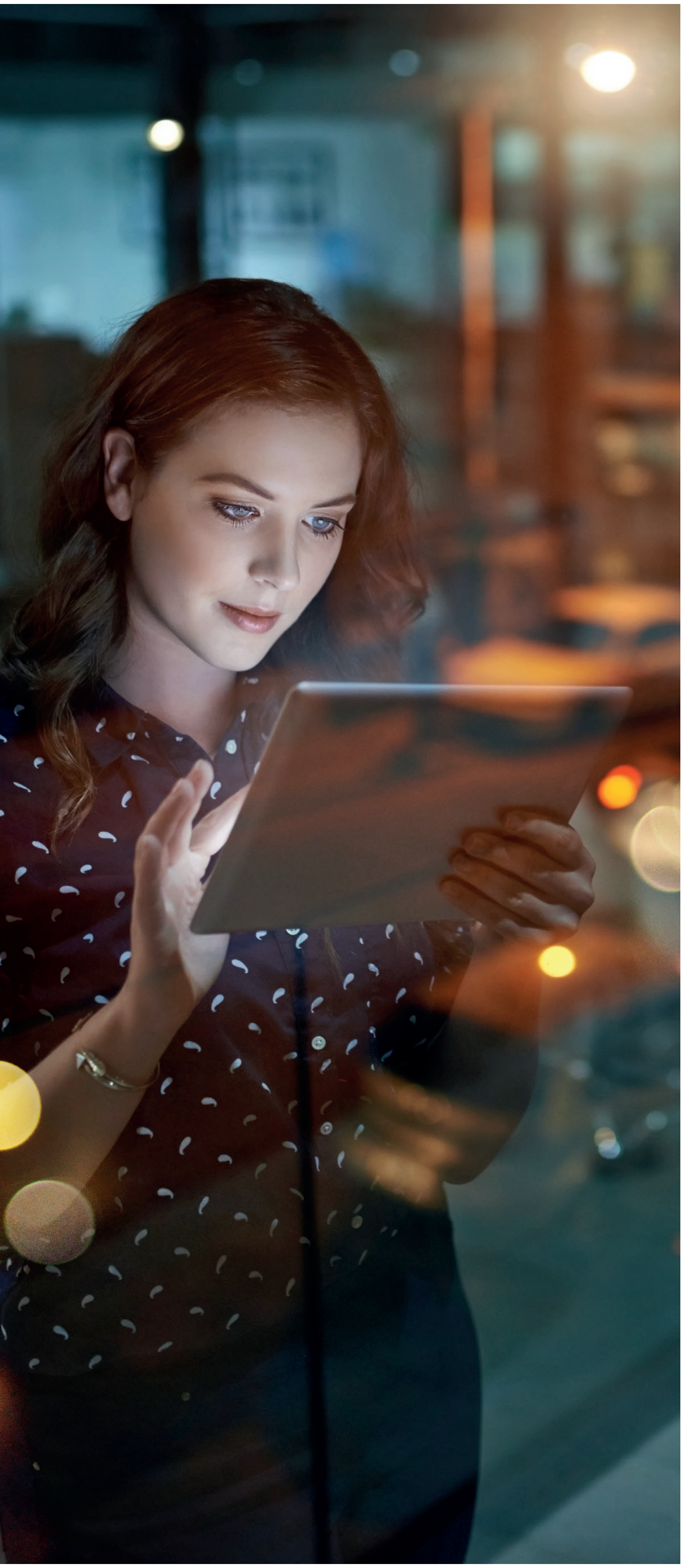
Growth of online advertising spend drives M&A

An eMarketer research paper published in Q4 2016 concluded that online advertising spend overtook TV advertising spend in the U.S. in 2016 for the first time. At $72 billion, online advertising spend represented 37 percent of total media spend, while TV accounted for 36 percent. Out of this, spend on online video advertising was $10.3 billion in 2016 and is expected to grow by 21 percent in 2017. As a result, large telecom businesses (like Altice or Verizon) want to capitalise on their large customer bases (spending significant time online) to benefit from the online video advertising boom.

