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Media Metrics
The state of UK media and entertainment 2016

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Contents

Foreword

Deloitte's Media Metrics identifies and ranks the UK's top 100 media and entertainment companies by scale. It is the definitive media power list for the UK today.

We have analysed audited data on the 100 largest media and entertainment companies in the UK. Collectively they generate £87bn in annual revenue. We project they will break the £100bn level within the next five years.

This is a transformative period for the media and entertainment industry. In a year when the fundamental purpose of the BBC was challenged, when physical book sales in the UK actually rose against expectations, when the Independent became the first national newspaper to move completely online, and when half of the world's top 10 ten best-selling music artists were from the UK, we can see waves of change washing over many different media and entertainment sectors.

Against this backdrop, Media Metrics provides a new and comprehensive view on the size and shape of the media and entertainment market today and the role of the UK as a home for the creative sector.

In short, the industry is growing, both in size and in profitability. Over the last three years the total revenue of the top 100 companies has grown by 6 per cent annually, while total profit has more than doubled since 2011 to break the £10bn mark in the last year. With bottom line growth faster than top-line overall, who is making the right strategic choices to drive this performance?

Information publishing is one buoyant area of the industry, accounting for four of the top ten companies by profit. But, in pure revenue terms, it is the advertising and television sub-sectors that dominate. A fifth of the companies in our top 100 ranking are from the advertising sector, while television accounts for 40 per cent of revenue for the top 100. Far from being dead, television is the cornerstone of UK media and entertainment.

Revenue generation is dominated by a handful of companies. The ten largest earn over two-thirds (68 per cent) of total industry revenue. With such concentration, is there a risk to the industry's plurality of voice?

The top 100 media companies are all choosing, or have been obliged to take, different paths. Some have focused on a single market or business line, others are diversifying into a wide array of products and market segments. Some are expanding abroad, others are driving growth at home in the UK.

This report seeks to identify the link between these strategic options and company performance, in terms of headline revenue and profitability. With nearly a fifth of the largest 100 media and entertainment companies currently unprofitable, the asymmetries between companies that are pursuing top line growth and those that are focused on bottom line profitability are more pertinent than ever.

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The state of UK media and entertainment

Rank	Company	Annual revenue (£m, most recent year)	Revenue growth (3yr CAGR)	Media Sub-sector
1	WPP plc	12,235	↑ 5%	
2	Liberty Global plc	11,955	↑ 25%	
3	Sky plc	9,989	↑ 14%	
4	RELX Group plc	5,971	↓ 1%	
5	British Broadcasting Corporation	4,805	↓ 2%	
6	Pearson plc	4,468	↓ 2%	
7	ITV plc	2,972	↑ 7%	
8	Sony Computer Entertainment Europe Limited	2,936	↑ 7%	
9	Daily Mail and General Trust plc	1,843	↑ 1%	
10	The Walt Disney Company Limited	1,581	↑ 6%	

For the full Top 100 list visit **www.deloitte.co.uk/mediametrics**

 Advertising  Television  Information publishing  Gaming  News

 Film Music  Magazines  Social media

Source: Company data, Deloitte analysis

The UK's **top 100** media companies generate a collective **£87bn**

The **top 10** largest companies have combined revenues of **£59bn** or **68%** of the total

The **media sector** in the UK is thriving with an average growth rate of **6%** over the last three years

Information publishing and events (B2B media) accounts for **4** of the **Top 10** companies by profit

Television is the largest sub-sector, accounting for **40%** of revenue in Top 100

The UK media and entertainment sector in numbers

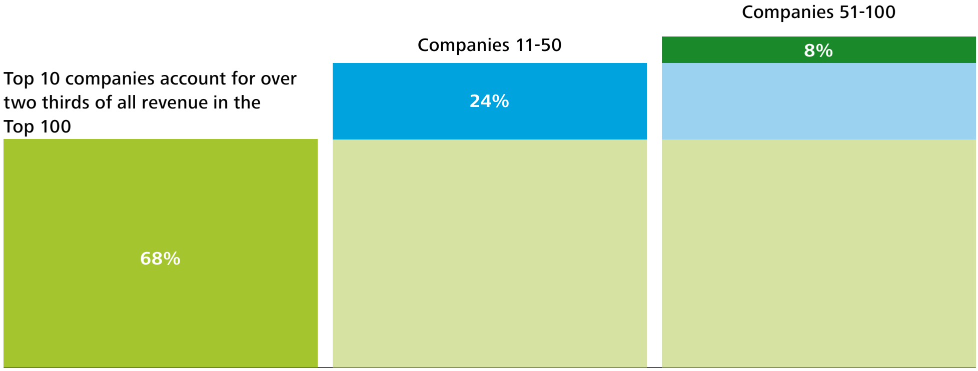
The UK media and entertainment industry is a diverse and dynamic place. There is no official definition of what constitutes a 'media' company; our definition encompasses creative content (including music, TV, film, news, magazines, books, video gaming, social media and advertising content) and the platforms and distribution networks that deliver it to audiences and customers (such as TV networks, cinema distributors, B2B data exchanges and music publishers).

Media and entertainment by revenue

Based on this definition, the largest 100 media and entertainment companies in the UK have a combined revenue of £87bn. Revenue generation in the industry is concentrated in the hands of a few companies that dominate their respective markets. The top ten largest companies in our ranking have combined revenues of £59bn, or 68 per cent of the total.

Television, advertising and information publishing dominate our ranking, both in terms of the number of companies represented and total revenue generated. These three sub-sectors account for over half of the companies in the top 100 and 80 per cent of total revenue. News publishing and film production and distribution are also well represented, but are much smaller than the leaders in terms of size. The average annual revenue of a newspaper publisher in our list is £483m, compared with £1.8bn for television companies.

