BDO

H1: 2018

MEDIA*talk*

FRANCE: A LEADER IN THE MEDIA RENAISSANCE


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INTRODUCTION

Global media M&A is booming. Combined deal values were hovering around the US$80 billion mark at the halfway point in the year. All indicators suggest that 2018 is likely to be the third year in succession in which total deal values for the sector exceed US$100 billion.

In many ways the media sector is living through a 'renaissance'. The French word means 'rebirth' and that is precisely what we see happening across the globe. Technology is driving that process of new birth through re-invention, re-packaging and re-presenting. It affects media players, clients and audiences alike and it is driving deal flow.

The new streaming kids are growing up fast, cutting out the middlemen and signing the deals and buying the businesses that will ensure that they create, own and control their own content. Wherever they touch production, industries start to boom. However, the old guard are not lying down and the growth rate of these massive cuckoos in the nest has led to a series of increasingly large war-chests being cracked open to guarantee market share.

As a result, consolidation characterised the deal-making arena in the first half of 2018. The titans of US media were hotly engaged in pursuing access to audiences and advertising revenues at a record-breaking pace, a battle royale that helped to increase US global deal share in the year-to-date.

It is also a battle that continues to send ripples around the world. In the UK, for example, the first half saw a record-breaking combined deal value as Comcast put £22 billion on the table in an attempt to buy Sky. The offer led 21st Century Fox to increase its offer for Sky to £24 billion and Comcast to further increase its to £26 billion. Meanwhile Disney and Comcast's contending for US-headquartered Fox led to Comcast making the largest ever cash bid for a company. Disney then sweetened its offer by nearly US$20 billion, to arrive at an eye-watering figure of US$71 billion and Comcast abandoned its offer for Fox.

The stakes are high and the pace of change breath taking. We live in times when some of the fresh blood in the marcomms agency world is hatching from the old school of consultancy. The rollout of a technology like programmatics is itself being driven by clients who are demanding greater transparency,

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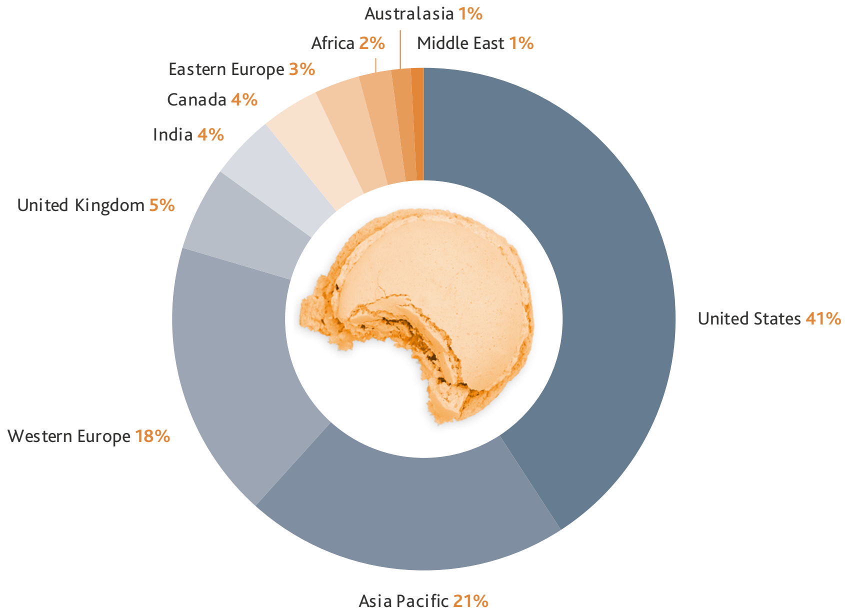
scalability and efficiency. This rate of change has been sufficient to force large traditional agency groups to reflect on the services that they offer and the way in which they offer them. Many observers are watching Sir Martin Sorrell's S4 Capital with great interest.

Over the top (OTT) content, e-sports, production, marcomms and ad-tech seem certain to remain hot on the global stage. However, sectors such as events management have also been significantly heating up in some quarters in the year-to-date, with more deals likely to follow. Some key markets are also heating up, with Chinese and South Korean groups and investors continuing to acquire overseas, and France, a country we spotlight in this edition, seeing its own renaissance of media transaction highs in recent years.

No doubt the year ahead will continue to hatch surprises. I hope that you enjoy this edition.

TRENDS AND ANALYSIS
GLOBAL TRENDS

FIGURE 1: GLOBAL MEDIA M&A DEALS BY TOP TARGET REGION IN H1 2018 (ACQUIREE)



IN H1 2018 US MEDIA SECTOR CONSOLIDATION HELPED TO INCREASE ITS SHARE OF GLOBAL DEALS BY 12% FROM 2017. THE INCREASE IN ACTIVITY TARGETING THE US CAME AT THE EXPENSE OF ASIA PACIFIC AND THE UK, DOWN BY 5% AND 7% RESPECTIVELY.