The view from North America

Technology M&A volume continued to be strong in the first quarter of 2017, accounting for 218 transactions, up from 212 transactions in the fourth quarter of 2016 and 209 transactions in the first quarter of 2016. The largest transactions in the first quarter were Cisco's acquisition of AppDynamics for $3.7 billion, Vista Equity's acquisition of DH Corporation for $4.8 billion, Capitol Acquisition Corp's (a blank check company) acquisition of Cision for $2.4 billion, Clearlake Capital's acquisition of Ivanti (formerly LANDesk) for $1.2 billion, and McKesson's purchase of CoverMyMeds for $1.1 billion. These deals are primarily driven by public companies' continued efforts to expand functionality, and private equity firms' active asset trading as they focus on exiting 2010 through 2014 vintage funds and putting their new funds to work.

In addition, technology deal volume was highest in January, accounting for 89 transactions, or 41 percent of first quarter activity. Based on what we have seen in our private equity practice, this was primarily due to private equity deals slipping from the fourth quarter into the new year. We do not expect this trend to hamper second quarter results. Through our sell-side business, we have also seen several deal processes start in early January that will be announced in the second quarter. Further, strong middle-market exits in the first quarter and the rejuvenated IPO market, largely driven by the popularity of the Snap IPO, should continue to drive sellers to the table in the second quarter. We do not expect the inevitable rise in interest rates, the stall of healthcare and tax reform, or Brexit and other protectionism trends to slow this down.



Media

The media sector was particularly active across Europe in Q1 2017:

- Q1 saw a takeover battle for Dutch Telegraaf Media Groep (TMG), a newspaper publisher with interests in radio, online and a puzzle business, between Talpa (the company including John de Mol's media activities) and Belgian newspaper and broadcast company Mediahuis, with the latter apparently having the upper hand. Toward the end of March, the situation became less clear as Talpa had started a judicial procedure and was buying TMG stock directly on the stock market, accumulating up to 26 percent ownership of TMG.

- In the Nordics, PE firm Providence Equity acquired MTG's operations (free TV, pay TV, radio and digital business) in the Baltics. This confirmed Providence's continued interest in the region as it follows the acquisition of mobile operator Bite in Q1 2016.

- U.K. TV production company Tinopolis (producer of BBC1's Question Time and owner of sport subsidiary Sunset and Vine), currently owned by PE fund Vitruvian, is exploring strategic options including a sale. The review comes at a time when demand for TV production is increasing, driven by over-the-top (OTT) content players (e.g. Netflix, Amazon) that are differentiated by having their own original content. The demand is also coming from original TV shows being greenlit by broadcasters such as HBO and Canal+.

A&M view

Dutch-Belgian consolidation to accelerate the transition to digital

The objective of Mediahuis is to help TMG accelerate its transition to digital and, as a result, into revenue growth after several years of decline due to the pressures in its core print business (declining circulation not compensated by increasing digital revenues). Mediahuis would also expand its footprint in the Netherlands and drive commercial synergies for advertisers as well as broaden its digital platforms for consumers.

On the other hand, Talpa's strategy is to consolidate the media sector in the Netherlands and combine its TV activities with TMG's newspaper and online assets.

Private equity and cable operators

Private equity firms investing in cable operators focus on smaller geographies (e.g. Baltics for Providence's recent acquisition of MTG's assets or the acquisition of Malta's Melita by Apax France). The main EBITDA growth drivers include limited investments required to deploy new technologies due to the small size of the countries and revenue growth expected to come from upgrading single play customers to dual, triple or quadruple play, hence increasing average revenue per user (ARPU).

The view from North America

Media M&A volume continued to decline in the first quarter of 2017, accounting for 36 transactions, down from 46 transactions in the fourth quarter of 2016 and 55 transactions in the first quarter of 2016.

The only transaction over a billion dollars was Entercom Communications' acquisition of CBS Radio for $1.5 billion, which was driven by the continued effort amongst terrestrial radio companies to consolidate in their consistently shrinking markets. We expect this trend to continue throughout 2017. In addition, although it is not evident in the first quarter, we expect media activity to rebound to its 2015 and 2016 levels of approximately 50 deals per quarter as traditional telecom companies push into content in order to stay competitive and define their value in the world of Google, Facebook, Amazon and Netflix, especially after Amazon's recently announced Thursday Night Football deal with the National Football League.