Figure 1. Top 100 revenue concentration (% of total)

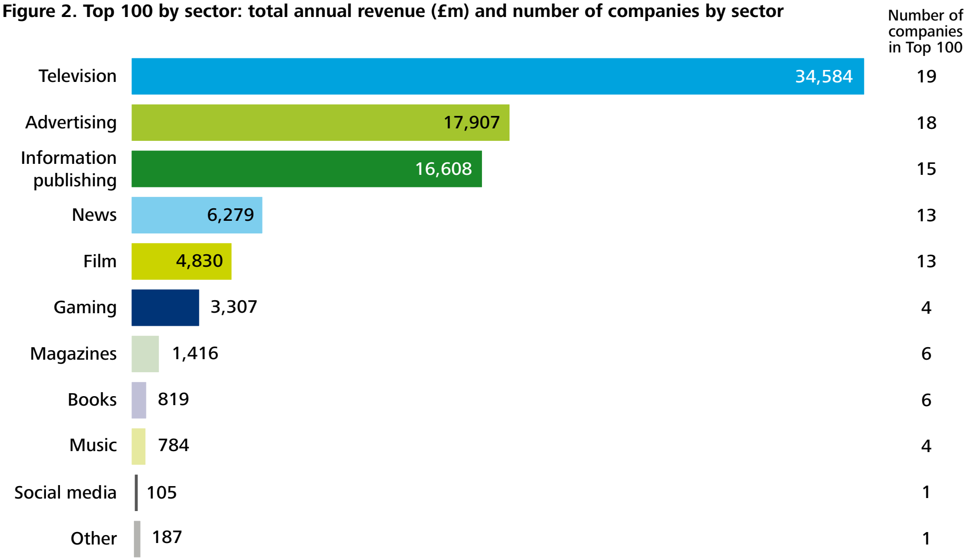


Source: Company data, Deloitte analysis

Top growth contributors

Our media and entertainment top 100 as a whole grew their revenue at a rate of 6 per cent per annum over the past three years. At a sub-sector level, revenue growth was fastest in social media (represented largely by Facebook), followed by music (13 per cent annual growth)[4] and television (11 per cent). By comparison, UK GDP grew in nominal terms by 4 per cent annually over the same period.[5] Media and entertainment is punching above its weight in growth terms.

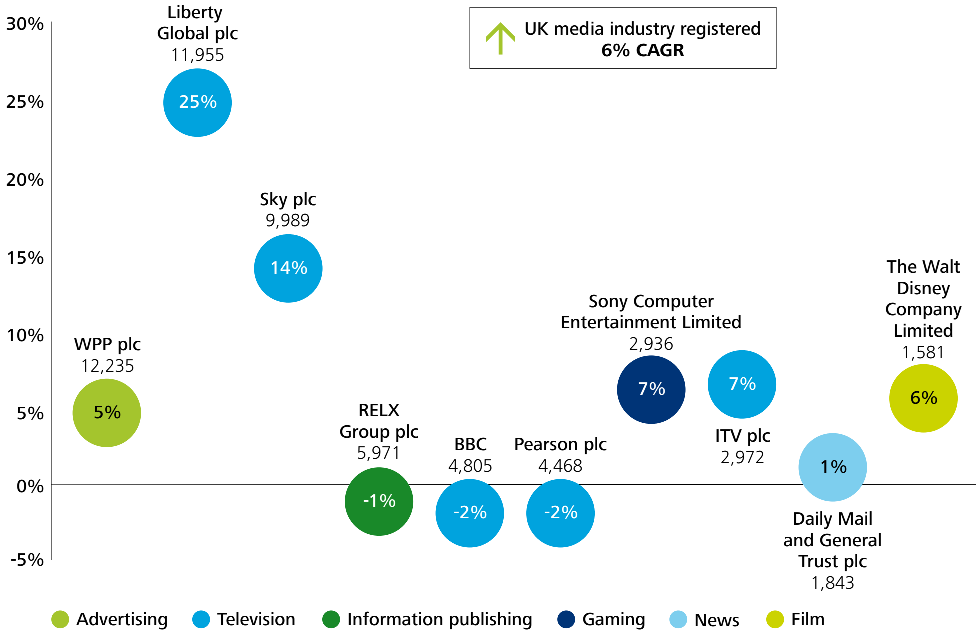
Figure 2. Top 100 by sector: total annual revenue (£m) and number of companies by sector



Source: Company data, Deloitte analysis

Information publishing and events comprises one of the largest parts of the media industry but it has shrunk over the last three years. The four largest companies in the UK sector – RELX, Pearson, Reuters and Informa – are all smaller in revenue terms now than in 2011. The magazine and book publishing sectors have also seen revenue decline year on year.

Figure 3. Top 10 media companies in UK* (Annual Revenue CAGR)



*Top ten companies ranked 1 to 10 – left to right
Source: Company data, Deloitte analysis

At a company level, advertising and TV dominate, accounting for five of the top ten fastest growing companies. At the other end of the scale, 41 companies in our top 100 ranking have seen revenues fall over the last three years.

Figure 4. Top 10 UK Media Companies: by revenue growth (3yr CAGR)

Rank	Company	Revenue (3yr CAGR 2011-14)*	Media Sub-sector
1	Facebook UK Limited	73%	
2	Google UK Limited	44%	
3	Fox UK Productions Limited	40%	
4	The7Stars UK Limited	38%	
5	Vancouver Topco Limited	37%	
6	John Wiley & Sons Limited	36%	
7	Tinopolis Limited	28%	
8	Liberty Global plc	25%	
9	Discovery Communications Europe Limited	23%	
10	Thomson Reuters (Professional) UK Limited	22%	

* Excluded: Omnicom Media Group UK Ltd. and Newsquest Media Group Ltd. as their growth is due to change of reporting from company-only to consolidated during the 3 year period.