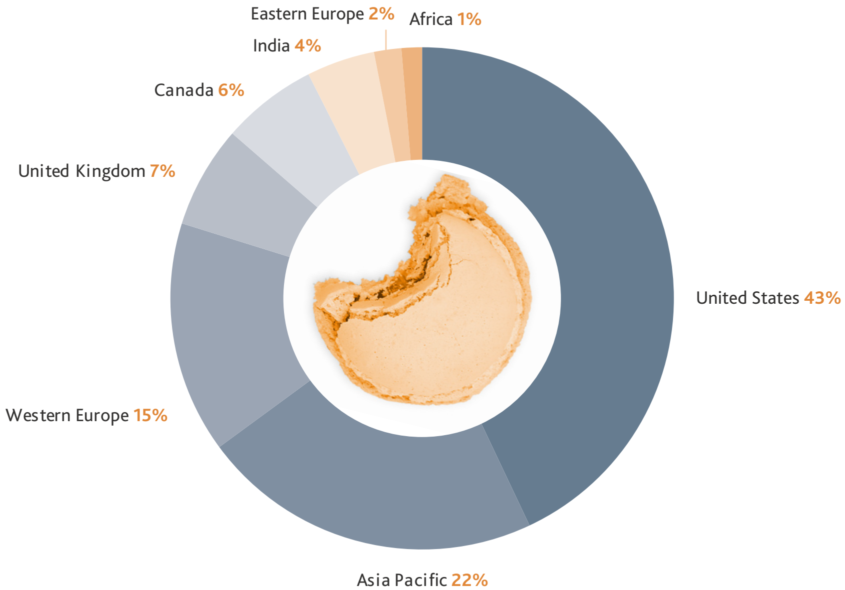
The number of global media M&A deals held up well in the first six months of 2018, marginally outpacing the second half of 2017 by 1%. However, talk of escalating trade wars, strains in emerging markets and a rising possibility of a Chinese credit crisis saw the number of deals down by 12% from the first half of 2017. Although global economic concerns may have been a factor, they were not sufficient inhibitors to hold back a mass of big-ticket deals that drove combined deal value in the first half of 2018.

A significant level of sector consolidation and vying for market share increased US deal activity in H1 such that it dominated on both the target and acquiror side of M&A. Asia Pacific lost some market share as compared to 2017, but remained the second most prolific region for both target and acquiror activity. Deals in the region were led by South Korea and China on both sides of M&A transactions, with Japan featuring as the third most active country in Asia Pacific.

Deals targeting Western Europe (excluding the UK) retained the 18% market share seen in 2017, dropping by 3% to 15% on the buy-side of deals. France was the most popular target country within Western Europe in H1. While Brexit concerns may have reduced the UK market share of deals in the first half of 2018, it retained its position as a central hub for media M&A. The UK was still the fourth most prolific overall country as both a target and a bidder domicile, even when comparing at a regional level.

As target regions, India and Canada both grew their global market share by 1% in H1. On the buy-side of deals, Canada held firm at 6% of deals, but India doubled its share from 2% up to 4% in the first six months of this year.

FIGURE 2: GLOBAL MEDIA M&A DEALS BY TOP ACQUIROR REGION IN H1 2018



ON THE BUY SIDE, THE UK ALSO GREW ITS SHARE OF DEALS BY 8% IN H1 2018 OVER 2017. AS THE US INCREASED ITS SHARE, ACQUISITIONS ORIGINATING IN ASIA PACIFIC DECLINED BY 2%, IN WESTERN EUROPE BY 3% AND IN THE UK BY 5%.

TRENDS AND ANALYSIS

NEW KIDS CONTINUE TO CUT OUT THE MIDDLEMEN

The strength of competition generated by players such as Amazon and Netflix was demonstrated by the degree of consolidation that media companies are undergoing, a trend particularly affecting the US.

In May, for a short while at least, the market value of Netflix reached the US$153 billion mark, passing Disney as the most valuable media company on the planet. Netflix peaked as Disney, Comcast and the rest of the market dropped. However, it wasn't long before Disney moved back into pole position and Netflix fell back to US$152 billion.

Netflix began in 1999 as a mail-order DVD service, but it was its foray into streaming that really turned the media world on its head. The company has achieved the astonishing feat of taking its subscriber base from 1 million in 2002 to over 130 million today. In Q2 the company added approximately 5.2 million subscribers, growth comparable to 2017 and a slowdown that jarred with investors.

Irrespective, the stonking value of Netflix constitutes a clear signal to the market that its foray into original content, creating shows such as "Stranger Things" and "The Crown", has been successful. Netflix has also been able to pull off a price hike in 2016 and remain impervious to competition from a proposed Disney streaming network for the time being. It also has yet to be seriously challenged by Amazon Prime Video or Hulu, the streaming service backed by 21st Century Fox, Time Warner and Disney. However, company valuations can be volatile. In July, disappointing subscriber growth wiped US$20 billion off of the value of Netflix for a while, before it recovered some ground.

The significant benefits of cutting out the middlemen for fast growing media businesses is apparent to analysts and company executives alike. Spotify recently announced that it is licensing music directly from some artists and their managers. The news sent shockwaves through the record industry, but investors clearly approved as Spotify's market value pushed north of US$30 billion, a record high. While the company will not control the copyrights or "sign" artists, it will license music from artists who own their own rights.

To access the next level, Spotify needs to transition from being a middleman in licensing music from the record labels, charging customers a fee for access to that music and then paying a percentage of sales back to the labels. The biggest labels are Universal Music Group, Sony Music and Warner Music. It is a locked down market and disrupting it is likely to be significantly harder than for film and television. To replicate the success of Netflix, it is essential for Spotify to own original content.

In March a group of institutional investors acquired a 1.4% stake in Spotify from Telia for a consideration of approximately US$272 million. The consideration received by Telia was equivalent to a return on investment of approximately 2.4x. In June 2015, Telia acquired a 1.4% stake in Spotify for US$115 million. Spotify conducted its unconventional direct listing on the New York Stock Exchange in April and is adjusting to life as a listed company. Investors were pleased by the announcement of its bid for original content and somewhat surprised by how quickly it put the new growth opportunity on the table.

