

Media & Entertainment

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Capital Confidence Barometer

10th
edition

An industry on the move

M&A

Increased dealmaking

Economic outlook

Resilient confidence buoyed by strong business fundamentals

Access to capital

Deployment of capital points to an industry on the move



Building a better
working world

An industry on the move

Buoyed by confidence in key financial indicators and widespread credit availability, M&E companies are forging ahead with their strategic plans

Key findings

64% believe the global economy is improving

85% view credit availability as stable or improving

83% expect their debt-to-capital ratios to change

65% expect deal volume to be flat to higher

34% plan to pursue an acquisition this year

61% expect digital transformation to affect their acquisition strategy

41% believe the valuation gap is less than 10%



“The temperament is ripe for action”

A note from Tom Connolly, Global Leader, Media & Entertainment, Transaction Advisory Services

Confidence in the economy among M&E executives is more resilient than at any time in the past few years. Strong corporate earnings, widespread credit availability, high equity valuations, and short-term market stability are providing the foundation for M&E executives to implement their strategic plans, from reaching customers on new digital platforms to entering into new markets. The results of our latest *Barometer* show that the temperament is ripe for M&E companies to take action.

With credit widely available, M&E companies have aggressively expanded their borrowing in the last year. While for many companies this suggests greater dealmaking activity in the future, not all companies will make deals. Some have already taken advantage of historically low interest rates and are paying down debt, while others are returning capital to shareholders. Either way, M&E companies are being decisive about how they deploy capital to execute on their corporate strategy.

What does increased credit availability and broad confidence in key indicators mean for overall M&A activity? Our *Barometer* shows that more M&E executives expect to pursue acquisitions in the next 12 months than at any time in the last two years. Executives are more confident in the likelihood of closing deals and, coupled with a narrowing valuation gap, this is creating momentum to get deals done. However, M&E companies need to move quickly – with fewer assets in the market, valuation gaps are likely to widen.

A handwritten signature in black ink, reading "T. Connolly".



A note from Pip McCrostie, EY Global Vice Chair, Transaction Advisory Services

For leading global corporates, striking a balance between risk and reward has rarely been so difficult. Companies are grappling with geopolitical instability, a fragile global economic recovery and seismic shifts in “megatrends,” such as structural changes in the workforce and digital transformation – all at a time of unprecedented shareholder activism.

Many executives are now navigating this complexity with parallel priorities. Value is being sought today through a renewed focus on cost management strategies and returning rewards to increasingly active shareholders.

At the same time, some executives are also seeking value creation and top-line revenue through innovative organic growth and measured dealmaking. Larger, more transformational M&A is on the strategic growth agenda. Pipelines point to only modest increases in deals as low volume becomes the hallmark of a low-growth environment. Increased deal values, rather than volumes, will likely be making headlines in the coming year. After a prolonged financial crisis and M&A market malaise, companies and boards are opting for quality rather than quantity.

A handwritten signature in black ink, reading "Pip McCrostie".

Economic outlook – resilient confidence buoyed by strong business fundamentals

Confidence across major financial indicators provides M&E companies with the foundation for implementing strategic plans and driving the industry forward.

M&E respondents' outlook for the economy is more resilient than at any time in the past few years. While economic pressures and geopolitical shocks temper this confidence to some extent, the persistence of such shocks means these risks are being factored into long-term business plans. The relative consistency in our respondents' overall confidence numbers – down slightly from 6 months ago, but still up solidly from 12 months ago – points to an improving outlook. With broad and consistent confidence across key financial indicators, M&E executives are focused on optimizing their operations and executing on their growth plans.

M&E executives remain confident in the global economy

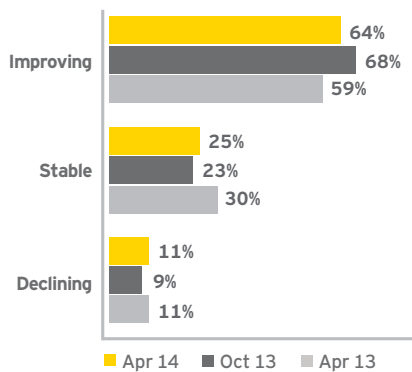
Despite continued economic and geopolitical shocks, M&E executives' confidence in the economy remains positive from a year ago, supported by strengthening business fundamentals.

M&E companies are positioned for growth

The broad-based and consistent confidence in all four key influencers of executive decisions – corporate earnings, credit availability, equity valuations, and short-term market stability – provides the foundation for M&E executives to implement strategic plans and drive the industry forward. The temperament is ripe for action.

