

# CHANGING CHANNELS

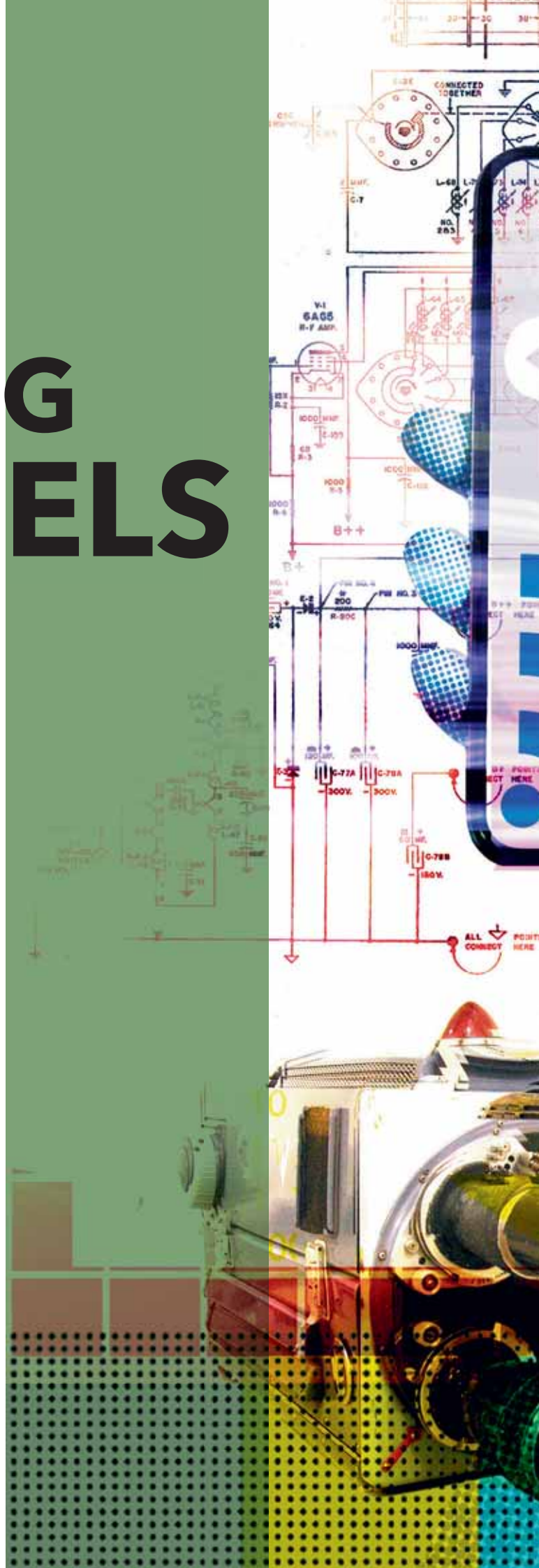
The global broadcast industry has been going through a revolution – and the lockdowns have accelerated that process. David Prosser looks at the role M&A is playing in reshaping the way programmes are delivered and consumed

**B**ritish television viewers of a certain age will recall *OTT* fondly (or maybe not). An anarchic 1980s late-night version of the popular ITV children's show *Tiswas*, it cemented the star status of presenters Chris Tarrant and Lenny Henry, and disrupted conventional thinking about scripted content and the boundaries between TV for kids and adults.

Four decades later, the term *OTT* (over the top) has become synonymous with disruption in the global broadcasting industry of an altogether greater magnitude. The rapid growth of *OTT* media services in recent years – particularly their acceleration during the COVID-19 pandemic – has turned business models across broadcasting on their heads. It has also prompted a wave of M&A transactions.

Critically, *OTT* services – Netflix, Amazon Prime, Disney+ and Hulu, for example – bypass the platforms that have traditionally controlled distribution of television content. All you need

ILLUSTRATION BY SARAH JONES







NOTE--ON SOME RECEIVERS  
PICTURE TUBE TERMINALS  
7 & 8 AND 10 & 11 MAY BE  
REVERSED.





## 'The giants of television are losing control. The pandemic and lockdowns have accelerated the adoption of newer broadcast media'

to watch their content is an internet connection, and you get to watch it whenever you want. The giants of TV – the cable, satellite and broadcast platforms, with their linear programme schedules – are losing control.

"Technology has often been a disruptive influence in broadcasting, but we've never seen a wave of disruption quite like this before," says Graham Sharp, a US-based director of Media Asset Capital, a strategic adviser to the media sector. "It represents a total blurring of the lines between content owners, content distributors (broadcasters, cable operators and telcos) and technology companies."

In this new world, Sharp points out, Apple has entered the content business along with Netflix and Amazon, and they are all now commissioning programming. "The debate used to be about whether content or distribution was king," he explains. "With OTT, distribution is becoming less important, so traditional technology and distribution companies are piling into the content business, and content owners are doing their own distribution."