TRENDS AND ANALYSIS

STREAMING MUSIC TO THE EARS OF THE MUSIC BUSINESS

Thanks to the streaming services provided by companies like Spotify and Apple, the music business is hitting the high notes again.

Sony recently confirmed its ranking as the largest music publisher in the world by splashing out US$2.3 billion to take control of EMI Music Publishing. The deal gives Sony access to a catalogue of 2.1 million songs to add to its existing catalogue of 2.3 million. It also gives the tech giant the rights to songs by artists such as Pink, Kanye West, Queen, Alicia Keys, Pharrell Williams and Carole King.

The digital switchover for the music industry has led to a boom time for music publishers who are increasingly adept at maximising value from a song. MIDiA Research has suggested that the global recorded music publishing market reached revenues of US$17.4 billion last year, growth of US$1.4 billion over the previous year. Streaming is the key driver of growth, representing 43% of all revenues.

Facebook finally took its first significant step into music earlier this year. The social media group has signed a series of licensing deals, including agreements with Universal Music Group and Sony/ATV. The move will allow Facebook's users to share videos with music playing in the background. The step was essential for Facebook as viral music video links have driven Facebook users to its largest rival, YouTube. The deals will allow Facebook to compete more directly with YouTube in the future. The situation also has implications for advertising. As the world's two billion millennials come of age and become highly economically active, social media remains a primary way for companies to reach this hugely important demographic who prefer smaller, independent brands.

STREAMING IS THE KEY DRIVER OF GROWTH, REPRESENTING **43% OF ALL REVENUES***

*Global recorded music publishing market

TRENDS AND ANALYSIS

NEW KIDS FORCING CONSOLIDATION

A recent survey by Cowen & Co suggested that Netflix is now the most popular platform in the US for watching TV, with 27% of people using it to view video content. As the value of players like Netflix soars, sitting still isn't an option, particularly as it has now set its sights on massive emerging markets such as India and Brazil. Hefty war chests have been broken open by the longstanding fraternity to build market share. Since Rupert Murdoch's 21st Century Fox made a bid to acquire the remaining stake in Sky that it did not already own back in 2016, the bidding war that erupted at that time is still ongoing today. At the end of June, the Takeover Panel was considering the impact of Disney's improved offer for Fox. The stakes are high and if Disney is successful, the assumption of Fox's outstanding debt would push the enterprise value of the deal to US$85.1 billion, making it one of the largest ever takeovers for the media sector. Now that Comcast has withdrawn from the fight for Fox, Disney's success would also improve its chances of taking complete control of Sky, in which Fox owns a 39% stake.

Sky itself has seen competition from Amazon intensifying in recent months. In June, Amazon won the right to show 20 Premier League matches a season for three years from 2019, after winning one of the final two broadcast packages. The online streaming service won the rights to show one round of midweek games and one round from a bank holiday. The matches will be available to Amazon Prime's UK members. In February, Sky Sports paid £3.58 billion for four packages, while BT Sport spent £295 million on another package. Amazon began as an online retailer of course, but has effectively segued into the broadcasting and content space. It already broadcasts NFL games, the US Open Tennis and ATP World Tour Tennis events.

In June, Discovery and Germany's ProSiebenSat.1, two of the leading broadcast networks in the world, sent a clear signal to Netflix and Amazon by announcing plans to merge their digital operations to form a single online platform. If approved, the agreement would see the two heavyweights merge their current digital joint venture 7TV with Discovery's Eurosport Player and ProSiebenSat.1's Maxdome, the online platform for the network's films and TV series. The duo said that they would look to create 'bespoke' content and plan to target 10 million users in the first couple of years.

TRENDS AND ANALYSIS

REGULATORY GREEN LIGHT SPURS CONSOLIDATION

NETFLIX IS NOW THE MOST POPULAR PLATFORM IN THE US FOR WATCHING TV, WITH **27%** OF PEOPLE USING IT TO VIEW VIDEO CONTENT

Conditions for global media consolidation distinctly improved in June when judge Richard Leon threw out US government objections to AT&T's US$85 billion takeover of Time Warner.

Despite the Department of Justice spending six weeks trying to show that the combination would harm competition, Judge Leon gave his blessing to the deal originally announced back in 2016. The ruling did not force any divestments for AT&T or Time Warner. Despite the US government launching an appeal in July, the outcome is likely to spur dealmakers on in the bid to consolidate and face off the threat posed by the new streaming kids on the block.

Players such as CBS and Viacom will have been watching closely as events unfolded. A tie-up between the two corporates has been back on the table this year as executives thresh out the pros and cons. A perceived loosening up of the regulatory regime could attract the attention of a telecoms giant like Verizon. Once it has finished fully digesting its acquisition of Yahoo!, a deal that completed last year, then Verizon may be more willing to enter the market for acquiring large media assets. Equally, Charter Communications, having completed its acquisition of Time Warner Cable back in 2016, could seek out further media opportunities. However, Charter itself continues to be the subject of speculation for a possible bid, with SoftBank reportedly building its stake in the cable media group earlier this year.