Advertising Television Information publishing Gaming News
Film Music Magazines Social media

Source: Company data, Deloitte analysis

Industry profit makers

The 100 companies in our power list generated a total of £10.1bn in profit in the last year,[6] representing 12 per cent of total revenue. The bottom line is growing far quicker than the top: total profits from our top 100 have more than doubled from £4.9bn in 2011.

But profit is also far more concentrated in the hands of the few, and becoming ever more so. The top 10 most profitable companies (by volume) accounted for 94 per cent of total profit across our top 100, up from 83 per cent in 2011.

Figure 5. Top 10 UK Media Companies by profit margin

Rank	Company	Profit margin (%)*	Media Sub-sector
1	Auto Trader Limited	53%	
2	Sony Music Entertainment UK Limited	37%	
3	Euromonitor International Limited	23%	
4	NGC Europe Limited	21%	
5	Newsquest Media Group Limited	21%	
6	Argus Media Limited	20%	
7	Sky plc	20%	
8	UKTV Media Holdings Limited	19%	
9	Which? Limited	19%	
10	Pearson plc	18%	

* Excluded: EMI Music publishing finance (UK) Ltd. HM Publishers Holdings Ltd, Northern 4 Shell Media Group Ltd., and Reuters Ltd. as their profit margin is due to large disposals during the period.

Advertising Television Information publishing Gaming News

Film Music Magazines Social media

Source: Company data, Deloitte analysis

Local vs global: there's no place like home

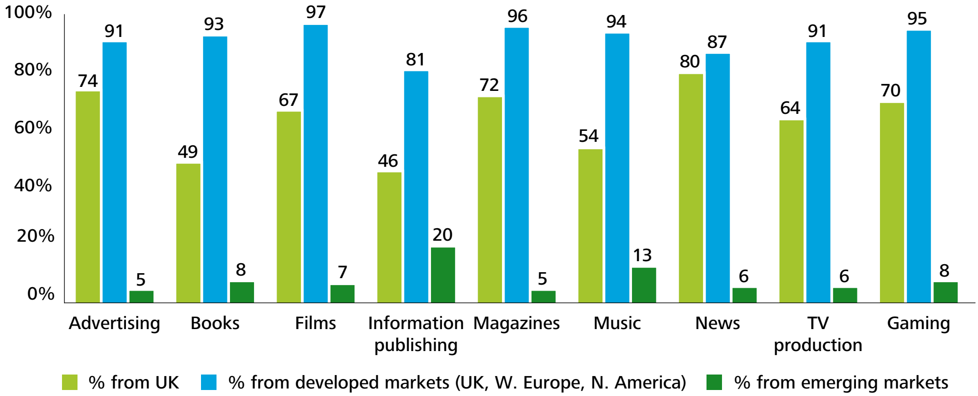
British media and entertainment companies are highly successful overseas – where they have scope to achieve much more – but they still depend most on the UK, and are most profitable at home. Within our ranking, approximately two thirds of revenues are generated in the UK, but 85 per cent of the country's top 100 media and entertainment companies also generate revenues overseas. Among the top ten most profitable companies in our list, four generate revenues solely in the UK. A further two generated almost 90 per cent of their revenues here.

The prevailing wisdom is that Britishness sells overseas, particularly when it comes to content produced in the UK. The British music industry is enjoying a global boom – half of the world's top ten best-selling artists of 2015 were from the UK – and the TV industry continues to achieve huge global success. BBC Worldwide, the corporation's global commercial arm, accounts for 18 per cent of the organisation's total income. Over at ITV, the Studios business, which generates the majority of its revenue from outside the UK, reported 33 per cent growth in revenues in 2015

Our ranking suggests that in order to achieve scale, there is a need to branch out, particularly to other mature markets (most notably Western Europe and North America). The top ten largest companies in our ranking generate over half their revenue from outside the UK, predominantly from developed markets. Information publishing is the only sub-sector that appears to generate a significant proportion of revenue from developing markets.

By contrast, news publishing organisations are the most UK-centric among our top 100 companies. Clearly local relevance is crucial here for national and regional titles, and the two business news publications in our list – the Economist and the Financial Times – are the ones that have most successfully captured audiences around the world. The Economist generates just 18 per cent of its revenue from the UK, with 19 per cent coming from emerging markets.

Figure 6. Geographic source of revenues by sector



Source: Company data, Deloitte analysis

When it comes to choosing the geographic markets to play in, relatively few media and entertainment companies can claim to be truly global. Within the top 10, WPP is the only UK registered company that has a significant presence in all continents. At a sub-sector level, information publishing generates the most revenue from developing markets, with an average of 20 per cent, compared with less than 10 per cent across most other sub-sectors.

The bottom line

While UK-native media organisations are very successful at exporting their content, they appear to be focusing predominantly mature markets in Europe and North America, potentially relying on acquisition (or being acquired) to boost their scale and international footprint. The largest companies in our ranking are likely to have a wider geographic footprint than the most profitable companies. Our ranking therefore proves that it is possible to be highly profitable without seeking global expansion.

For those companies seeking new revenue opportunities, improving connectivity and the continued growth in smartphone use are likely to drive demand for media content in developing markets. To be successful, media companies need to navigate challenges around managing and protecting their IP, as well as finding ways to establish a foothold in those markets, such as local partnerships or by acquiring existing businesses in those markets.

Local vs global	**Local** • Majority of revenues generated in the UK	**Mature established** • Focussed predominantly on western markets • Typically have growing presence and investment in developing markets	**Global** • Global presence • Revenues spread across developed and developing markets
Critical success factors	• UK market for product set is large • Have products that are targeted at UK audiences	• Products and services that translate well to other English-language or highly developed markets (eg. News, data products)	• Have products and services that are easy to tailor to local preferences • Can quickly set up operations in new geographies • Have a cost base that varies in line with local market conditions
Challenges of this model	• Vulnerability to economic downturns • Growth constrained by size and maturity of the market • Competitive landscape mature and congested	• Vulnerability to economic downturns • Growth contrained by size and maturity of the market • Competitive landscape mature and congested	• Lower price points in developing markets • IP protection and regulatory differences • Establishing local partnerships or identifying suitable acquisition targets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Ad funded vs paid for: where does the money come from?

