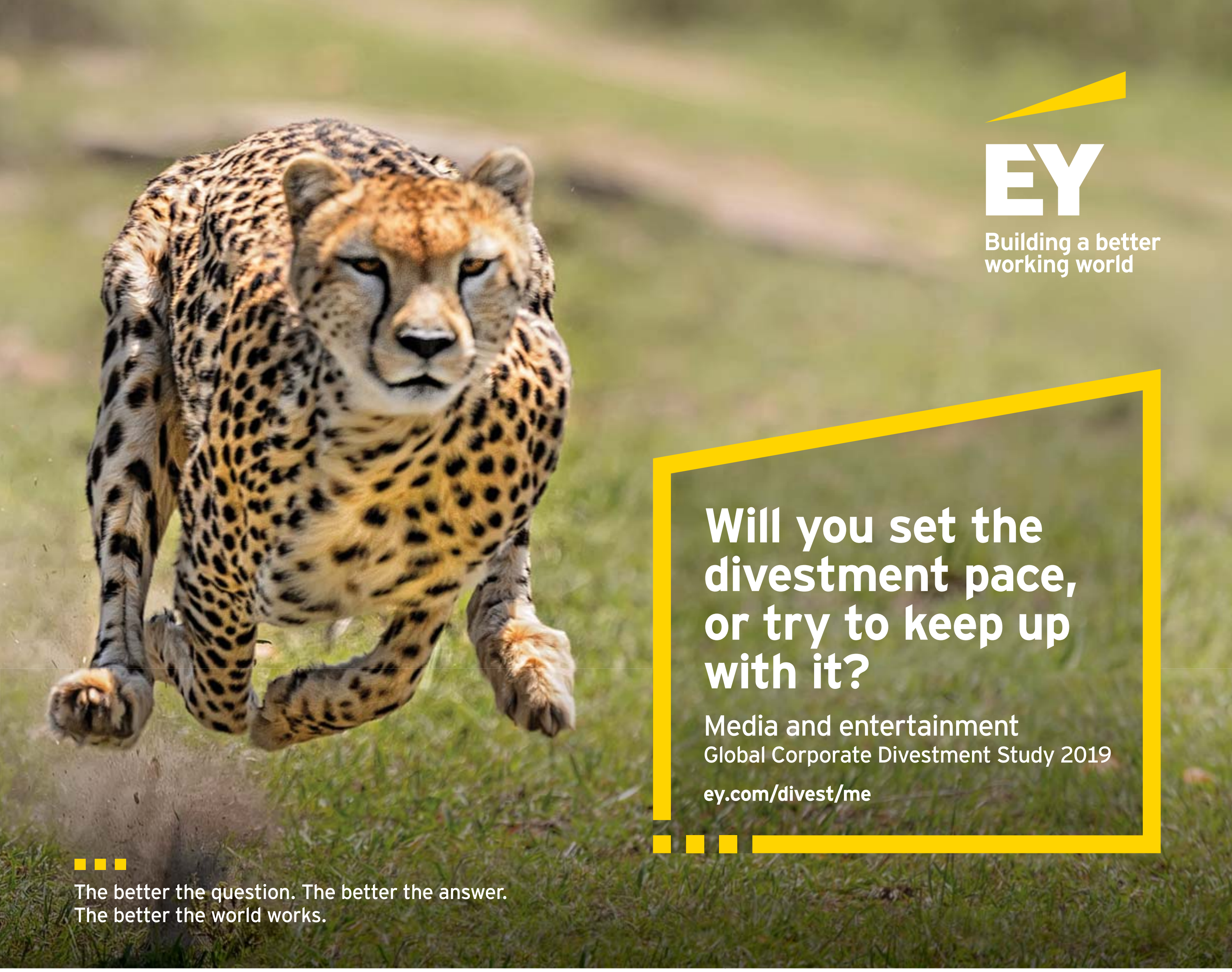


Building a better working world

Will you set the divestment pace, or try to keep up with it?

Media and entertainment

Global Corporate Divestment Study 2019

ey.com/divest/me

The better the question. The better the answer. The better the world works.

Media and entertainment companies' intentions to divest remain at record levels – with 80% planning to divest within the next two years – as they look for funds to invest in digital capabilities and to focus on their core assets.

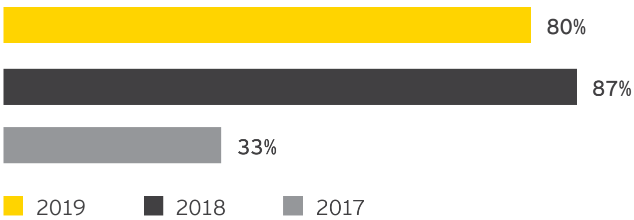
Media and entertainment companies are continuously evaluating their growth strategies in the face of technology-driven convergence, the increasing importance of exclusive content and data, ever-changing consumer behavior, and competition from online players.