AT&T has also been busy beefing up its ad-tech credentials. In June the Texas-based telecoms giant was reported to have paid no less than US$2 billion for AppNexus. The technology company operates a global advertising marketplace and provides enterprise products for digital advertising that serve publishers, agencies and marketers. This is a fascinating deal as AT&T has more than 170 million direct to consumer relationships across its wireless, video and broadband businesses and the plan is to integrate the technology with its first-party data, video content and distribution. AppNexus also extends AT&T's advertising and analytics' footprint globally, expanding into Asia-Pacific, Australia, Europe, and Latin America.

TRENDS AND ANALYSIS

AGENCY E-VOLUTIONS

The convergence of consultancies and traditional ad agencies also experienced further twists and turns in the year to-date.

The seismic resignation of Sir Martin Sorrell following a board-level investigation into his personal conduct marked the end of an era at WPP. Having spent 33 years transforming the company from a maker of wire supermarket baskets into the largest agency of its kind, for some the departure of one of the sectors most iconic figures evoked a chilling metaphor of the struggles faced by the big agency holding company model.

Sorrell had been a prolific dealmaker, shaping the marcomms industry and playing a part in helping to leave WPP with over 200,000 people working in over 3,000 offices in 112 countries. Recent reports suggest that WPP is looking at ways to become more agile. While major asset sales are said to be currently off the table for the time being, it has said it may look at minority stake sales in some businesses according to recent press commentary.

However, on the buy-side it appears that WPP has already found itself competing with S4 Capital, Sorrell's new company aimed at building a multi-national communication services business. According to press reports, the two were competing to take over Dutch digital agency MediaMonks at the beginning of July. The battle ended with S4 Capital successfully acquiring the company amid reports of a potential deal value in the region of EUR300 million according to press speculation.

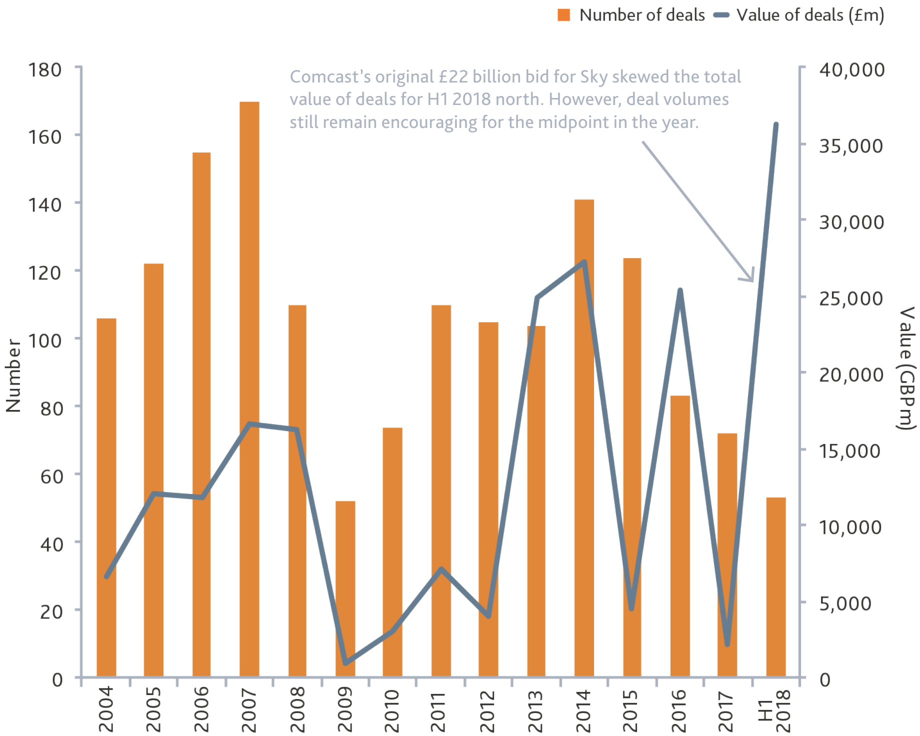
Sorrell's departure from WPP certainly came at an interesting time, a time when creativity no longer demands the ability to leverage such a vast infrastructure. At a recent conference, Anatoly Roytman, the EALA managing director of Accenture Interactive predicted the rise of what he referred to as 'cagencies'. According to this perspective, the era of the 'cagencies' would unfold as traditional ad agencies and consultancies continue to compete for business in the same space and seek to mirror the skill-sets of their opposites. However, the stakes were raised in May when Accenture announced the launch of its own programmatic media planning and buying unit, dubbed Accenture Interactive Programmatic Services. The unit will help clients to manage their programmatic ad-buying in-house and provide agency services for planning and buying media programmatically on behalf of its clients.

The telling factor is that pressure to provide such services comes squarely from clients. The demand is for efficiencies — a precision that allows brands to avoid untrustworthy elements within the digital media supply chain, to allow parties on both sides to deal with a manageable number of people, to better meet the new demands of GDPR and to manage data more intelligently. Given the demand for technological precision and economies of scale, the question remains as to how many of the giants, even those that have adapted quickly, will remain standing as increased competition for market share forces further consolidation?

UK MEDIA SECTOR
M&A TRENDS

Despite the marginal decline of the UK share of global media M&A in H1, the period saw good levels of relative deal flow and has set records for the value of media M&A in the UK. Thanks to US cable giant Comcast's £22 billion offer for Sky, the first six months of 2018 has skewed the value of UK media M&A higher than any full year on record for at least the last twenty years. The effects of the scramble for global consolidation also meant that media was the top M&A sector by value in the UK at the half-year.