Almost one fifth of the companies in the Top 100 are advertising businesses, suggesting that the UK advertising sector is in rude health. Moreover our data shows profits growing in the advertising sector at a compound annual rate of 8 per cent over the last three years. However, online media owners are moving away from advertising as a core business model, towards transactional or online subscription revenue from consumers.

The UK advertising sector accounts for eighteen of the top 100 media and entertainment companies in the UK. Their collective revenues are larger than film, music, video gaming, magazines and news publishing combined, and have grown 20 per cent since 2011.

While the advertising market may be booming, business models based on advertising are increasingly challenging for owners of consumer-facing media, for several reasons:

- measuring the advertising impact of traditional media (e.g. physical newspapers) is challenging compared to online equivalents, and its true value is hard to measure

- brand advertisers are becoming more digital-first in terms of outlook and structure, making it harder for publishers and broadcasters to achieve desired rates for legacy advertising formats

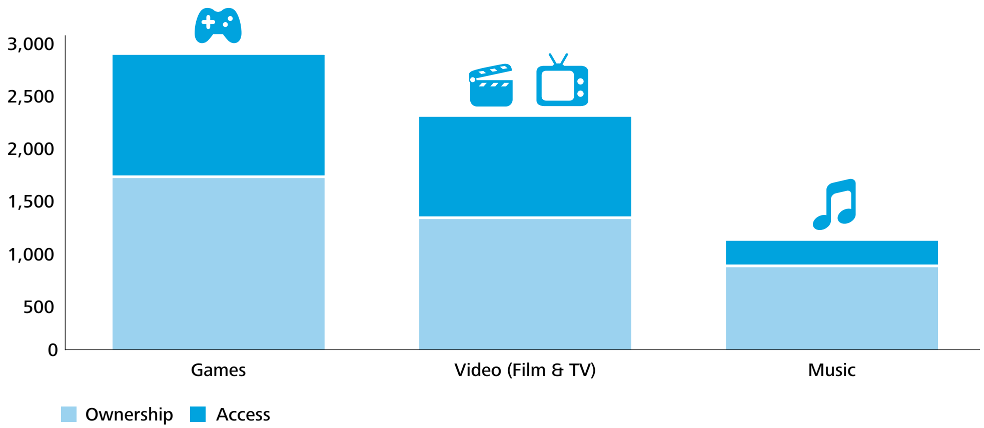
- the continual increase in the volume of inventory, growth in programmatic buying, the threat of ad-blocking and the perception of fraud risk are all driving down the value of digital ad space.

As a result, some publishers that have built large online audiences by offering content for free are concluding that a business model based solely on digital advertising is unfeasible. Within our top 10 largest media companies, only ITV and Daily Mail General Trust (DMGT) derive a significant proportion of revenue from advertising, and both have warned of ongoing volatility in their ad revenues for the period ahead.[7]

Rejecting advertising means embracing a customer-funded business model. Most consumer media sectors took the transactional approach when first going online, creating digital versions of their physical products and business models to download and own. This is still the dominant model today: in 2015, 61 per cent of total consumer spend on music, TV, film and video games in the UK was on physical or download-to-own products. Music is the most popular category for owned products, with download-to-own accounting for 76 per cent of total music sales.[8]

But the popularity of ownership is falling, with 'access' or subscription sales accounting for 39 per cent of total retail sales in 2015, up from 34 per cent in 2014. Customer subscriptions are a highly attractive prospect for many media and entertainment companies, providing stable, recurring revenue, and access to additional customer data with which to support ancillary advertising sales. The top ten companies by profit margin include five subscription businesses, from B2C information publishers such as Euromonitor to consumer-facing brands like Which? and Sky.

Figure 7. UK retail revenues, Access vs Ownership (2015, £m)



Source: Official Charts, GfK, HIS via Entertainment Retailers Association

The bottom line

The mix of advertising, transactional and subscription models that a business should aim for will depend on the size and make-up of its audience and the nature of its product set. TV, for example, still brings in big audiences that are relatively well understood and therefore remains attractive to advertisers. Online news publishers also attract large audiences, but often know very little about who those audiences are and can struggle to demonstrate the level of audience engagement that social media can offer brands.

Subscriptions can be a highly profitable source of revenue but tend to appeal to the most regular and loyal customers, which may only be a small proportion of the total audience. For many businesses, subscription may therefore always be just one source of income, coexisting alongside transactional sales and advertising. Subscriptions require a new set of organisational capabilities around customer service and retention, which companies accustomed to a transactional or advertising-funded model need in order to be successful.

