

# TELECOMMUNICATIONS, MEDIA AND TECHNOLOGY

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Q3 2016





## TELECOMMUNICATIONS

Very large deals involving telecom operators have or are about to come to the European market this quarter:

- Telefónica is about to start the process of selling a portion of O2 U.K. to reduce its debt as it has just decided not to conduct an initial public offering (IPO) of its tower infrastructure business Telxius.
- The Wind / 3 Italia merger received the go-ahead from the European Commission, hence opening the way for Iliad's entry into Italy.
- Following its merger with Ziggo, Vodafone Netherland is spinning off its fixed line-triple play business, attracting bids from a number of strategic investors.
- Spain's MÁSMÓVIL is continuing its series of acquisitions and is now a candidate to buy LlamaYA Móvil.

Also, telecom technology and infrastructure companies have been very active:

- Leading European telecom tower operator Cellnex acquired Sphere Group (an owner of approximately 1,000 sites in the U.K. and Netherlands).
- VimpelCom has decided to sell its tower infrastructure to Russian Tower.
- Ericsson's main shareholders are said to be reconsidering their investments into the business following a set of disappointing quarters that led into the resignation of the CEO. Cisco, which recently formed a strategic partnership with Ericsson, is seen as a potential buyer. Swedish activist fund Cevian Capital is also seen as a potential investor.

# A&M VIEW

## TELECOM M&A RESTARTING IN EUROPE

Several drivers are behind the surge in telecom mergers and acquisitions (M&A):

- Demand for quadruple play products driving MÁSMÓVIL's acquisition of Yoigo together with the consolidation of the mobile virtual network operator (MVNO) market in Spain (the same need for quadruple play was behind BT's acquisition of EE in the U.K.).
- Ultra-competitive markets driving pressure on smaller operators to regroup: Wind and 3 Italia, as well as the failed merger between O2 and Three in the U.K.
- Competitive authorities' requirements to approve M&A operations: The requirements following the Vodafone and Ziggo tie-up resulted in the required spin-off of Vodafone's fixed line business. Similarly, the Wind / 3 Italia merger is likely to give Iliad the opportunity to enter the Italian market.

## TOWERS AND INFRASTRUCTURE ARE LESS STRATEGIC TO TELECOM OPERATORS

As network sharing agreements have multiplied and as most operators now broadly offer similar technologies and comparable coverage, network ownership is seen as less strategic. As a result, a number of trends developed:

- Telecom operators spinning off their mobile networks.
- Increasing price pressure, leading to fast growth for low-cost infrastructure providers (Huawei, ZTE).
- Intense competition among telecom infrastructure providers resulting in sector consolidation (the latest one being Nokia-Alcatel).

## THE VIEW FROM NORTH AMERICA

2016 telecom M&A in North America continues to be strong, accounting for 20 transactions in the third quarter and 67 transactions year-to-date, which represent a 25 percent and 5 percent increase over the same period last year. The increase in the third quarter is largely driven by private equity interest in the telecom carrier space as demonstrated by TPG and Google Capital's joint acquisition of Grande Communications Networks and RCN Corporation from ABRY Partners for \$0.7 billion and \$1.6 billion, respectively. Although there is some uncertainty as a result of the Federal Communications Commission's (FCC) delay of the TV set-box overhaul, we expect this trend to continue in the fourth quarter as private equity buyers seek to capitalize on the migration of carriers from traditional telephone and cable companies to broadband and new technology providers.

In addition to the growth in carrier transactions, year-to-date M&A volume is also driven by continued consolidation in the mobile, network and cable equipment space as companies use strong balance sheets to expand market share. We expect this trend to continue into the fourth quarter as strong corporate earnings and equity values continue to fuel consolidation.



## MEDIA

Online music services saw increased competition since the launch of Apple Music in June 2015. The space, once dominated by independent online music providers (from Napster to Spotify), has seen large players (Apple, Amazon, Google) weigh in. The increased competition also led to M&A activity:

- Spotify is said to be interested in buying SoundCloud after buying a few other providers this year while at the same time preparing for its IPO due next year.
- Deezer seems to be taking a different path after having shelved its IPO. It recently secured additional funding from Len Blavatnik's Access Industries, now its biggest shareholder.
- Vevo has hired Goldman Sachs to raise \$300 million to \$500 million for acquisition and expansion.