FIGURE 3: UK M&A VOLUMES AND VALUES (MEDIA SECTOR 2004 – H1 2018)



AS COMCAST'S ORIGINAL £22 BILLION BID FOR SKY SKEWED TOTAL VALUE FOR H1 2018 NORTH, THE HALF YEAR SAW AGGREGATE DEAL VALUES PERFORMING AT RECORD LEVELS. DEAL VOLUMES ALSO HELD UP WELL IRRESPECTIVE OF A DIP IN UK GLOBAL MARKET SHARE.

The US continued to be a major acquiror of UK media businesses in the first half of 2018. As well as Sony taking control of EMI Music Publishing, businesses associated with music publishers proved attractive to US bidders more widely. In April, Hal Leonard Corporation acquired the printed music and retail division of music publisher, Music Sales Group, for US$50 million. The deal followed the announcement back in January that Round Hill Music had acquired Carlin Music for an estimated consideration of US$240 million. Round Hill acquired the UK-based music publisher from the Bienstock family. The transatlantic deal unites two of the largest independent music rights companies in the world.

France was also a top acquiror region for UK media businesses in the first six months of 2018. Part of the appeal was to gain access to original content. For example, back in February, Banijay Group acquired 7 Wonder Productions, the UK-based media production company, from Seven West Media for an undisclosed consideration. The acquisition allows Banijay to push its international presence and add 160 hours of 7 Wonder programming to its UK non-scripted slate.

Canadian interest in UK content continued to hold up as Entertainment One acquired a 70% stake in Whizz Kid Entertainment for £7 million in April. The transaction will expand eOne's Non-Scripted Capabilities into new territories. Whizz Kid reported revenues of £14 million and net profit of £3.2 million in 2017. Earlier in the year, Boat Rocker Media acquired the Kids & Family Entertainment division of FremantleMedia, a UK producer of television content, for an undisclosed consideration. The division has a portfolio of over 150 series and 1,600 half hour programs for pre-school children as well as tweens and teens.

FRANCE WAS A **TOP ACQUIROR** REGION FOR UK MEDIA BUSINESSES IN THE **FIRST SIX MONTHS OF 2018**

TRENDS AND ANALYSIS
PRIVATE EQUITY TRENDS

The number of leveraged buyouts of UK media businesses in the first half of 2018 outpaced the number of exits, though the aggregate value of exits held up well.

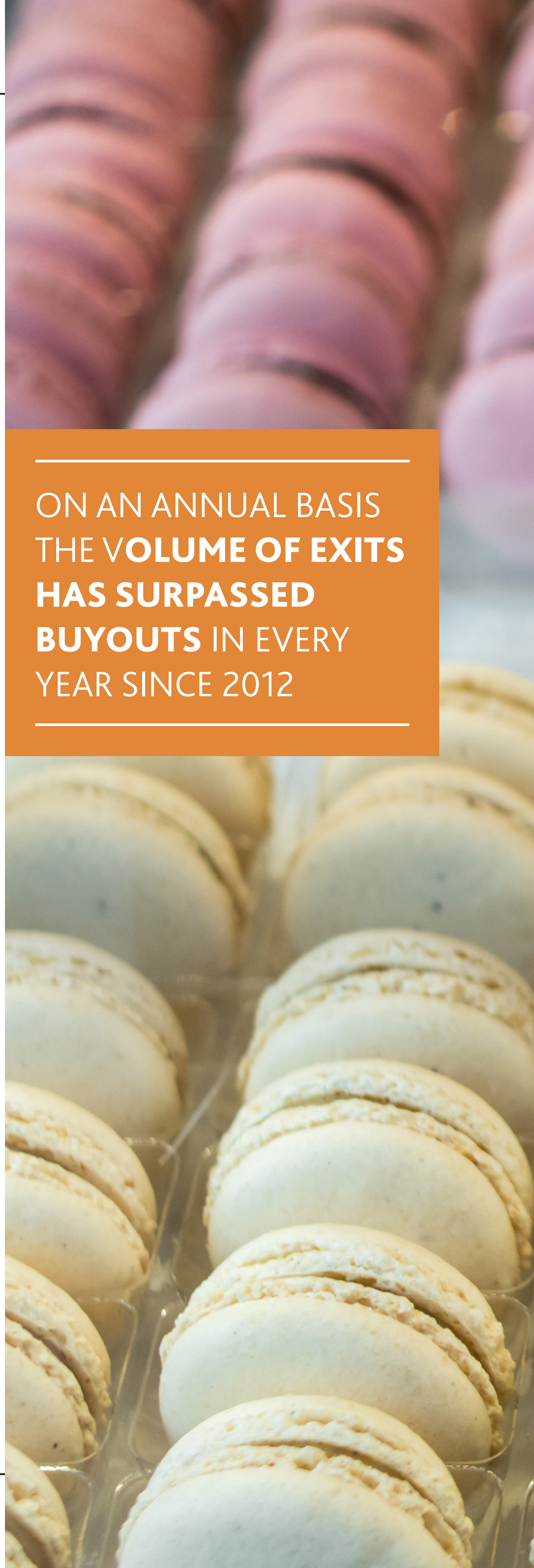
On an annual basis the volume of exits has surpassed buyouts in every year since 2012. The recent fall in the number of sales of media businesses by private equity firms is relative and forms part of a wider trend that is not just affecting the media sector. The Centre for Management Buyout Research (CMBOR) recently released data that suggested that the UK had seen its most dramatic decline in sales of private equity-owned businesses since the Brexit vote.