Economic outlook

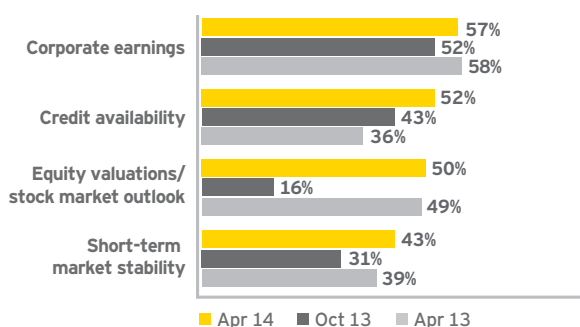
Q: What is your perspective on the state of the global economy today?



64%

believe the global economy is improving compared with 59% one year ago

Q: Please indicate your level of confidence in the following at the global level:



50%

have confidence in equity valuations/stock market outlook

Looking to the future

▶ **Optimizing workforce to support growth and new digital distribution platforms**

As they position themselves for growth, M&E companies and other industries that hired aggressively after the deep cutbacks of the 2008-09 financial crisis are now optimizing the skill sets and makeup of their workforce. The expectation to create jobs/hire talent among M&E executives is down significantly to 21% from 44% a year ago. A further 21% of M&E executives now plan to reduce their workforce, up from 13% a year ago.

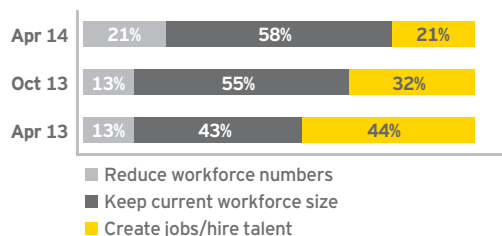
▶ **Global megatrends are converging to shape business and acquisition strategies**

Macro trends affect companies' corporate strategies, which can have a direct impact on acquisition behavior. When asked which trend could have the greatest impact over the next 12 months, more than 60% of M&E executives pointed to digital transformation – the impact of social, mobile, cloud, big data and other technologies on their growth strategies, business models and methods of customer engagement. This set of issues is expected to have the largest impact on both business and acquisition strategies. Almost half pointed to the trend commonly called “the future of work” – skill shortages, competition for talent and changing employer-employee obligations, among other issues.

▶ **Political instability, regulatory decisions, and slowing emerging market growth are key risks**

Throughout the five-year history of the *Barometer*, geopolitical shocks have persistently reined in our respondents' economic and business confidence. Executives are very aware of the risks that are outside of their control, and a combined 92% of M&E executives see political, regulatory, and emerging market instability as factors that have the greatest economic risk to their business over the next 6 to 12 months. Notably low on their radar are inflationary and deflationary risks – these could be the “black swan” of tomorrow.

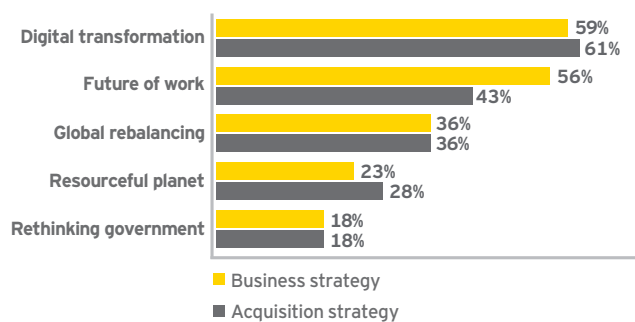
Q: With regard to employment, which of the following does your organization expect to do in the next 12 months?



58%

expect to keep the current workforce size, up from 43% a year ago

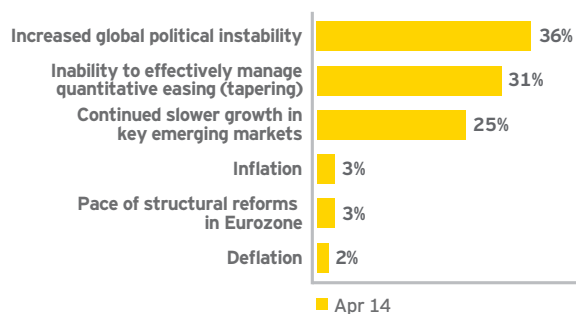
Q: Which of these global trends is most likely to impact your business and acquisition strategy over the next 12 months? Select up to two.



61%

expect digital transformation to affect their acquisition strategy

Q: What do you believe to be the greatest economic risk to your business over the next 6-12 months?



92%

see political, regulatory, and emerging market instability as the greatest economic risks

Access to capital – deployment of capital points to an industry on the move

A shift in M&E respondents' Capital Agenda toward optimizing and raising capital presages the return of dealmaking.