Chinese investors have shown growing interest in film assets in the last quarter:

- Dalian Group, owner of AMC Cinema, acquired Odeon-UCI Cinema from Terra Firma during the summer.
- CITIC (China's largest conglomerate) has become one of the most important investors in Digital Domain, a visual effects company.

# A&M VIEW

## CONVERGENCE IN MUSIC

The online music ecosystem has attracted several large digital players, resulting in increased competition together with a convergence on products:

- Similar catalogue sizes with most providers offering tens of millions of songs.
- Almost identical prices with most services converging around £/\$/€10 together with an ad sponsored free version.

Smaller providers are looking to differentiate with other approaches:

- Deezer launched a tailored selection of music by country.
- Pandora is rumoured to be working on a \$5 service.

## CHINA BECOMING A KEY INVESTOR AND MARKET FOR FILMS

China's investors have led a number of investments in cinema chains (Odeon), visual effects (Digital Domain) and film studios (taking stakes in Legendary Entertainment, Lionsgate and Imagine Entertainment). This interest is driven by two trends:

- Chinese consumers are eager for more Hollywood content.
- The U.S. film ecosystem (Hollywood) is keen to capture the Chinese market that is set to become larger than the U.S. market in 2017 and therefore welcomes Chinese investments.

## THE VIEW FROM NORTH AMERICA

Media M&A in North America was flat year-to-date 2016 versus year-to-date 2015, representing 151 transactions in both periods. Media M&A in the third quarter, however, was down 19 percent versus last year, representing only 44 transactions. The third quarter was dominated by corporate consolidation and private equity interest in the advertising space. The largest transactions include Thoma Bravo's acquisition of Trader Corporation, an automotive online marketplace, from Apax Partners for \$1.2 billion; Dentsu Aegis Network's acquisition of Merkle for \$1.5 billion; and Zhang Zhiyong's cross-border acquisition of Media.net for \$0.9 billion.

Media M&A peaked in 2014 with 256 transactions, while 2015 only had 206 transactions and year-to-date 2016 is at 151 transactions. We expect the third quarter decline to be offset by a strong fourth quarter, resulting in 2016 full year volumes to be similar to 2015. We believe this will be driven by private equity continuing to pursue targets in the internet advertising space and strategics continuing to consolidate through domestic and cross-border opportunities.



## TECHNOLOGY

Large technology companies were involved in recent deals such as:

- SoftBank's acquisition of chip maker ARM for \$32 billion.
- Microsoft's acquisition of LinkedIn for \$26 billion.
- Polish online auction site Allegro generating interest with a potential \$3 billion price tag.
- Google's acquisition of Apigee for \$625 million.

M&A in the sector reflects the willingness of tech companies to widen their product and service reach.

The handset manufacturing sector saw some big changes in the last quarter:

- The launch of the latest iPhone that was less anticipated than the previous version.
- The decision of Google to launch its own phone, the Pixel, pivoting from software to hardware and focusing on AI (artificial intelligence).
- Google's announcement was followed very closely by Samsung's acquisition of Viv, an AI company (whose founder also founded Siri, the personal assistant now in Apple phones). Similar to Google, Samsung plans to integrate Viv's AI capabilities into its phones.
- The decision by Blackberry to stop its handset manufacturing businesses to focus on software.

# A&M VIEW

## TECHNOLOGY COMPANIES WANT TO WIDEN THEIR SERVICE REACH

Large tech companies want to keep their customers in their own ecosystem as much as they can. It is also a way of reinforcing their core product. As a result, they diversify in a number of adjacent territories. For example, on top of its original book selling services, Amazon now offers digital content, clothes, garden equipment, electricals, groceries, baby products, cars, etc. It is now a digital supermarket (and the largest book seller on earth). The acquisition of LinkedIn (and Skype) by Microsoft follows the same logic for B2B.