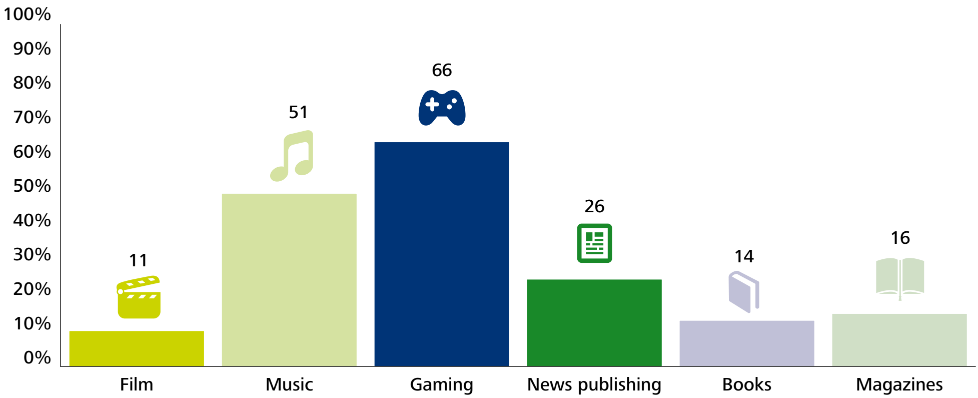
Ad funded vs Paid for	Ad funded • Majority of revenues generated through advertising • Typically to mass, largely unknown audience	Transactional • Majority of revenues from paying audiences • Payment on transactional, non-recurring basis	Subscription • Majority of revenues from recuring customer relationships i.e. subscriptions
Key success factors	• Large audiences and/or well understood audiences • Effective management of inventory	• Effective marketing to drive steady customer volumes • Have products that encourage repeat, follow-on or in-oroduct sales (e.g. video gaming) • Building customer unity	• Effective distribution platform or network • Products and services that can be consumed and refreshed regularly
Challenges of this model	• Maintaining ad yields • Competition from social networks	• Building customer loyalty	• Building customer service and retention capabilities • Setting pricing and marketing budgets, based on understanding of cost to serve and customer lifetime value

Physical vs online: physical pounds to digital pennies?

The pivot to online that is under way across UK media and entertainment is by no means complete. Across most media sub-sectors, physical revenues continue to represent a significant proportion of overall income. In our top ten by revenue, only the information publishing representatives RELX and Pearson generate two-thirds or more of their revenue from digital sources (70 per cent and 65 per cent respectively).

Across film, books and magazines, physical sales account for more than 80 per cent of industry revenues. In some sectors the decline of physical sales is showing some signs of reaching a plateau or even reversing. In the book market, for example, physical sales accounted for 86 per cent of revenue and the volume of e-book sales actually fell in 2015 for the first time.[9]

Figure 8. Proportion of revenues by digital by sector



Sources: BFI (http://www.bfi.org.uk/education-research/film-industry-statistics-research/statistical-yearbook);
Music & Gaming: Entertainment Retailers Association (http://www.eraltd.org/info-stats/overview.aspx);
News Publishing: Deloitte analysis (Based on individual company figures)
Books: Deloitte TMT Predictions (http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Technology-Media-Telecommunications/gx-tmt-pred15-print-alive-and-well.pdf);
Magazines: Deloitte analysis (Based on individual company figures)

Music and video gaming are further ahead on the digital journey: in 2015 a total of £544m was spent on music downloads and streaming subscriptions, representing just over half of all music retail sales (excluding revenues from live performances). In the gaming market, online sales (content delivered directly to consoles or mobile devices) account for two-thirds of industry retail revenues.[10]

Of the ten largest companies in our ranking, the vast majority are mixed media. Many are in a period of transition but by no means assuming that their future is a 100 per cent online business model. WPP, for example, is targeting 40-45 per cent of revenues to come from 'new media' (including digital and other service revenue) by 2020, up from 37 per cent in 2015.[11]

The recent revival in growth of physical books demonstrates that consumer attachment to some forms of tangible product remains and can be exploited by companies who are committed to physical formats. At the other end of the spectrum there are a handful of companies, such as Auto Trader, that have made the leap to a fully online business model, alongside the digital natives in our ranking such as Facebook and Google.

The bottom line

There are two clear challenges with moving from a legacy physical business model to an online-focused one. The first is finding a digital business model that is profitable, whether advertising-funded, transactional or subscription, or a mix of all three. The second is managing the transition from an operating model focused on physical or linear products to a digital one, and the inherent complexities of operating in two worlds.

Media and entertainment companies should try to establish a clear understanding of the relative profitability of physical and digital revenue streams. For many businesses this is no small task: when many of the same staff and resources are used to create content that is distributed in physical and digital formats it can be hard to quantify the true profitability of digital operations. Without this knowledge, companies may be working on false assumptions about the extent to which they should hold on to physical revenue streams, or the pricing that they need to achieve from digital products and services.

Legacy vs digital	**Legacy** • Physical or live/linear products still account for majority of revenues and profits • Digital revenues growing but not large enough to sustain whole business	**Mixed media** • Digital offerings well established, account for c.50%+ of revenue (and growing) • Digital business models still evolving	**Online only** • Digital native business, or has almost entirely exited physical products • Digital business model well established
Key success factors	• Large distribution network • Have cutomers who are strongly attached to the physical product/resistant to change • Emphasis craft and longevity over immediacy	• Ability to offer a compelling multi-channel experience across physical and digital • Understanding of relative profitability of physical and online channels	• Digital propositions that offer greater value for customers than physical equivalents (e.g. searchable archive content) • Products optimised for mobile
Challenges of this model	• Declining sales volumes in the majority of media sectors • Demonstrating value of legacy products to advertisers • Managing economics as online business grows	• Managing the cost of maintaining a legacy infrastructure (Production and distribution of physical products) as volumes decline • Developing digital skills, business models and ways of working within existing organisation structures • Managing two (or more) channels to market, operating at different speeds	• Declining prices for digital ad inventory • Developing sustainable digital business model

Specialised vs diversified: diversify for revenue, focus for profit

The leading media and entertainment companies in the UK are a diverse bunch. The majority of the top ten have business interests outside their 'core' media market. In contrast, the ten most profitable generate almost all of their revenue from one core market.

The last decade has seen the rise of a new breed of global, digital conglomerates. Google, Facebook and Amazon have signalled their intent to spread their influence from music to news distribution, academic publishing, film and TV streaming. Their financial success could be an incentive to others to emulate a strategy of diversification across a wide portfolio.

However, our research highlights a clear distinction between the behaviour of the largest and the most profitable companies when it comes to the choice between specialising in a core market or diversifying into new markets, products and customer segments.