On the buy-side, private equity investments targeting the UK media sector continued to provide businesses with funding for further expansion, tech-enablement and portfolio development, particularly data and content businesses with predictable revenue streams. For example, in June, Bridgepoint Development Capital paid a minimum estimated consideration of £120 million for an undisclosed majority stake in PEI Media Group. The company is engaged in providing financial information services and Bridgepoint snapped up the stake in a secondary buyout from LDC.

A narrowing of the range of exit opportunities on the table may lead to a further increase in secondary buyouts. However, the absence of a trade buyer in such instances does not mean that the deal shouldn't make perfect sense for all concerned. Serial media investor LDC reportedly reaped a money multiple return of 3.5x and an Internal Rate of Return (IRR) of 70%. PEI also now has the backing it needs to further its international expansion and to invest further in technology such as its digital platforms.

Another company looking to expand internationally and develop its digital presence was Chambers & Partners Publishing. The company is engaged in publishing legal rankings and reports. It was acquired in March by Inflexion Private Equity for a consideration of £35 million. Inflexion had an active first half to 2018, also paying £35 million for Alston Elliot in January, the UK-based broadcast graphics company. In April it acquired UK Web Media, a provider of marketing solutions and product comparisons services for an undisclosed consideration.

On the sell-side, US private equity firm Searchlight Capital Partners disposed of outdoor advertising services provider, Ocean Outdoor UK. The company was acquired by Ocelot Partners, a British Virgin Islands-based UK-listed firm for a total consideration of £200 million.

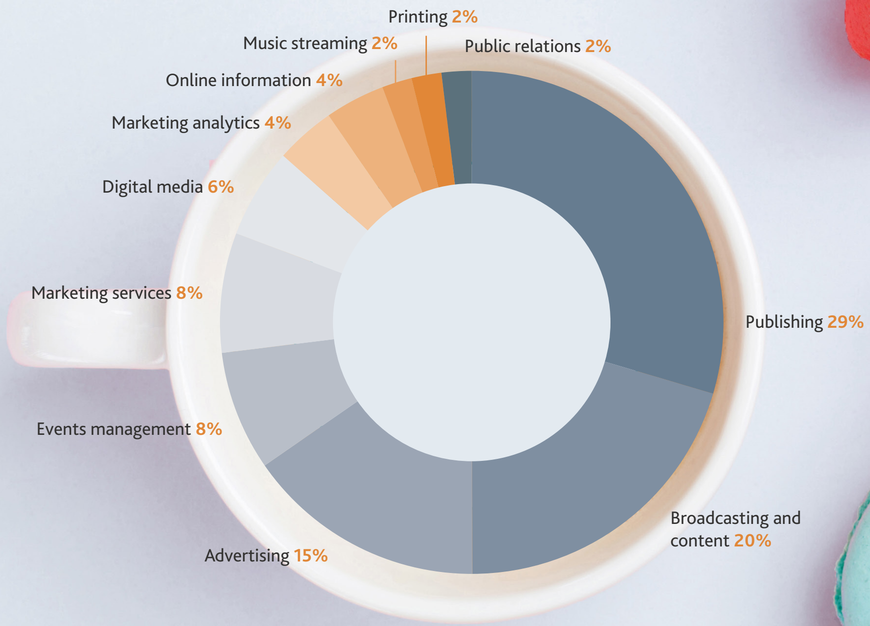


ON AN ANNUAL BASIS THE V**OLUME OF EXITS HAS SURPASSED BUYOUTS** IN EVERY YEAR SINCE 2012

MEDIA M&A

HOT SECTORS

FIGURE 4: UK MEDIA M&A TRANSACTIONS BY SUBSECTOR H1 2018



AT THE MIDPOINT OF 2018 PUBLISHING STILL LED THE PACK FOR DEAL ACTIVITY. HOWEVER, CONSOLIDATION AND APPETITE FOR NEW CONTENT DROVE BROADCASTING AND CONTENT DEALS UP INTO SECOND PLACE. CONSOLIDATION ALSO BOOSTED EVENTS MANAGEMENT DEALS, WHILE TECH-DRIVEN MEDIA CONTINUED TO MAKE INROADS ON TRANSACTION SHARE.

The increased appetite for broadcasting and content saw deals targeting the advertising subsector drop to third position from second place in the full year 2017.

In April, The Mission Marketing Group acquired London-based agency Krow Communications for a total consideration of £14.5 million. Earlier in the year, Next Fifteen Communications Group made a bid to expand its digital skills through the acquisition of Brandwidth Group. Next snapped up the digital marketing and brand management company agency for approximately £10.3 million. In outdoor advertising, following the private equity exit of Ocean Outdoor in March, Ocean has continued to make acquisitions. In June it acquired Forrest Media from Chris Trainer for an enterprise value of £32 million.

In the last edition of MEDIAtalk we highlighted that Informa was thought to be in detailed talks to acquire UBM. In January of this year a deal was announced with unanimous recommendation for the Informa offer from the boards of both companies. The offer valued UBM equity at £3.9 billion, with the clear intention of becoming the number one B2B events group globally. The deal appeared to inaugurate an increase in events management M&A activity, which moved up the rankings from sixth position to joint fourth at the half year, making it a hot sector.