## NEW WORLD FOR HANDSET MANUFACTURERS

The ubiquity of mobile phones and the willingness for consumers (at least until recently) to regularly pay for a more sophisticated model drew interest from large tech firms. Not all have been successful. Recent attempts to penetrate that market have not worked according to plan (e.g., Amazon Fire phone, Microsoft). Amazon and Google keep investing in the smartphone manufacturing space as they see it as a key way to access their services. Google executives probably remember that Apple removed YouTube as a default app on its devices (iPad) and then introduced “Maps” to replace Google Maps as the default mapping service for iOS devices.

## THE VIEW FROM NORTH AMERICA

2016 technology M&A declined from its 2015 levels, accounting for 206 transactions in the third quarter and 642 transactions year-to-date, which is 17 percent and 7 percent less than the same period last year. The decline is caused by a 16 percent decrease in software M&A, a 17 percent decrease in internet and e-commerce M&A, and a 53 percent decrease in semiconductor M&A, partially offset by modest growth in computer hardware deals driven by acquisitions in the peripheral space. Despite the decline in M&A volume, there were some large deals in the third quarter that caused disclosed deal value to exceed 2015 levels. The large deals include Micro Focus' acquisition of Hewlett Packard's Enterprise business segment for \$8.8 billion, Oracle's acquisition of NetSuite for \$8.7 billion, KKR's acquisition of Epicor from Apax Partners for \$3.3 billion and TPG's acquisition of 51 percent of Intel Security for \$3.1 billion. We expect technology M&A volume to remain robust in the fourth quarter as corporations put their balance sheets and high stock prices to work and private equity firms continue to deploy their significant capital overhangs. In addition, our Private Equity Services practice is seeing a high volume of technology deals in the process of being brought to market in early fourth quarter. We expect this to drive volume levels similar to 2015 in the fourth quarter despite the 17 percent year-over-year decrease in the third quarter.

# ABOUT ALVAREZ & MARSAL

In the current technology, media and telecommunications (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 restructuring heritage, hands-on approach, and relentless focus on execution and results.

## A&M works with clients across the TMT investment life cycle in the following ways:

Assisting companies to pursue acquisitions, mergers or divestitures with financial and operational due diligence, valuation, tax structuring and acquisition / carve-out 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.

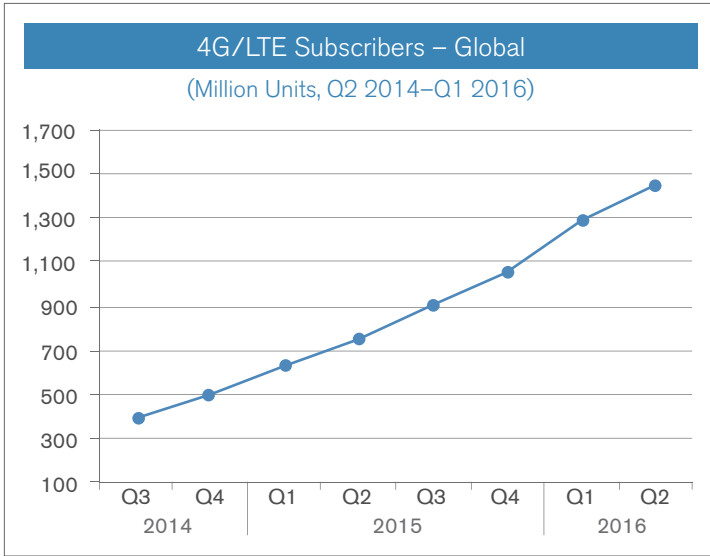
Supporting management, legal and financial advisors of distressed companies to stabilise operations and cash flow, thereby extending their "liquidity runway".

Providing interim management positions as appropriate.