With credit widely available, M&E companies have aggressively expanded their borrowing in the last year. For many companies, their growing willingness to add leverage to their balance sheets suggests greater dealmaking activity in the future as confidence and deal appetites converge. With debt financing increasingly available, and often at very low cost, larger deals will be on the agenda as companies use debt and appreciated equity to finance high-value strategic moves. However, not all companies will make deals. Some have already taken advantage of historically low interest rates and are paying down debt, while others are returning capital to shareholders. Either way, M&E companies are taking decisive and immediate action.

Credit is widely available, providing a launching pad for strategy execution

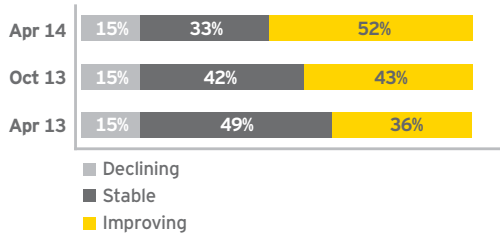
Respondents' confidence in credit availability is at its highest level ever in the *Barometer*. We are seeing a significant increase in the availability of credit to the M&E industry (which has increased its debt by roughly a third over the past three years), coupled with overall stabilization in credit conditions. Growing and persistent confidence in the availability of financing – particularly for larger, well-rated firms – provides a favorable platform for selective dealmaking.

Companies have increased their borrowing as they have become more active in the market

M&E companies have significantly increased their borrowing in the last year – 35% of respondents indicate they have debt-to-capital ratios greater than 50%, up from 17% of respondents a year ago.

Access to capital

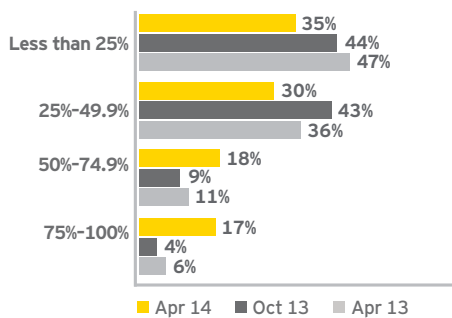
Q: Please indicate your level of confidence in credit availability at the global level:



52%

now consider credit availability to be improving, with only 15% viewing it as declining

Q: What is your company's current debt-to-capital ratio?



35%

indicate their companies' debt-to-capital ratio is greater than 50%, up from 17% a year ago

Debt on the move

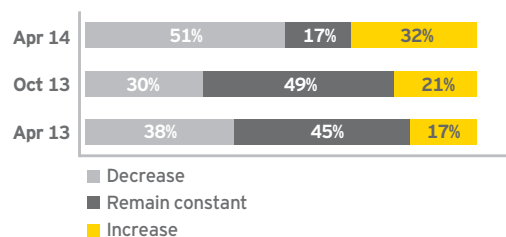
▶ Looking ahead, debt-to-capital ratios are expected to move materially

In a sign that M&E is an industry on the move, only 17% of executives expect their debt-to-capital ratios to remain constant (down from 49% just six months ago). Most M&E executives expect to change their capital structure over the next 12 months to pay down debt, enable more capital returns to shareholders, or to support greater deal making. Either way, they are taking decisive and immediate action to capitalize on low interest rates.

▶ For companies looking to make deals, debt will be the primary source of financing

In the last six months, there has been a dramatic increase in M&E companies' debt usage as a percentage of purchase price, up from 25% to 51% in this *Barometer*. Executives are taking advantage of the compelling relative weighted average cost of capital debt in the current interest rate environment – a condition that may not last.

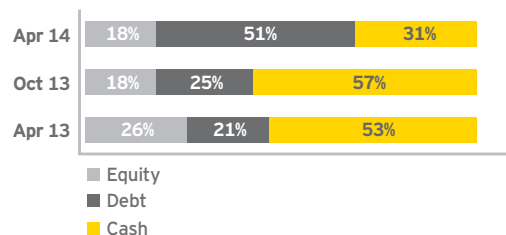
Q: How do you expect your company's debt-to-capital ratio to change over the next 12 months?



83%

expect their debt-to-capital ratios to change, up from 55% a year ago

Q: What is the likely primary source of your company's deal financing in the next 12 months?



51%

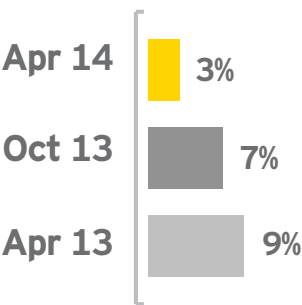
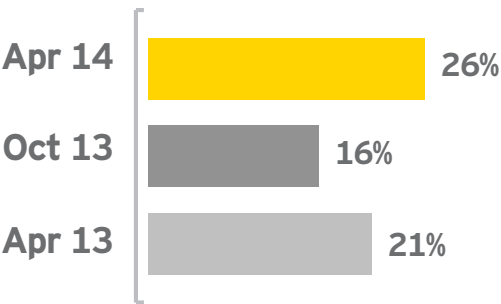
expect to use debt as their primary source of deal financing

M&E companies are being decisive about how they deploy capital to execute their corporate strategy.