Of the top ten largest media and entertainment companies, half have significant interests in media sectors outside their 'core' market. WPP, for example, earns 45 per cent of revenue from its 'core' market of advertising, with the remainder coming from a mix of data management, PR, public affairs and branding. For Liberty Global and Sky, TV broadcasting is part of a wider package of media and telecoms offerings. DMGT earns 40 per cent of revenues from its news publishing arm, DMG Media, and the remainder from a collection of information publishing and events businesses. Disney is perhaps the most diversified of the group, spanning TV, film, consumer products, parks and resorts.

It is a different story for the most profitable firms. Other than Sky, the top ten firms by profit margin are all focused on just one area of the media sector: classified advertising for Auto Trader; information publishing for Argus Media; and television for UKTV.

The newspaper publishing sub-sector is an interesting example of businesses making choices about how focused or diversified they want to be. Many publishers with a print heritage, such as the Guardian, the Telegraph and News UK, have added products such as financial services, dating and online bingo in an attempt to generate new revenue streams and boost customer loyalty. News publishers are also now competing with marketing agencies by setting up their own branded content studios – GLabs at the Guardian, Spark at the Telegraph, Truffle Pig at the Daily Mail (a joint venture with WPP and Snapchat). On the whole, the newspaper publishers in our ranking have improved their profitability over the last 3-4 years, from an average of seven per cent in 2011 to 13 per cent in 2015 (as per latest figures available), but it is hard to discern to what extent this diversification has been a factor.

The bottom line

Our data suggests that the most profitable media and entertainment companies are those which have a niche focus on a specific part of the media sector. Shareholders in these focused companies typically expect management to exploit their position in a specific market, with attempts to diversify often viewed as distractions from the core business.

However, the media and entertainment industry was among the first to show the power of disruptive innovation, and many of our largest media organisations have attempted to diversify in recent years, either to capture new technological waves of opportunity or to shore up weakening performance in legacy markets.

Where shareholders have expectations of rapid revenue growth and evidence of expansion, diversification is often the only option.

Specialised vs Diversified	Specialised	Integrated	Diversified
	• Heavily focussed on on one core market segment (may have multiple businesses in that segment) • Potentially divesting from legacy non-core businesses	• One or two core markets • Activities in adjacent markets, typically to extend core brand and increase ARPU/deepen customer relationship	• Portolio of businesses/activities across multiple media sectors and beyond • Low level of integration between businesses • Active management of portfolio
Key success factors	• Deep expertise in a given market segment • High barriers to entry	• Strong core brand • Core assets and capabilities that can be applied to other markets (e.g. distibution platform, advertising sales)	• Have strong portfolio management capabilities • Want to diversify risk • Have ability to identify, incubate and nurture innovative business
Challenges of this model	• Over reliance on one market can cause vulnerability to market downturns or new competitive threats • Limited rom for growth in mature markets	• Accurately measuring the contribution of brand extensions or adjacent product lines • Balancing autonomy and scale of adjacent businesses • Making trade offs between investment opportunities	• Limited revenue or operational synergies across business areas


CONTEN

Creators vs distributors: valuing the end-to-end trend

Our research illustrates the value of content in today's media and entertainment market. Distribution-only companies in our ranking have an average profit margin of just 1 per cent. By contrast, content creators generate average margins of 9 per cent. Those with both have a margin of 13 per cent, suggesting that distributors should consider investing in content if they want to boost profitability.

Our analysis of the top 100 UK media and entertainment companies shows that at their origin 71 per cent began life as content creators and 19 per cent as pure distributors, with just a handful doing both. Today, almost half are hybrids – creating their own content, and delivering it direct to consumers through their own platforms and channels, rather than via a third party distributor. The movement goes both ways, with creators developing their own distribution channels, and distributors creating their own content.

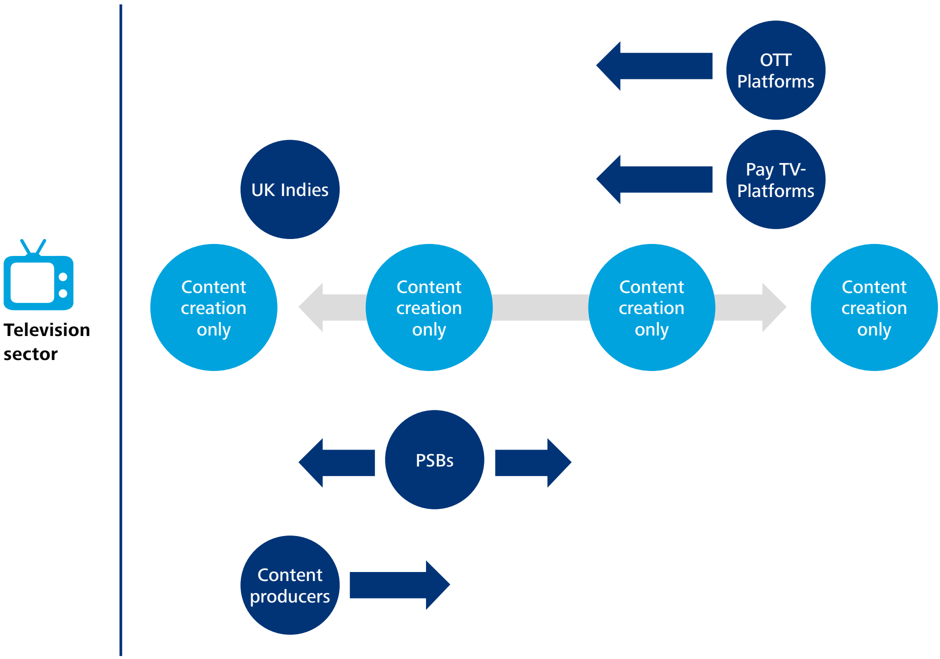
The trend for expanding across content and distribution is most developed in the TV market. The public service broadcasters (PSBs) started as hybrids, serving their own content to audiences on their own networks, but are now pushing out in both directions – distributing their own content via other platforms (e.g. BBC shows on Netflix), and investing in content studios to develop new formats and IP that can be commercialised abroad. Revenue at ITV Studios, for example, grew by 33 per cent in 2015 and now accounts for almost 40 per cent of total ITV revenue.