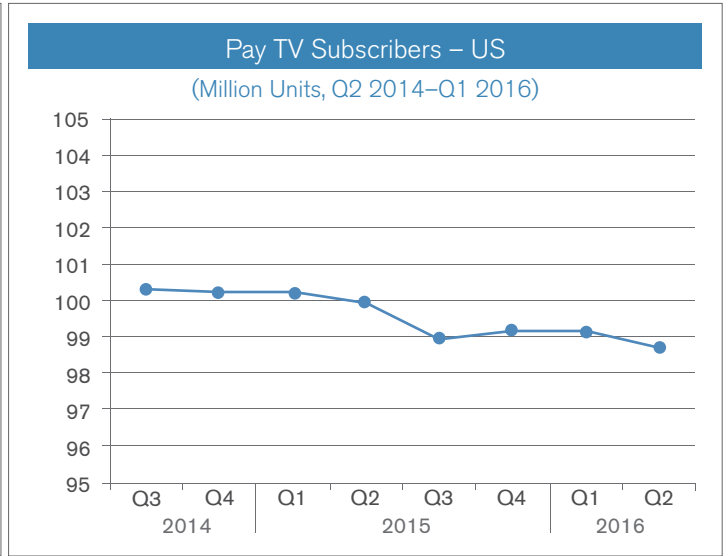
Providing expert advice such as on economic, accounting and forensic technology issues in relation to regulatory investigations and disputes.



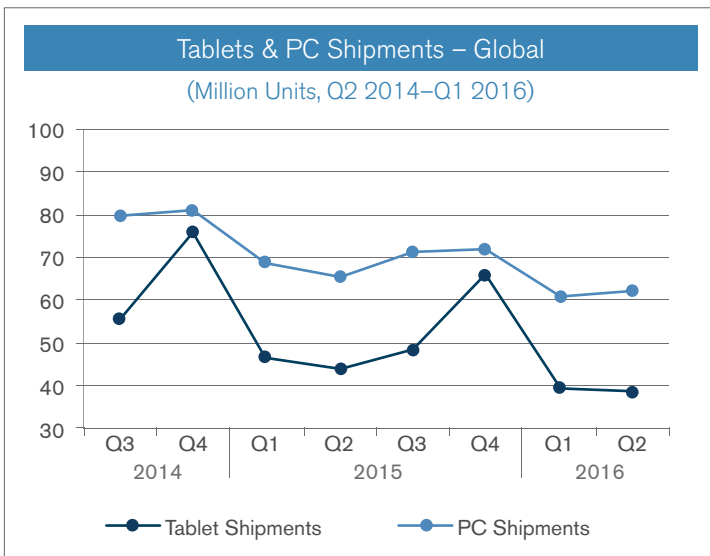
# TELECOM- MEDIA- TECHNOLOGY - A&M VIEW



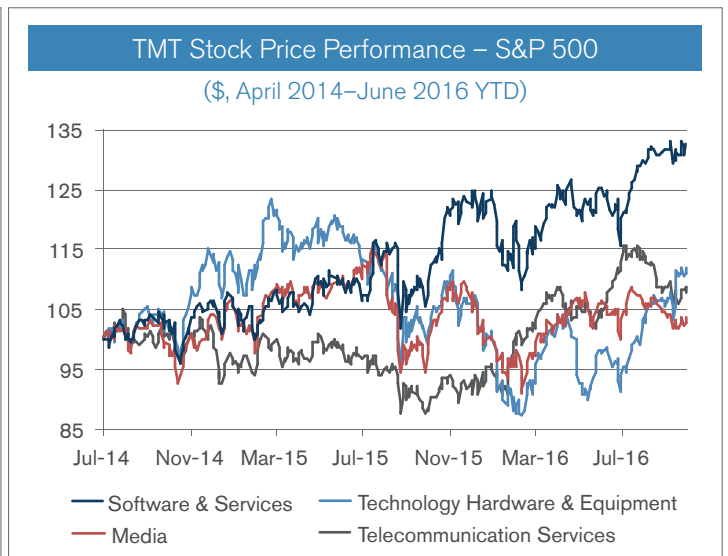
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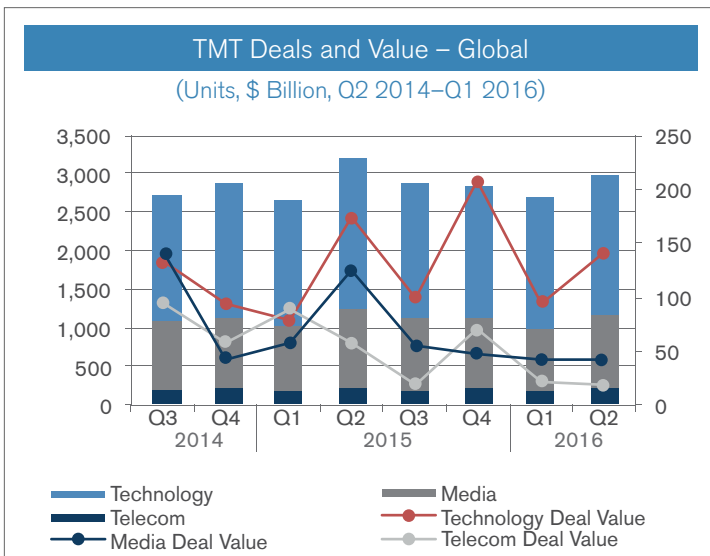
Source: Leichtman Research Group