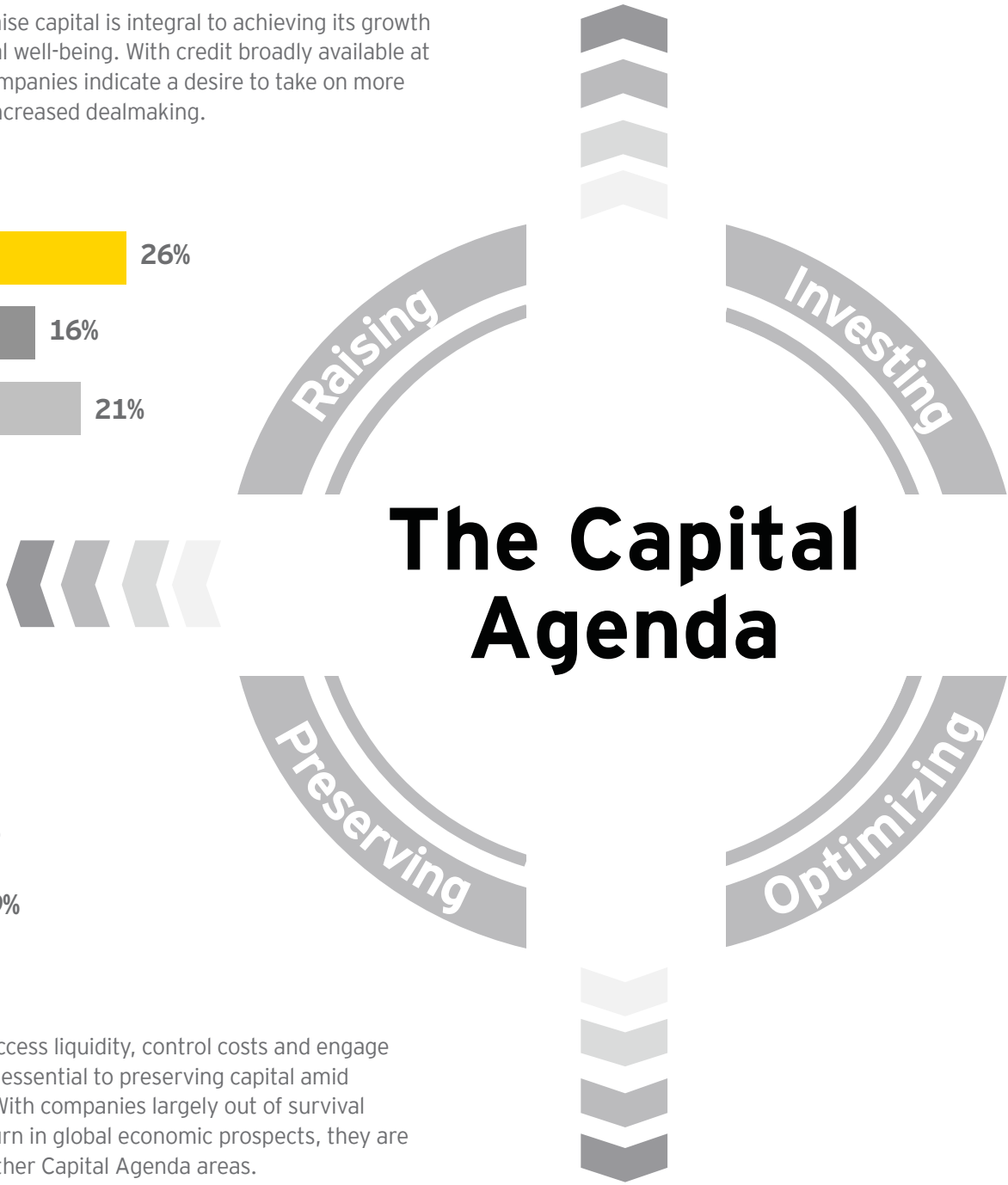
Shift in Capital Agenda towards raising capital presages return

Q: On which of the following capital management issues is your company placing the greatest attention and resources?

A company's ability to raise capital is integral to achieving its growth imperatives and financial well-being. With credit broadly available at very attractive rates, companies indicate a desire to take on more leverage and plans for increased dealmaking.