Telecom

Spain and the UK were very active markets in Q1 2017:

- In Spain, Masmovil, which recently acquired mobile operator Yoigo, is reported to be exploring a listing on the main stock market while it is currently listed on the alternative market. At the same time, regional cable operator Euskaltel is reported to be in discussions with Telecable de Asturias' owner, investment firm Zegona, for its acquisition.
- In the U.K., Liberty Global is said to be exploring a number of M&A opportunities with mobile operators in Europe. In March, Liberty Global was reported to have restarted discussions with Vodafone about another tie-up beyond their joint Dutch venture. One option considered is for Liberty Global to buy Vodafone's U.K. unit and Vodafone to acquire Liberty's German unit. The press also mentioned discussions between Liberty Global and Telefonica regarding O2 U.K.
- Also in the U.K. BT is reportedly reviewing the situation for two of its divisions, Global Services and Openreach. Management is evaluating the sale of its Global Service unit that provides IT services to the government and corporates, as it had disappointing results and faced fraud issues in its Italian arm. BT also agreed to create a separated legal entity for Openreach, the division that controls and runs the U.K.'s broadband network.

A&M view

Consolidation of mobile and cable operators drives M&A in Spain

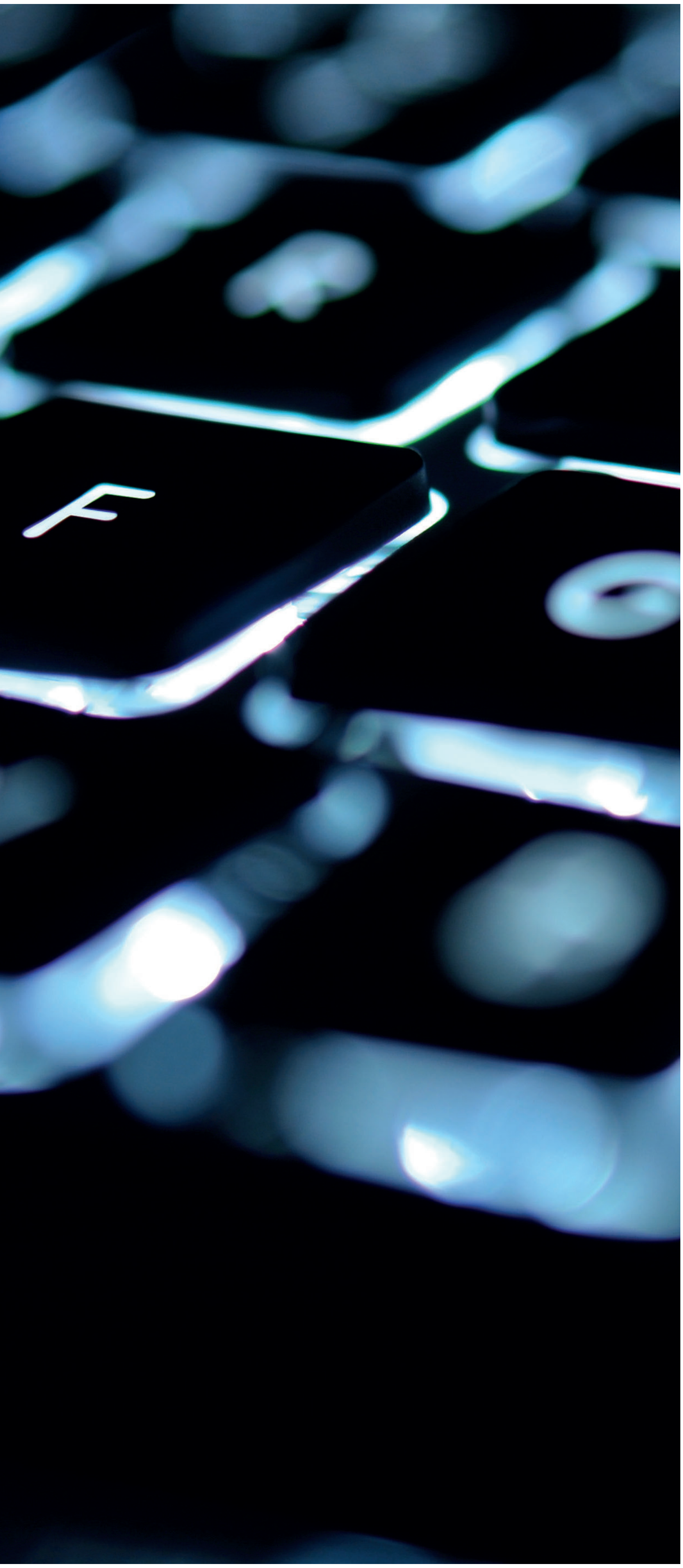
The consolidation in the Spanish market continues on the back of the economic recovery. Yoigo's acquisition by Masmovil was one of the major deals of 2016. Masmovil also acquired mobile virtual network operator (MVNO) LlamaYa in January 2017, leading the consolidation of the MVNO market that counts several dozen operators in Spain. On the cable side, Euskaltel acquired Galician cable operator 'R' in 2015 and is now evaluating the acquisition of Telecable de Asturias to build an operator covering northern Spain.