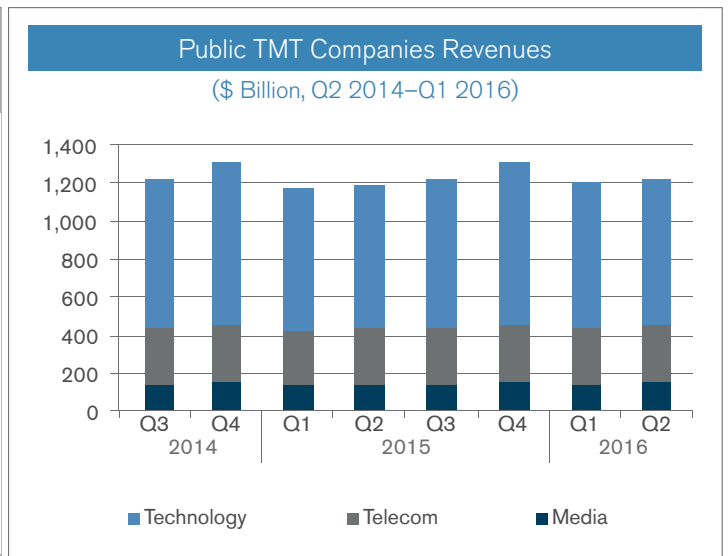
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Source: IC Subscribed Database



Source: IC Subscribed Database



Source: IC Subscribed Database

# A&M TMT NEWS



Amit Laud, is a Managing Director with Alvarez & Marsal in London, with 20 years of hands-on leadership in managing large technology programmes, e-commerce platforms, post-merger integrations and program management offices. As one of A&M's TMT experts in Europe, we asked him:

## **What do you see as the recent trends in that sector?**

We have observed three main trends driving mergers and acquisition in TMT.

One trend is a renewed interest in consolidation in the telecommunication sector in Europe following more positive messages from the regulators. One good example is the Wind / 3 Italia merger.

In the technology space, two sectors have been driving merger and acquisition activities: software and hosting businesses. Both sectors are expected to witness fast revenue growth (migration to SaaS, increasing uptake, larger service portfolio) and are good candidates for "buy and build" as scale drives profitability. Hosting is particularly interesting because of the very significant M&A activity and opportunities in Europe.

## **What is your perspective on the hosting sector in Europe?**

As a result of the consolidation activity in hosting, we noted an increasing need for thorough post-merger integration work. Quite often limited attention is given to delivering the M&A synergies a few months post deal completion. As the pace of acquisitions has increased, savings in general and administrative expenses (G&A), marketing and brands, distribution networks, call centre and IT infrastructure are sometimes not entirely delivered.

Hosting companies also have significant opportunities for revenue enhancement. Well-executed price increases are a major revenue opportunity once the first renewal has been passed and so is a clever use of promotions. Hosting companies are also well positioned for growth as the number of top level domains keeps increasing across both Western and Eastern Europe.

## **You mentioned the telecom and technology sectors; what about media?**

The growth of digital media is amazing. Video on demand services have multiplied following Netflix's entry in numerous markets and the digital music sector seems to be becoming more mature and more standardised.

We are following with interest the M&A activities in Italy where the media and telecom landscape could be transformed as a consequence of the Mediaset discussions with Vivendi and Sky and the entrance of Iliad.