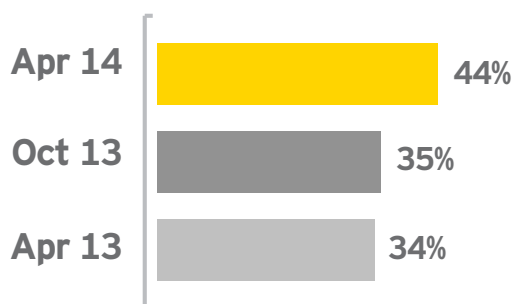
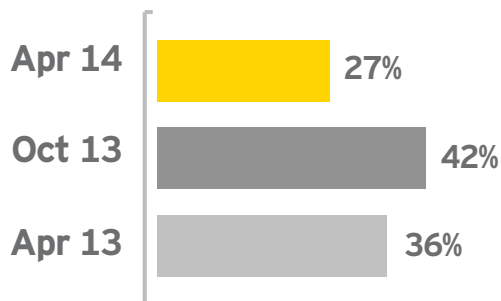


A company's ability to access liquidity, control costs and engage with key stakeholders is essential to preserving capital amid shifting market forces. With companies largely out of survival mode, thanks to an upturn in global economic prospects, they are now concentrating on other Capital Agenda areas.



optimizing and of dealmaking

Major increases in raising and optimizing capital have come at the expense of investment. This is a sign of companies setting the stage for later inorganic growth. Boardrooms with longer-term plans for acquisitions are now focused on building dealmaking capacity and rigor.



Debt-to-capital ratios have remained stable over the last year, but optimization is no longer about stabilizing capital structures. The next stage in optimization – seen here in the significant increase in focus on this quadrant of the Capital Agenda – is about companies preparing for the next wave of investment and, potentially, M&A.

Confidence in key financial indicators and widespread credit availability have led M&E companies to shift their focus to raising and optimizing capital. This is a sign of companies setting the stage for later inorganic growth.

M&A – increased dealmaking

Increasing deal activity and value could be the M&A story of the next 12 months.

More M&E companies expect to pursue acquisitions in the next 12 months than at any time in the last two years. Executives are more confident in the likelihood of closing deals, and coupled with their confidence in key financial indicators and their deal market outlook, this should accelerate their deal intentions. A narrowing valuation gap is creating further momentum to get deals done. However, M&E companies need to move quickly – with fewer assets on the market, valuation gaps will widen. Companies continue to diversify across high-volume, low-value deals in emerging markets and low-volume, high-value deals in developed markets.

▶ Executives remain positive about global deal volumes

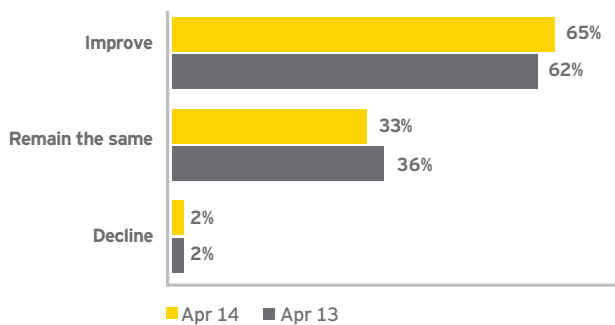
Most M&E executives expect deal volumes to improve in the next 12 months, and the vast majority, 98% of respondents, see deal activity to be flat to higher.

▶ Expectations for larger deal sizes

M&E companies' intentions to engage in larger deals (greater than US\$250m) over the next year are up strongly, having more than doubled in 12 months. For leading companies, quality rather than quantity will be at the heart of their M&A strategies. This is consistent with the macro view of all industries.

Mergers and acquisitions

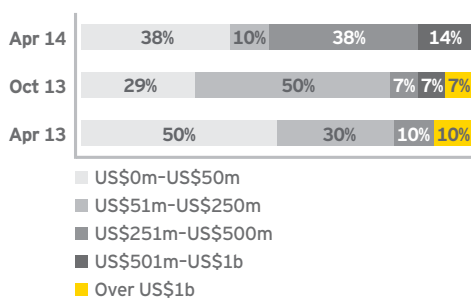
Q: What is your expectation for global M&A/deal volumes in the next 12 months?



98%

expect deal volume in the next 12 months to be flat to higher

Q: What is the expected deal size?