Vodafone-Liberty Global: The quest for quadruple play

Vodafone was started as a mobile-only company and then developed a fixed-line offer. As customer demand for quadruple play increased, the group sees the tie-up with cable-only Liberty Global as both a value creation opportunity and a way to catch up with players that are fully quadruple play (e.g. BT following the EE acquisition). O2, also a mobile-only operator that sold its fixed-line business a few years ago, is facing a similar situation.

The view from North America

Telecom M&A volume remained relatively flat, accounting for 25 deals in the first quarter of 2017 versus 26 deals in the fourth quarter of 2016 and 28 deals in the first quarter of 2016. The two largest deals were Softbank's OneWeb merger with Intelsat S.A., and Keysight Technologies' $1.5 billion purchase of Ixia. Both deals were a result of continued consolidation in the market of established publicly traded companies. Going into the second quarter, we expect this trend to continue, along with consolidation of middle-market assets by private equity firms and continuing efforts of both public and private firms to buy their way into new technologies. Also, we would not be surprised if activity picks up toward the last half of the second quarter as the M&A ban on carriers participating in the Federal Communications Commission (FCC) spectrum auction ends.



About Alvarez & Marsal

In the current TMT environment, many companies need the support of experienced professionals who can work alongside management to deliver solutions to complex problems.

Founded in 1983, Alvarez & Marsal (A&M) is known for its distinctive operational heritage, hands-on approach, and relentless focus on execution and results. A&M works with clients across the TMT investment lifecycle in the following ways:

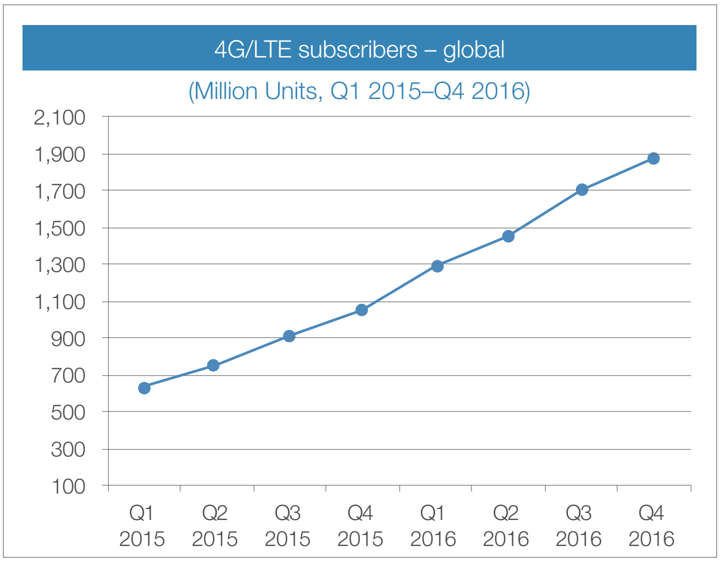
Assisting companies to pursue acquisitions, mergers or divestitures with financial and operational due diligence, valuation, tax structuring and acquisition/carveout integration planning and execution.

Working with management to grow revenue, optimise cost and capex, analyse asset performance and portfolio prioritisation, identify divestiture opportunities, and improve the company's planning and financial control processes and systems.

Supporting management, legal and financial advisors of distressed companies to stabilise operations and cash flow, thereby extending their 'liquidity runway.'

Providing interim management positions as appropriate.