Finally, I believe the video game sector is ripe with opportunities in its core business and in the nascent virtual reality (VR) adjacency.

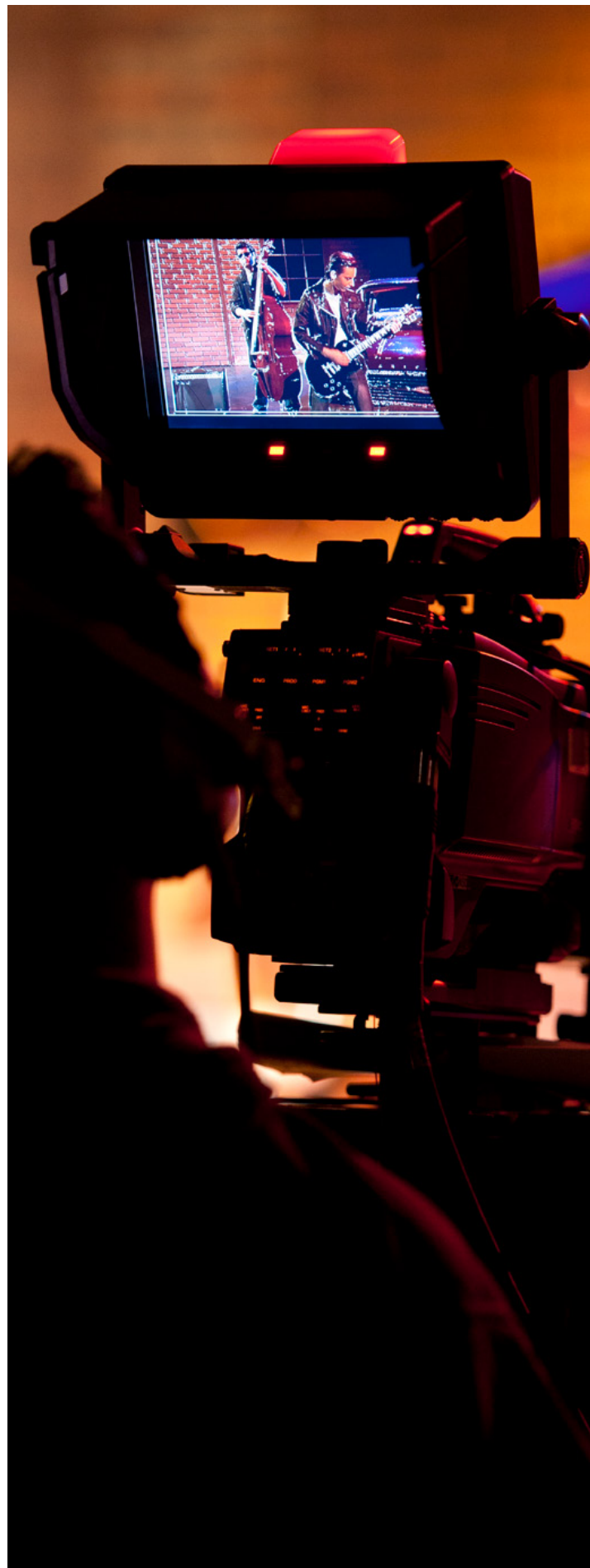
## THE BUSINESS OF MEDIA

### A&M's quarterly media breakfast series

September saw the launch of A&M's quarterly media breakfast series with a session on The Business of News. Moderated by news anchor Krishnan Guru-Murthy, a panel of senior news executives from the BBC, BuzzFeed, CNN, Facebook and Google gathered in front of a 60-strong audience at The Club at The Ivy.

The next breakfast will be held in late January and will focus on the Business of International Television, in particular, how digital platforms and on-demand is changing the dynamic between production, distribution, channels and platforms.

If you would like an invitation or to find out more, please contact **Paul Naha-Biswas** at [pnahabiswas@alvarezandmarsal.com](mailto:pnahabiswas@alvarezandmarsal.com).



# CONTACT US

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ACTION  
RESULTS**

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to activate change and achieve results.

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.

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