52%

expect deal sizes to exceed US\$250m

Deal intentions are likely to accelerate

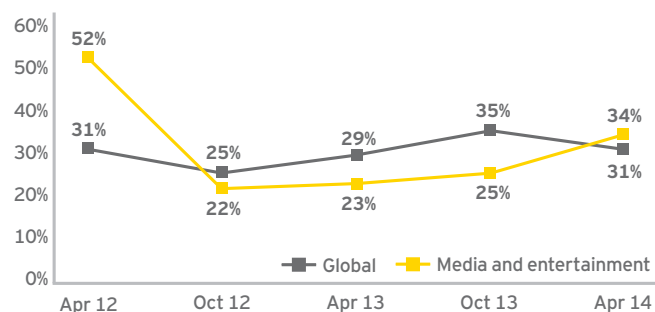


More acquisitions and greater confidence about deal closure

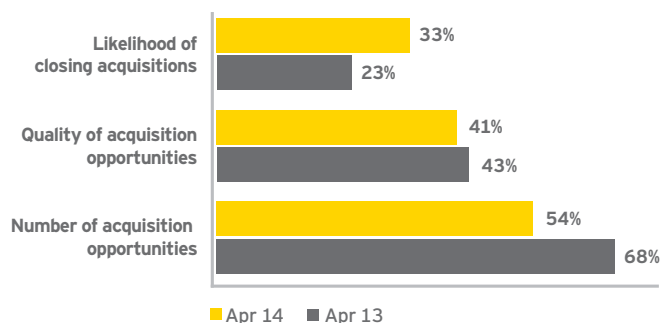
Currently, 34% of M&E respondents expect to pursue acquisitions in the next 12 months, the highest level since April 2012. With the confidence in the likelihood of closing deals improving, as well as confidence in the global economy and deal market outlook, these deal intentions are likely to accelerate. However, with an increased appetite to pursue deals, the number of opportunities in the market is expected to decline as scarcity begins to be felt.

Q: What is your expectation to pursue an acquisition in the next 12 months, and your confidence in the following at the global level?

Expectations to pursue an acquisition



Level of confidence



34%

expect to pursue acquisitions
this year

Executives are more confident of the likelihood of closing deals, and, coupled with a narrowing valuation gap, this is creating momentum to get deals done.

Valuation gaps are narrow, but likely to increase

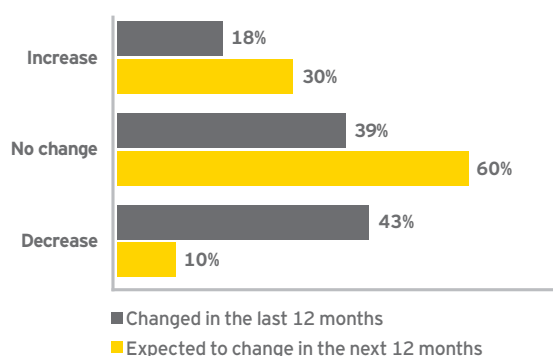
▶ **Optimizing pipeline to focus on immediate and high quality opportunities**

M&E companies have spent the last year culling their current deal pipeline to focus on the highest-quality targets (only 10% of respondents expect their pipeline to decrease further in the next year). Looking forward, executives will focus on acting on the remaining quality targets and to expand their deal pipeline for new targets.

▶ **A narrowing valuation gap is allowing buyers and sellers to come together and get deals done**

The narrowing valuation gap between buyers and sellers is creating a conducive environment for deal closure – almost half of respondents believe the valuation gap is now less than 10%. This dynamic creates an environment where companies can close larger, more strategic deals. Yet, this may soon change. In the next 12 months, 28% of respondents expect the valuation gap to widen, up from 17% a year ago. Companies need to move quickly – with fewer assets on the market, valuation gaps are likely to widen.

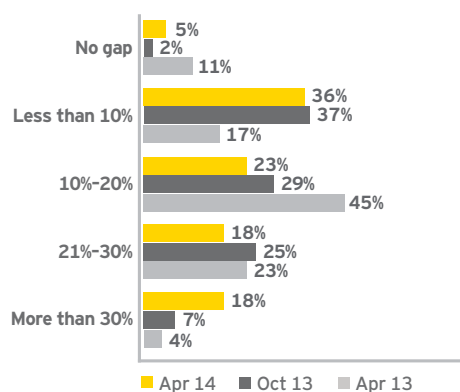
Q: How has this amount in your deal pipeline (a) changed in the last 12 months; (b) expected to change in the next 12 months?



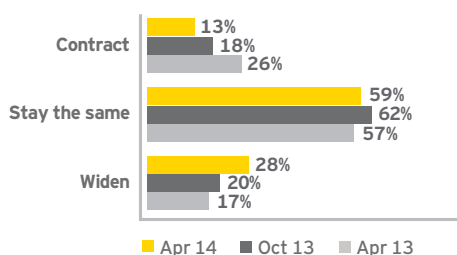
43%

say their deal pipeline decreased in the last year – only 10% expect further decreases in the coming year

Q: Do you believe the valuation gap today between buyers and sellers is:



Q: Do you expect the valuation gap between buyers and sellers in the next 12 months to:



41%

believe the valuation gap is less than 10%

M&E companies need to move quickly to take advantage of the narrow valuation gap.