Additionally, in May ITE Group announced that it had agreed to acquire Ascential Events from Ascential Plc for a consideration of £300 million. The deal sees ITE pursuing its strategy of building a portfolio of must-attend events, while Ascential Events is hoping to leverage ITE's wide geographic footprint and existing infrastructure. In February, the Reed Exhibitions subsidiary, ReedPOP, acquired Gamer Network, a games event manager and publisher of video games websites for an undisclosed consideration.

Recent rumours have speculated that AgriBriefing may be put up for sale later this year or next, which if true, would help to keep the deal train rolling for this hot subsector. It also demonstrates the continuing strength of appetite for niche vertical intelligence and events businesses. Growth is occurring at a fast pace. In April, AIM-listed Vitesse Media, the B2B information and events business, announced plans to accelerate the development of its Diversity events series, expanding its existing offering from the UK and the US into Europe and Asia.

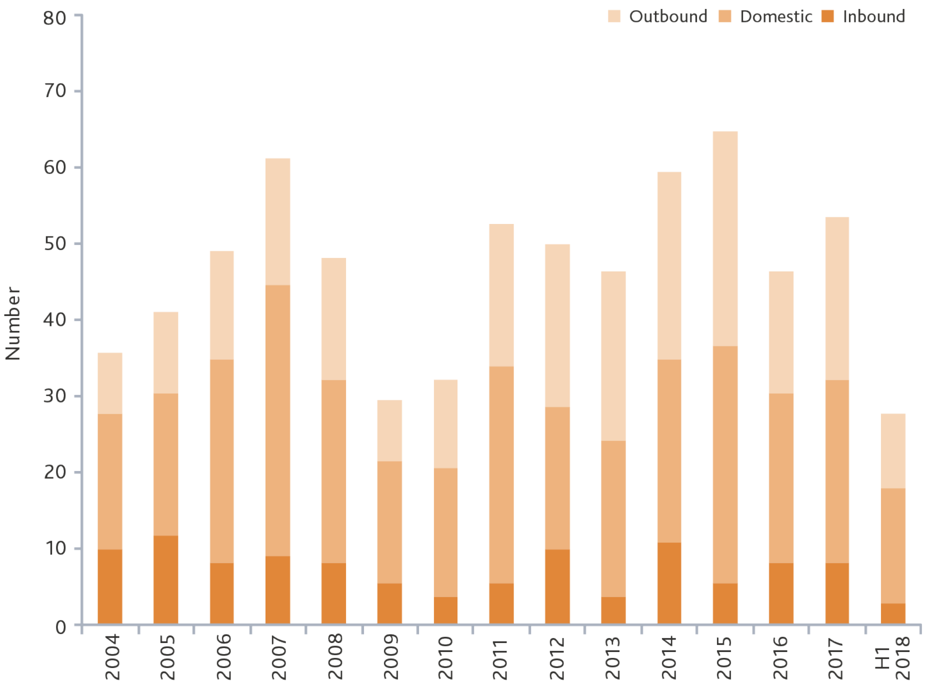
While the surge of events management saw marketing services held to joint fourth position, tech-driven media was still making inroads into the deal arena. The incentive for several publishing deals was partly to drive digital transition and maximise value from portfolios through future tech-enablement. The combined ranking of digital media, online information, music streaming and marketing analytics would have seen a third place ranking for tech-edged deals in H1 2018, a trend that seems set to continue as Virtual Reality (VR) and Augmented Reality (AR) continue to embed.

TRENDS AND ANALYSIS
SPOTLIGHT ON FRANCE

The past four full calendar years have seen instances of media M&A deals involving France return to and exceed levels of deal making not seen since the pre-financial crisis peak of 2007. The first half of 2018 has posted a positive start to the year and the evidence suggests that the media sector in France is changing fast.

The strong domestic market has also seen plenty of outbound M&A activity in the sector. In the past five years, for example, France has been the top European bidder location for the acquisition of UK media businesses, behind only the US on a global basis and ahead of Canada and Germany.

FIGURE 5: ANNOUNCED MEDIA M&A DEALS INVOLVING FRANCE-BASED MEDIA BUSINESSES 2004 – H1 2018



SINCE 2014 MEDIA M&A INVOLVING FRANCE HAS SEEN SOMETHING OF A RENAISSANCE, RETURNING TO PRE-FINANCIAL CRISIS LEVELS IN RECENT YEARS.

TRENDS AND ANALYSIS

SPOTLIGHT ON FRANCE

The recent landscape of M&A activity in France in the media sector reflects the prevailing global trend in which the players are reshaping their business strategy and operations.

A good example is Alpha Networks' recent acquisition of HUBEE.

BDO France undertook the buy side due-diligence for Alpha Networks on the deal. The target, HUBEE, specialises in over the top (OTT) services and constitutes a relevant example of the changes that are sweeping through the TV industry. The company has developed a concept dubbed 'WHW' (Where, How, What). The goal is to leverage the concept to build an offering consistent with the new digital usages, according to three main requirements:

- **Where:** to make sure that video content is available in good quality, on all main devices
- **How:** to understand how and in which circumstances the video content is used, and make sure that all functionalities needed by the public are available
- **What:** to ensure that the video is attractive around a plethora of video offerings, achieved via the smart use of data-analytics in order to recommend the right video to the right person.

Elsewhere, Lagardère has launched a process of spinning-off business activities in its media department in order to focus investments and resources in other business lines. Vivendi, one of the major media groups in Europe, recently acquired Havas, the advertising and communication group. Vivendi has navigated significant challenges and financial difficulties with some media subsidiaries such as Canal+, while attempting to diversify its presence in the segment.