Technology, Media, Telecom – A&M view



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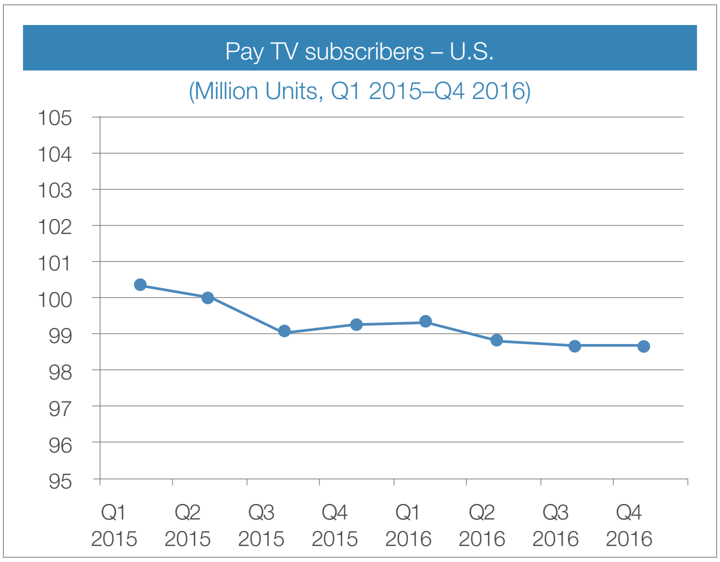
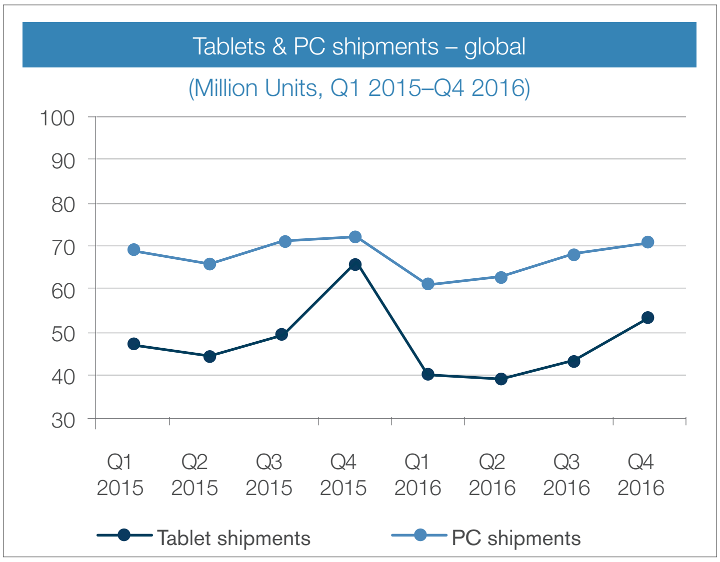
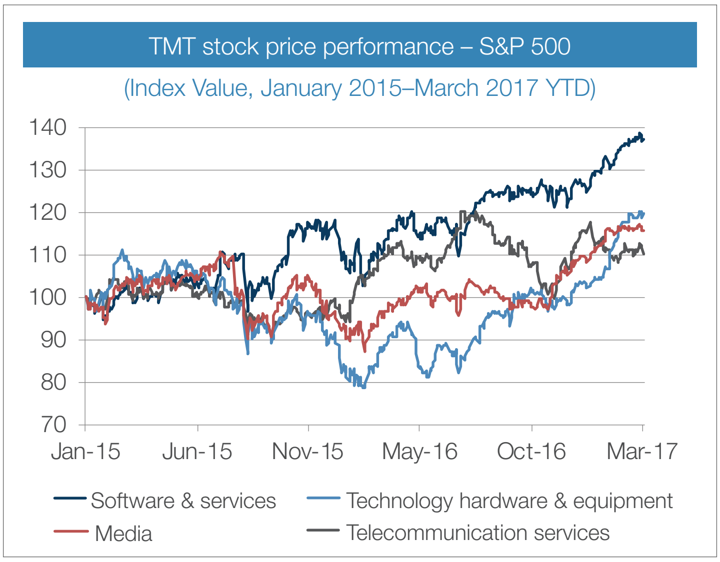