This is keeping the appetite for divestments at record levels, and significantly higher than those witnessed just two years earlier. Companies are divesting so they can pivot more quickly in pursuit of new growth opportunities and stay competitive. They are divesting businesses no longer core to the portfolio or best left in the hands of another owner, in order to raise funds to invest in building scale and expanding their digital capabilities, or to invest in core assets.

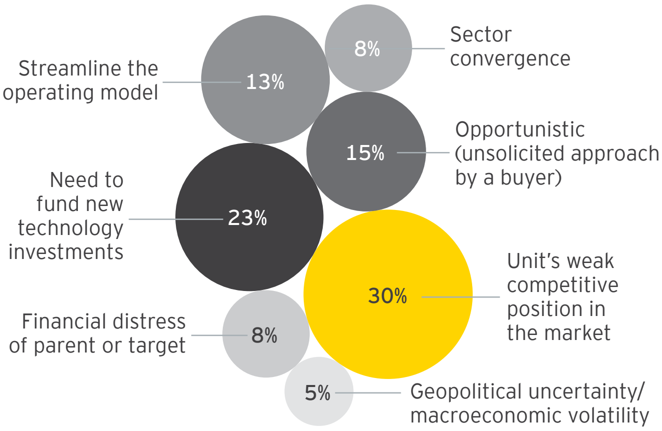
More large-scale transformational divestments are expected by 75% of media and entertainment companies in the next 12 months, and – as the line between technology, media and entertainment and telcos is blurring – 68% say convergence is likely to drive their divestment decisions.

Companies that expect to initiate their next divestment within the next two years.

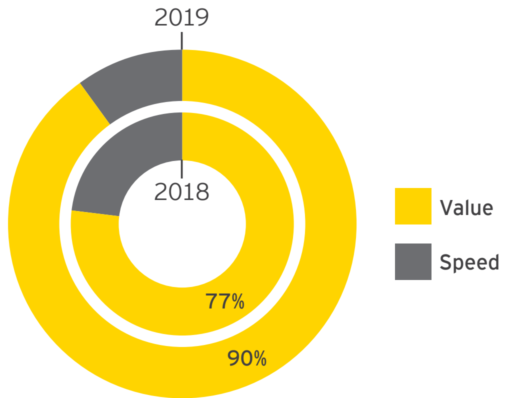
Media and entertainment



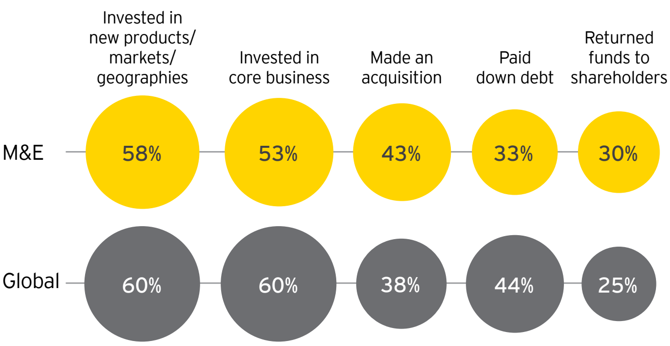
Q Which triggers prompted your most recent major divestment? Select the most important.



Q What was your main priority in your last divestment? Select one.



Q What did you do with the funds raised from your most recent divestment? Select all that apply.



Why are so many companies divesting?

Companies are divesting weak assets and securing funds for technology investments

The EY 19th TMT Capital Confidence Barometer revealed that more than two-thirds of media and entertainment companies now review their portfolios at least every six months, and they continue to actively dispose of underinvested assets, businesses that are no longer core to the portfolio, and those best left in the hands of another owner.

Thirty percent of companies said the unit's relatively weak competitive position was the most important trigger for prompting their last divestment.

The need to fund new technology investments continues to be one of the most important triggers for divestment, and 78% expect the number of technology-driven divestments to rise in the next 12 months, on par with the 75% who said the same last year.

Companies are focusing on generating value from their divestments

Ninety percent of media and entertainment companies prioritized value over speed in their last divestment, up from 77% in 2018. At the same time, three-fifths (60%) of sellers say the price gap between what they expect to receive for an asset and what buyers are willing to pay is greater than 20%. In 2018, only a third noted such a significant gap.

This focus on value has led to fewer opportunistic divestments. Fifty percent of media and entertainment sellers describe their last divestment as opportunistic, down from 65% in 2018. This trend seems justified, as unplanned divestments are four times less likely than planned divestments to achieve a sale price and valuation of the remaining company that meet expectations. This means that now more than ever, it is critical for sellers to build a credible value story with supporting data and start the related preparation early to achieve their desired valuation.

Companies are using the funds to invest in new markets and their core assets

Media and entertainment companies are redeploying proceeds from their divestments in growth areas to improve shareholder value.