Key drivers for the increased M&A activity in the sector seems to be the impact of digital, which is flexing its transformative muscles. The digital revolution is driving change that flows through media channels (smartphones, applications, and digital media), usage (decline in TV audience and the emergence of video gaming) and news media models (Konbini, Welcome to the Jungle and Brut). Behind these trends, companies are also trying to evaluate and adapt to the consequences of new emerging technologies such as VR, AR, AI and machine learning.

From what we hear from our clients on the ground in France, the main changes in the sector concern the formats that are affecting business models. Paper is of course a diminishing medium, making way for the benefits of digital tools, such as apps and websites. The volume of free media has significantly increased with the transformation of diffusion tools. For these reasons, business models in the sector are changing. From the trends that we see, revenue growth within the media sector in France is in large part being driven by advertising and the monetisation of data collected from users.

The second main feature characterising media M&A in France is the segues that transactions make between different subsectors within TMT. Consolidation across a range of subsectors is a strategy that sees multi-media offerings brought in under one umbrella. The buy-out of Auféminin.com by TF1 (Bouygues Group) is an example of the concentration of the sector. TF1 is a television broadcaster and communications group, while Auféminin is an operator of a women's website that is also engaged in the sale of advertising space, and the technology and management of online advertising.

The other kind of consolidation that we see occurring is that between the media sector and the telecommunication sector. The transformation is logical as telecoms represents a key way in which users engage with media. With the right acquisitions, telecommunication companies are able to promote their own media to their customers. The major example in the sector in France is illustrated by the strategy of Patrick Drahi, CEO of Altice, the majority shareholder of telecom group SFR. SFR recently acquired many French traditional media businesses such as Liberationa and l'Express, while also creating new media offerings such as BFM TV.

Changes are also occurring within the processes as more and more media concerns connect to social networks (Konbini). Other groups undertake complementary activity, such as Welcome to the Jungle, which is a careers website that offers media content to users.

One of the major strategic focus areas in France is data management. Compliance with European regulation such as GDPR (General Data Protection Regulation) concerns personal data security, but also the monetization of data collected and the relevance of data analysis to be able to offer media content and advertising dedicated to each customer. One example in this space is the digital agency, fifty-five, a company created by the former management team of Google Europe. The company was acquired back in 2016 by You and Mr Jones, the brainchild of the previous global CEO for Havas and Havas Worldwide, David Jones. You and Mr Jones claims to be the 'first brandtech group', helping brands collect and activate their data to increase the efficiency of their advertising campaigns.

We believe that French media M&A activity will continue to hold up well in the coming months, as players seek to leverage the opportunities that the changes created by technology and data analysis continue to offer.

WHAT DOES THE REST OF 2018 HOLD?

No doubt several surprises lie ahead for global media in the remainder of the year. Economic and political stability, Mr Trump's trade wars, Brexit negotiations and the flow of Chinese credit may all have a hand in determining how the year wraps up. The underlying health of the sector for revenue generation is in excellent condition. Part of the reason is that the media sector is as well positioned as any to ride the technological wave successfully and meaningfully.

However, the sector is also not immune to inadvertently hatching unwanted surprises and more of those may also lurk in the wings.

Disney and LucasFilm are still working through the implications of the fact that Solo: A Star Wars Story has widely been judged a box office failure. The prospect seems incredible given the stellar success of The Force Awakens, Rogue One, and The Last Jedi. However, various reports have suggested a box office loss for the film of as much US$50 – US$80 million.

The case would suggest that even in our content hungry age, franchise fatigue, over-saturation or a perceived dip in quality can end the party real quick. The Disney movie engine won't be too dented by the result with a raft of big titles slated to come out later this year, but it is a blip in the algorithm of success that supplies a cautionary note. Audiences can be fickle and content can be costly and still not turn a profit. Perhaps there is more than one way to inadvertently kill the goose that laid the golden eggs?

Beyond the fortunes of business, some unwanted surprises are self-inflicted of course. Elements within the media sector are likely to have to continue to face up to and deal with issues of trust. Facebook's share price has recovered since the announcement of a huge data leak to Cambridge Analytica in March. However, it is struggling to regain trust with lawmakers, confirming in early June that it had shared user data with Chinese multinational, Huawei, to allow them to build 'Facebook-like experiences'. Such data sharing has led to reports in some quarters of the danger of creating a backdoor for the Chinese Communist Party to harvest the data. In July, the Information Commissioner's Office (ICO), a UK watchdog, slapped Facebook with a £500,000 maximum fine for having failed to protect user data harvested by Cambridge Analytica.

More generally, the question of advertising transparency is likely to remain a hot issue. Brands continue to be concerned about the unwanted surprises of fake news and advertising alongside 'unsavoury' content. Scandal also has repercussions that persist in the headlines of course. In March, the fate of The Weinstein Company was decided when it was acquired in a stalking horse agreement by Lantern Capital, a Texas-based private equity fund.

Yet while such stories tend to monopolise the headlines for obvious reasons, the prevailing narrative for the global media sector in the year-to-date has been one of fascinating innovation, evolution and growth. That story is powerfully linked to technology and a fast changing market in which consumers and clients are driving the demand at a terrific pace. Adaption is key and the market is still on the move. The big deals are getting done and opportunities for investors and smaller players are likely to follow in the wake. By the end of the year several more of the key pieces may well be in place to progress to the next level as the sector continues to undergo its own incredible renaissance.

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