Transaction diligence increasingly important

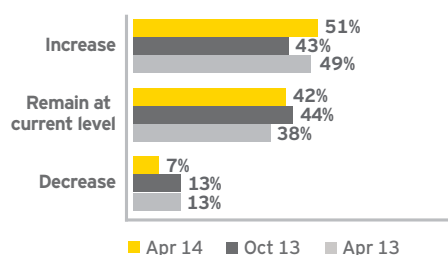
► Increased valuations are expected

More than 50% of M&E executives expect an increase in purchase price over the next 12 months, up from a year ago and topping those who expect price to remain the same – a result of increased market confidence, fewer assets on the market, and larger deal size.

► Commercial and operational diligence, modeling and integration planning are critical

For M&E executives, overpaying for acquisitions based on unrealistic forward projections is the most significant contributor to deals that fail to meet expectations. Furthermore, margin deterioration, poor operating cost assumptions and customer/supplier reaction have increased in importance, emphasizing the need for commercial and operational due diligence.

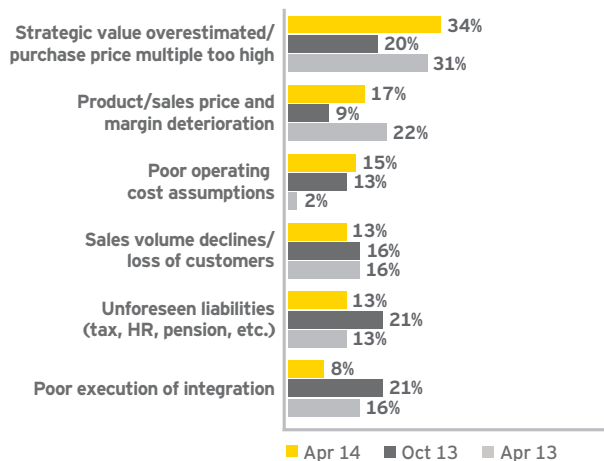
Q: What do you expect the price/valuation of M&A assets to do over the next 12 months?



51%

expect an increase in purchase price over the next 12 months

Q: For acquisitions completed recently, what was the most significant issue that contributed to deals not meeting expectations?



34%

found overestimated strategic value the most significant issue to deals not meeting expectations

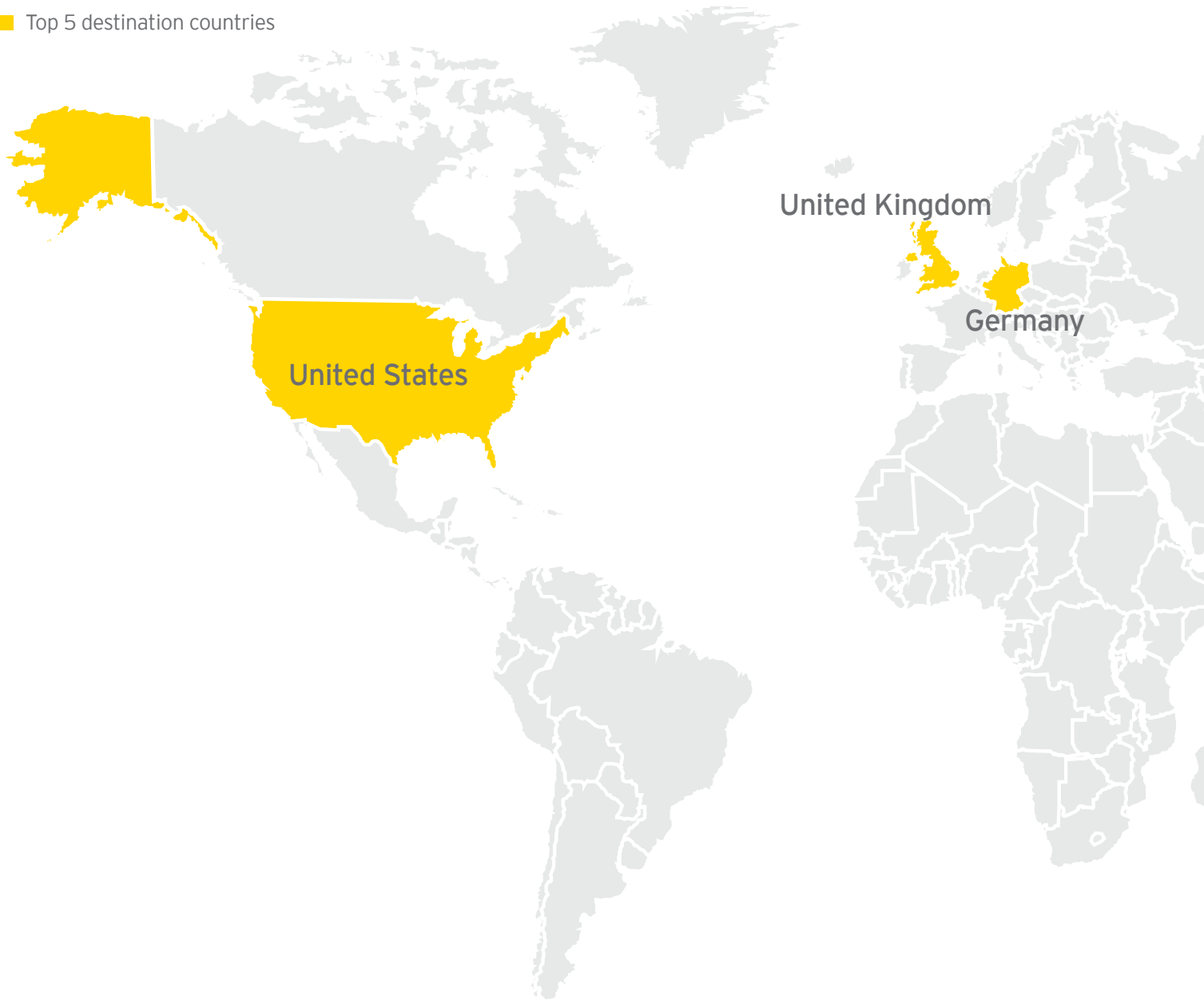
Inorganic growth will require more preparatory work.

