



Building scale – both horizontal and vertical

The rise of global social, video, advertising and e-commerce giants – with their user bases measured in billions, tremendous financial resources, market-leading growth rates and appetite for risk – is creating a new competitive reality. This “winner takes all” backdrop is powering a strong sense of urgency across the media and entertainment (M&E) sector to respond strategically. M&E leaders view inorganic action as the fastest way to gain heft, increase share, rationalize the marketplace, quickly add new capabilities, re-shape existing asset portfolios and future-proof their business models. According to EY research, the top rationales for M&A in the sector are “enhancing product and service portfolios” and “gaining market share,” indicating strategic imperatives of scale and scope.

Survival of the fittest?

The sector is experiencing a burst of investment activity as M&E companies look to bulk up their core businesses while telecom and tech players seek to acquire differentiated content. Multiple drivers are at play, including an increasing need for greater scale to improve industry positioning, enhance negotiating leverage with counterparties across the value chain, and expand audience reach and, thus, advertising; in some cases, a strategic decision to integrate content ownership with network distribution. Also, scale transactions typically deliver significant cost synergies, which enable M&E companies to operate more efficiently assuming a successful integration.

With the M&E companies’ quest for scale comes heightened risks – including loss of focus on customers, dilution of synergies and underestimation of regulatory pitfalls. As deals move from operational to transformational, their success rate drops to less than 50% – posing a significant risk for many recent deals outside of core operations.¹

Additionally, government policies are adding a layer of complexity. Government intervention in areas from trade to the

movement of labor now collectively tops the macroeconomic concerns of global executives, according to EY’s Capital Confidence Barometer survey. Despite some exceptions toward the end of the year, M&E executives adopted a “wait and see” approach for much of 2017, leading to a sizable slowdown in the pace of dealmaking, especially for mega-transactions. However, as major policy changes on taxes and regulations begin to take final form, particularly in the US, industry leaders appear poised to ramp up M&A activity.

In view of accelerating digital disruption, M&E executives are lobbying for more relaxed market share considerations while approving consolidation deals. Markets such as Australia are opening up to new levels of cross-media ownership. Similar development occurred in the US in November 2017 when the Federal Communications Commission rolled back rules to limit local media “monopolies.” These examples highlight the significant opportunities for M&E companies to recalibrate their portfolios.

The dealmaking playbook

Dealmaking is no longer optional – companies that hold back from inorganic routes to building scale will struggle to

remain relevant. To beat the historical odds of failure, especially for mega-transactions, execution is critical. Companies are entering into transactions that are very different than those they would have considered in the past – with all of the integration and business-focus challenges that come with such ventures.

Having a clear strategic fit is crucial. The EY Capital Agenda – based on the four key dimensions of preserving, optimizing, raising and investing capital – can help companies consider issues and challenges, and more importantly, understand their options to make more informed strategic decisions.

Furthermore, companies should embed analytics in the process. Robust due diligence – supported by advanced analytics – combined with value-maximizing tax structuring and a comprehensive integration plan will position M&E companies for success in M&As.

1. “To Buy or Not To Buy, A Checklist for Assessing Mergers & Acquisitions,” Credit Suisse, 27 February 2017.



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EYG no. 01336-184GBL

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