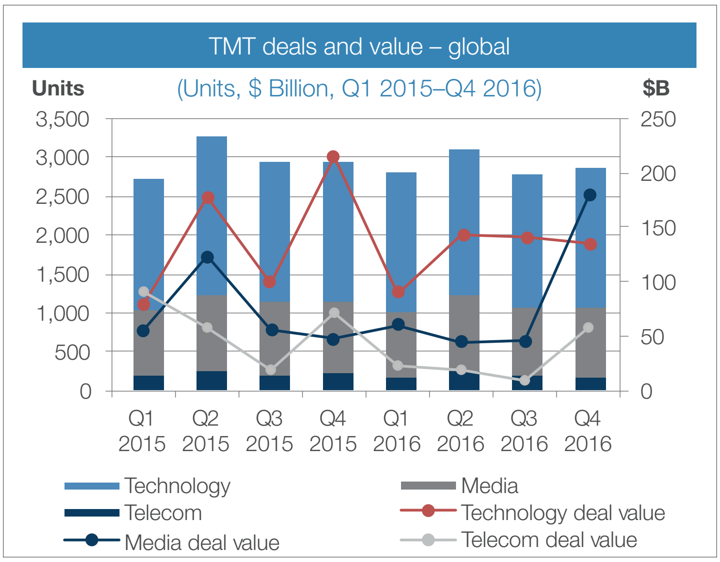
Source: Leichtman Research Group



Source: IDC



Source: IC Subscribed Database



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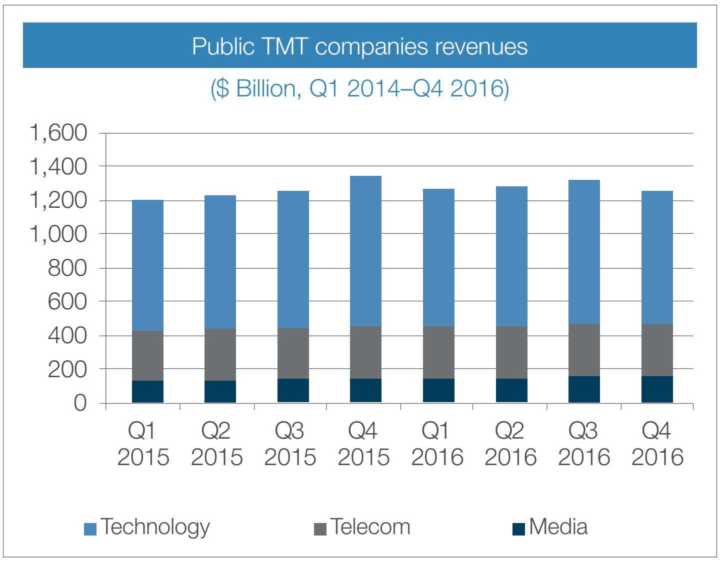

Source: IC Subscribed Database

The Business of Media
A&M's quarterly media breakfast series

The business of paying for digital

With digital disruption both opening and closing doors, media businesses are in a race to build new, sustainable digital pay and subscription models. But how do challengers and incumbents fight against the global tech giants and convince a generation brought up on piracy and free content to pay? In this session, we ask some of the most exciting challengers and incumbents from across the media spectrum where they see the battlelines and whether you really can get digital media to pay.

Hosted by Paul Naha-Biswas, Head of Media with Alvarez & Marsal.

Moderated by Kate Bulkley, media commentator and journalist.

Panelists:

Chris Duncan – MD, The Times and Sunday Times
Nick Walters – Founder and CEO, Hopster
Pascal de Mul – Chief Partnership Officer, Deezer
William Mellis – MD, A&M, and ex-head of Customer Marketing at Sky

Contact us

To discuss how A&M might provide assistance with Transaction Services, Operational Performance Improvement, Restructuring or Interim Management please contact any of the following:

European key contacts

Adam Bradley
Managing Director
+44 790 437 2660
abradley@alvarezandmarsal.com

David Evans
Managing Director
+44 207 663 0577
david.evans@alvarezandmarsal.com

Amit Laud
Managing Director
+44 790 824 7096
alaud@alvarezandmarsal.com

Martin McKay
Managing Director
+44 776 522 1489
mmckay@alvarezandmarsal.com

Renaud Fuchs
Senior Director
+44 789 613 2614
rfuchs@alvarezandmarsal.com

North America key contacts

Byron Smyl
Managing Director
+1 305 798 0648
bsmyl@alvarezandmarsal.com

Pamit Surana
Managing Director
+1 212 763 1636
psurana@alvarezandmarsal.com

Tom Hill
Managing Director
+1 312 601 4226
thill@alvarezandmarsal.com

Greg Cibuzar
Managing Director
+1 415 490 2289
gcibuzar@alvarezandmarsal.com

Jimmy Suruki
Managing Director
+1 415 490 2127
jsuruki@alvarezandmarsal.com

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Privately-held since 1983, A&M is a leading global professional services firm that delivers performance improvement, turnaround management and business advisory services to organizations seeking to transform operations, catapult growth and accelerate results through decisive action. Our senior professionals are experienced operators, world-class consultants and industry veterans who draw upon the firm's restructuring heritage to help leaders turn change into a strategic business asset, manage risk and unlock value at every stage.

LEADERSHIP
ACTION
RESULTS

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