At the same time, content aggregators and distributors such as Sky (and of course international competitors such as Netflix) are investing in exclusive content as a means of further differentiating their platforms and building customer loyalty. Meanwhile, the past year has seen content creators such as Disney launch online distribution platforms that serve content directly to their audience, without the need for a third party distributor.

For content creators, the value of distribution lies in extending reach and in gaining direct access to end consumers. This in turn can generate new and potentially more profitable revenue streams, as well as new customer data: valuable information for internal marketing and product development teams, as well as advertising clients.

The trend for distributors to invest directly in content is also seen in books. Amazon has several of its own imprints while also acting as a major distribution channel for other book publishers, but is yet to extend to the mainstream in sectors such as music. Is it just a matter of time before music streaming services start investing directly in labels and artists? And might this be a path to profitability for streaming services, whose losses are increasing as they expand?[12]

Figure 9. Role of content in television sub-sector



The bottom line

While our research suggests that investing in content may enhance profitability for a distributor, clearly content creation is not without its risks. At their essence content creators are highly innovative businesses, needing to capture new audiences through investment in new creative concepts which may have no guarantee of success. Distributors may feel that they already have capabilities in identifying valuable content and negotiating rights and royalties but that forays into content investment should be managed carefully given the likely expectation of shareholders for stable profits based on predictable CAPEX investments.

In a crowded and increasingly fragmented media and entertainment market, many content creators (particularly those which are not among the largest in their sector) have focused on achieving a wider audience for content creators by distributing through multiple channels. Developing a primary distribution channel can be an attractive option to connect with a loyal paying customer base. But companies should recognise that customers are often only willing to engage in direct paying relationships with the largest and most trusted content brands.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Nexus 7
DUMMIES
PERIODIC TALES
JO NESBO
ANDREW MARR
A HISTORY OF THE WORLD
J K ROWLING
Casual Vacancy
WORLD HISTORY
IAN RANKIN
FALSE ECONOMY
ALL HELL LET LOOSE

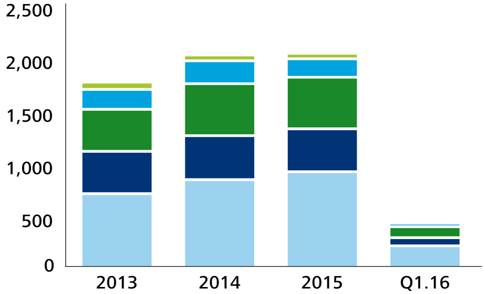
Aquisitive vs organic: when to build and when to buy?

Media and entertainment is currently in the throes of an M&A boom, fuelled by renewed appetite for, and a more assertive approach to, acquisitions by corporates. Coupled with a supportive broader macroeconomic environment – historically low interest rates and an abundance of liquidity – this suggests that transaction activity is likely to remain strong through 2016.

2014 and 2015 proved to be strong years for media and entertainment M&A, with around 2,000 deals completed globally, compared to approximately 1,750 in 2013. The UK accounted for approximately 12 per cent of disclosed deals, with advertising and film and entertainment the most active sectors in terms of deal volume.

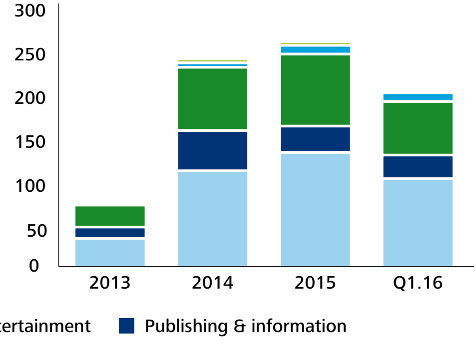
Global Deal Volumes: 2013 – Q1.2016

Number of deals disclosed



UK Deal Volumes: 2013 – Q1.2016

Number of deals disclosed



Source: Capital IQ, Deloitte analysis

The most notable change in the market over the last two years has been the return of corporates to the M&A market and a shift in their behaviour. Prior to 2015, corporate acquirers often chose not to participate in competitive M&A auction processes or were beaten by Private Equity funds when they did participate. They were losing on price but also, importantly, on their inability to manage process dynamics given the timescales involved and the challenges with their internal approval and sign-off processes.

Among media and entertainment corporates there now appears to be greater recognition that organic growth is difficult to achieve. This has fed directly into an increased willingness to pay the premium prices required to acquire quality assets and to beat the Private Equity community.

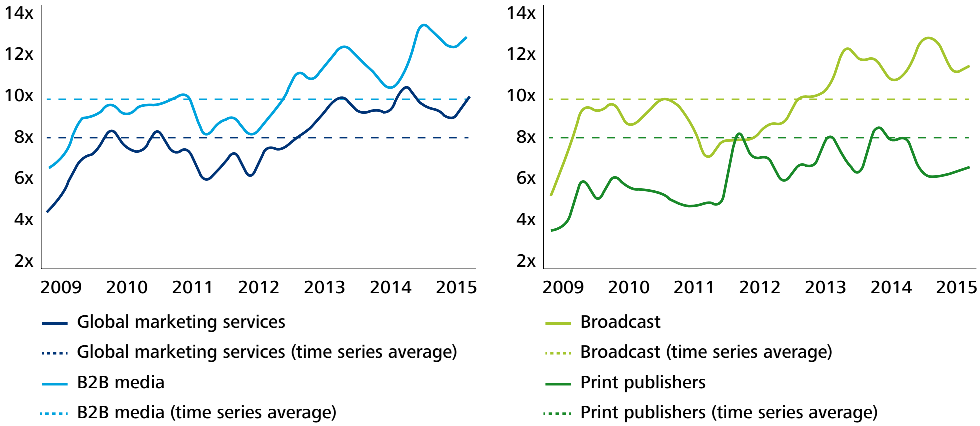
In this newly energised corporate market, UK media and entertainment companies are proving attractive to overseas buyers. For example, in March 2015 the UK B2B information publisher Wood Mackenzie was bought by US counterpart Verisk in a £1.7bn buyout, beating a swathe of UK and US Private Equity houses in the process.[13]