Fifty-eight percent reinvested proceeds from their last divestment into new products, markets and geographies – an important step as they look to reach bigger audiences and build scale to compete with growing content production and data costs.

Fifty-three percent used the funds to invest in the core business, as they deploy strategies to dispose of assets with differing growth profiles to generate funds for improving the core assets.

How can you operationalize a divestment for success?

Always be divestment-ready

Media and entertainment companies remain slow in launching the divestment process, as 65% of companies still say they held onto assets for too long when they should have divested. Media and entertainment companies are reviewing their portfolios more frequently, and they will need to combine this with taking action to ensure divestment decisions are not delayed.

Once the divestment process is initiated, lack of preparation can remain a critical factor, as 58% of companies state that their last divestment was delayed because they didn't fully prepare for the regulatory requirements. In addition, 63% say lack of preparation in dealing with tax risk was a major cause of value erosion in their last divestment.

Weigh the merits of different structures

Eighty-three percent of media and entertainment companies say their most recent divestment took the form of a carve-out sale, up from 40% in 2018. Under this approach, systems, processes and even legal entity separation work need to begin before the deal process starts. Initiating this work before a buyer is known helps accelerate the separation and stand-alone timeline. For example, 37% of companies reported that an optimized legal structure was the most important step in enhancing sale value.

While carve-outs provide benefits, other deal structures (e.g., joint ventures, tax-free spins, full enterprise sales) can sometimes support greater return to shareholders, or align better with the long-term goals for the remaining organization. With 65% of media and entertainment companies saying lack of flexibility in the sales structure caused value erosion, being open to other structures is critical.

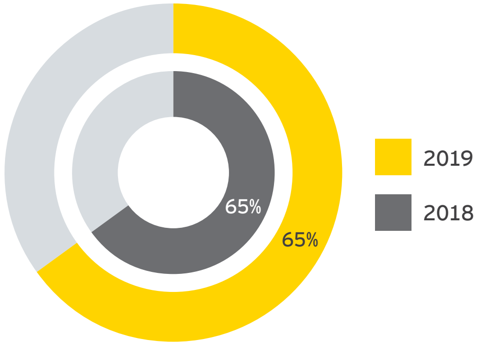
How can you maximize value from the next wave of buyers?

Leverage the power of private equity

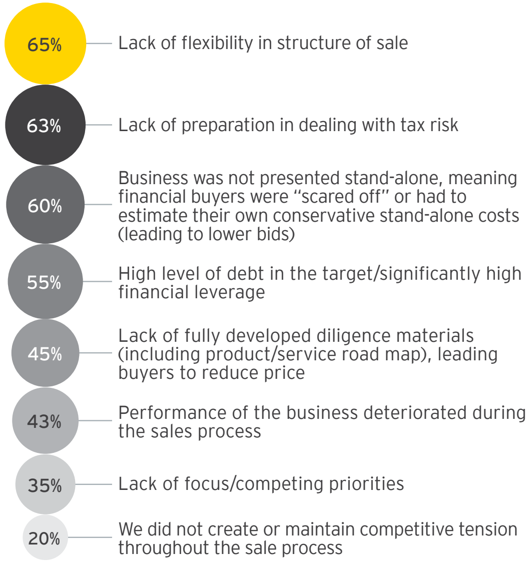
Private equity buyers sometimes require significant time and effort, but these bidders can also bring sharper focus on value, increased competition and potentially higher multiples to the sales process. Unlike corporate buyers, PE may not have a portfolio company in which to integrate the business being sold. In the absence of synergies, sellers may find PE diligence demands to be more granular and time-consuming. Eighty-three percent of sellers say the increased amount of time for PE diligence requests was a challenge.

However, 48% say working with a PE buyer led to an increase in purchase price, and 45% say working with PE on a divestiture reduced time to close.

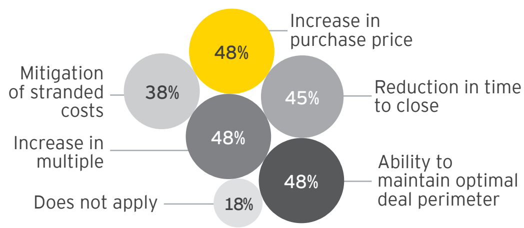
Q Media and entertainment companies that say they held onto assets too long when they should have divested.



Q What were the causes of value erosion in your last divestment? Select all that apply.



Q In what ways did you experience an increase in value based on PE's involvement in your divestiture? Select all that apply.



About this study

The EY *Global Corporate Divestment Study* focuses on how companies should approach portfolio strategy, improve divestment execution and future-proof their remaining business. The 2019 study results are based on 1,030 interviews with 930 senior corporate executives and 100 private equity executives. The survey was conducted between September and November 2018 by Acuris. Media and entertainment highlights are based on interviews with 40 executives in the media and entertainment sector.

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To learn more and to have a conversation about your divestment strategy, please contact us:

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ED None