M&A, cont'd.

Emerging and developed markets both appeal

Q: Which are the top five countries in which your company is most likely to invest?

■ Top 5 destination countries



About this survey

The *Global Capital Confidence Barometer* gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their Capital Agendas – EY's framework for strategically managing capital.

It is a regular survey of senior executives from large companies around the world, conducted by the Economist Intelligence Unit (EIU). Our panel comprises select global EY clients and contacts and regular EIU contributors.

- ▶ In March we surveyed a panel of more than 1,600 executives in 54 countries; half were CEOs, CFOs and other C-level executives. Including 61 from the Media & entertainment sector.

Companies continue to diversify

M&E companies are taking part in both high-volume, low-value deals in emerging markets and low-volume, high-value deals in developed markets.

The benefits of some emerging markets – including access to a growing middle income population – outweigh significant challenges, such as political risk, slowing economic growth, and currency risk.

Top five global destinations

China
United States
India
United Kingdom
Germany

Top five M&E destinations

China
United States
Germany
United Kingdom
India



- ▶ Companies' annual global revenues ranged from less than US\$500m to greater than US\$5b: <US\$500m (17%); US\$500m–US\$999.9m (25%); US\$1b–US\$4.9b (31%); and >US\$5b (27%).
- ▶ Globally, more than 800 companies would have qualified for the Fortune 1000 based on revenue.
- ▶ Company ownership was publicly listed (68%), privately owned (21%), family-owned (6%), government/state-owned (3%) and PE/portfolio-owned (2%).

For a conversation about your capital strategy,
please contact us

Global

Thomas J. Connolly

Global Media & Entertainment
Transaction Advisory Services
Leader

tom.connolly@ey.com
+1 212 773 7146

Americas

Paul Sheahen

Northeast
Media & Entertainment
Transaction Tax Leader

paul.sheahen@ey.com
+1 212 773 5578

Dorian Swerdlow

Northeast
Media & Entertainment
Transaction Integration Leader

dorian.swerdlow@ey.com
+ 1 212 773 6179

Dan Buchler

West
Media & Entertainment
Transaction Advisory
Services Leader

dan.buchler@ey.com
+ 1 213 977 7654

Javier M. Rovira

South America
Media & Entertainment
Transaction Advisory
Services Leader

javier.rovira@ar.ey.com
+5411 4875 4716

Europe, Middle East, India and Africa (EMEIA)

William Fisher

United Kingdom and Ireland
Media & Entertainment
Transaction Advisory
Services Leader

wfisher@uk.ey.com
+44 20 7951 0432

Atul Mehta

India
Media & Entertainment
Transaction Advisory
Support Leader

atul.mehta@in.ey.com
+91 226 192 0210

Ajay Shah

India
Media & Entertainment
Lead Advisory
Transaction Leader

ajay.shah@in.ey.com
+91 226 192 0640

Asia-Pacific and Japan

Ben Kwan

China
Media & Entertainment
Operational Transaction
Services Leader

ben.kwan@hk.ey.com
+852 2849 9223

Bryan Zekulich

Oceania
Media & Entertainment
Transaction Advisory
Support Leader

bryan.zekulich@au.ey.com
+61 2 9248 5833

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