UK media companies are also doing the buying, particularly in the TV industry. The growing belief that content is critical for delivering audiences has driven a significant amount of M&A activity as both broadcasters and pay TV platforms have sought to acquire high value content. This tallies with our finding that distributors with content assets are significantly more profitable than those without.

In our top 10 largest companies, Liberty Global is a good example of how M&A is supporting the vertical integration trends. Liberty Global has established a dedicated content investment team and, in recent years, has acquired stakes in All3media, TV3 and ITV. ITV itself acquired Talpa Media (the entertainment show producer behind formats such as The Voice) for €500m in 2015.[14]

Valuations increased in 2015 and average valuations achieved across 2016 media M&A deals seem to be reaching similar levels, with most market commentators agreeing that valuations are circa 2-3x EBITDA, above long-term market averages. In simple terms, 10x is the new 8x.

Media M&A valuations, 2009-2015



Examples of the premium valuations paid for media assets over the last 12 months, include:

- the sale of the Financial Times, a business with a flat revenue line, to Nikkei for £844m at 16.9x PY EBITDA)

- most recently, the sale of a majority stake in Argus Media to General Atlantic.

The bottom line

Current market activity suggests that M&A will remain an attractive tactic for media and entertainment companies as they tackle ongoing structural change in the industry and seek new ways of expanding. The experience of the last 18 months demonstrates that corporates can outbid Private Equity cash, and those with a clear and focused approach to M&A will be the ones who succeed, but only with concerted effort to maximise their chances of winning in a competitive market.

That clear and focused approach includes shortened decision-making (to meet the strict timetable of a competitive M&A auction), better leveraging of potential synergies in a valuation context, and better structuring of incentive plans for management teams. Successful executive teams also adopt a more pro-active and aggressive stance in order to create "off market" deals.

Organic vs M&A	Organic • Rarely uses acquisitions as a means of expansion • Focused on strengthening position in core market	Integrated • Uses large but influential M&A to boost position in core market • Or, uses smaller acquisitions periodically to build small stakes in adjacent markets	Diversified • Makes frequent purchases (and divestments) • M&A and portfolio management is a core part of strategy
Key success factors:	• Fast growing markets • Shareholder expectations aligned	• Ability to identify targets that can be integrated into core business	• Access to capital • Strong capabilities in integrating new acquisitions or managing a portfolio • Operate in makets where scale is important to control costs
Challenges of this model:	• Potentially slower growth • Can be hard to make big changes to market share	• Effective integration of acquired businesses to ebhance market or product positioning	• Extracting value from acquired businesses

Research methodology

The companies included in this research have been identified according to their UK Standard Industry Classification (SIC) codes, as defined by their registration at Companies House.

The UK SIC 2007 codes covered by this report are:

- 581 – publishing of books, periodicals and other publishing activities
- 59 – motion picture, video and television programme production, sound recording and music publishing activities
- 60 – programming and broadcasting activities (includes radio and TV) and
- 731 – Advertising

In addition, we have included a small number of companies whose SIC code is not included in the list above but who we believe are part of the UK media industry, due to their tight interrelation with the other companies in our ranking, or because their main competitor set is included in our definitions. The most notable examples are Thomson Reuters, Google and Facebook.

Where possible, we have removed duplicated entities and used group consolidated results where an eligible group company registered in the UK exists.

Where a group parent company does not exist, does not meet the profile of a media company, is not registered in the UK or does not consolidate the results, the subsidiaries are shown separately (for example, Penguin and Random House).

Associate companies are presented separately from their ultimate owners, as associate revenues are not included in the consolidated figures of the parent company.

The data covers media and entertainment companies who are registered in the UK. This approach provides us with a consistent basis on which to rank companies, but it does mean that some large, global media and entertainment organisations with a UK presence may be excluded because revenues generated in the UK exist within a company that is registered elsewhere. Conversely, some UK entities recognise all of their global revenue in their UK-based company.

Where companies report their results in a currency other than British Pound, their results have been converted using the average exchange rate for their reporting period.

Financial information has been sourced exclusively from publicly available information ranging from

Companies House, annual reports and results statements. Financial results include discontinued operations but exclude the results from joint ventures, and profit after tax is selected as the profit figure. There have been no adjustments made to reflect revenue or profit gained through internal or external operations.

The ranking of companies by size is based on their most recent annual results, available as at 30 April 2016.

As we are comparing the market at a point in time, we define 2015 revenue as that which was primarily recognised in that calendar year. As such, companies with financial year ends in January to June have had their revenue categorised as 2014, as six months or more relate to the 2014 calendar year. The financial results for all other calendar years have been treated the same way.

Comparable measurements were selected across all companies where possible; however, there may be some discrepancies due to variations in reporting requirements across the listing (for example, UK GAAP versus IFRS).

For advertising companies, where possible, net billings were cited as revenue instead of gross billings. Where a net billings number was unavailable, these have been identified in the full Top 100 listing.

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Endnotes

1. Ranked by their most recently reported annual revenue, as available on 30 April 2016.
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