Moreover, although the rise of streaming services may now feel like a *fait accompli*, it has happened remarkably quickly. As recently as five years ago, many in the broadcasting industry were really unnerved by the idea that younger people were giving up on television altogether, instead favouring bite-sized chunks of content on platforms such as YouTube.

Alfonso Marone is UK head of deal advisory for technology, media and telecom at KPMG, and a former corporate development executive at American mass-media conglomerate NBCUniversal. He says: "The worry was the competition posed by other types of media, but the move from linear to streaming services has turned out to be a much bigger threat to broadcasters." This has transformed the dynamics of the marketplace, he points out. "When Netflix was still sending out DVDs by mail, while quietly hoarding unmonetised digital libraries for pennies, US studios and mainstream UK broadcasters thought Sky would be the gorilla in the room. It hasn't turned out that way."

New ventures that have attracted significant funding but made the wrong call, have fallen by the wayside. Most notable was the short-form streaming service Quibi, which raised \$1.8bn to



**'We have never seen a wave of disruption quite like this before'**

**Graham Sharp**  
director,  
Media Asset Capital



**'Most traditional broadcasters can't compete with the financial firepower of the streaming services'**

**Alfonso Marone**  
UK head of deal  
advisory for TMT, KPMG

sell YouTube-style quick bites of content, but produced to a higher quality. It shut its doors last year after only six months. Critics argued that founder Jeffrey Katzenberg, now in his 60s, had misread the shifting appetites of younger viewers, although the Disney veteran responded that COVID-19 had put a stop to activities such as commuting and queuing in coffee shops, which might have given ideal opportunities to watch Quibi's content.

Certainly, the COVID-19 pandemic appears to have cemented the shift to OTT, with locked-down viewers around the world turning to streaming services. In the UK, the amount of time people spent watching television rose by a third during last year's first lockdown, according to the broadcasting regulator Ofcom. But streaming was the big winner, with viewers doubling the amount of time they spent watching those services.

### Starring role to play

Against this backdrop, every combatant on the broadcasting battlefield has been scrambling to fill in the gaps in its competencies. The result has been a blitz of deal-making. Since 2014, we have seen more than \$700bn in strategic M&A deals across global media and entertainment sectors, according to data from Mergermarket.

At the very top of the global broadcasting industry, this activity has included landmark transactions such as Disney's acquisition of



21st Century Fox's entertainment assets for \$71bn in March 2019, and AT&T's acquisition of Time Warner for \$85bn in October 2016 (see 'megadeals' box, right).

The biggest names in broadcasting are not going down without a fight. They are building their own streaming services, and also amassing the content required to persuade people to subscribe. It turns out that Microsoft founder Bill Gates's 1996 essay, *Content is King*, was spot on. "Content is where I expect much of the real money will be made on the internet," Gates predicted, and this has set the tone for the consolidation of recent years.

In simple terms, if you own the shows people want to watch – particularly if your ownership means that people can't watch them anywhere else – you have a good chance of attracting viewers. That applies whether you are running a traditional linear television channel or a subscription service, but the huge amounts of cash generated by the latter provide them with an edge when it comes to acquiring this content.

"It's not a level playing field," says Marone. "Most traditional broadcasters simply can't compete with the financial firepower of the streaming services."

### Production values

For content producers and owners, this bunfight between the big names presents a potential bonanza. In some cases, such businesses have themselves become acquisition targets, amid a consolidation trend that followed the megadeals among broadcasters. The deal between France's Banijay Group and Endemol Shine, itself the product of several previous rounds of M&A, is just the biggest of many examples of such transactions.

Those producers that have remained independent have found the market for their programming has expanded hugely. Moreover, the likes of Netflix and Amazon are also now making big investments in original content, as well as acquiring existing rights.

In some ways, there has never been a better time to be making television, says Iain Pelling, managing director of Arrow International Media, which produces content for a range of UK and international broadcasters. "Five years ago, I'm not sure I would have advised my daughter to follow me into television, given how uncertain the future looked," he reflects. "But the streaming services have completely changed people's thinking. Their emergence has really underlined the value of content – and not just short-form content."

Clearly, content owners are in a stronger position. In the UK, the biggest viewing figures for a drama so far this year was for the first episode of series six of the BBC's *Line of Duty*, broadcast in March. The long-running police corruption drama is made by World

## SIX MEGADEALS IN BROADCASTING



### October 2016

Cable giant AT&T pays \$85bn for Time Warner, which, among many entertainment companies, owns brands including CNN and HBO.



### March 2018

Discovery Communications pays \$14.6bn for Scripps Networks Interactive.



### March 2019

Disney acquires 21st Century Fox for \$71bn.

### May 2019

Disney agrees to buy Comcast's stake in streaming service Hulu for \$5.8bn.



### December 2019

CBS merges with Viacom in \$15bn transaction, bringing Viacom's content empire and CBS's broadcast network together under one roof.

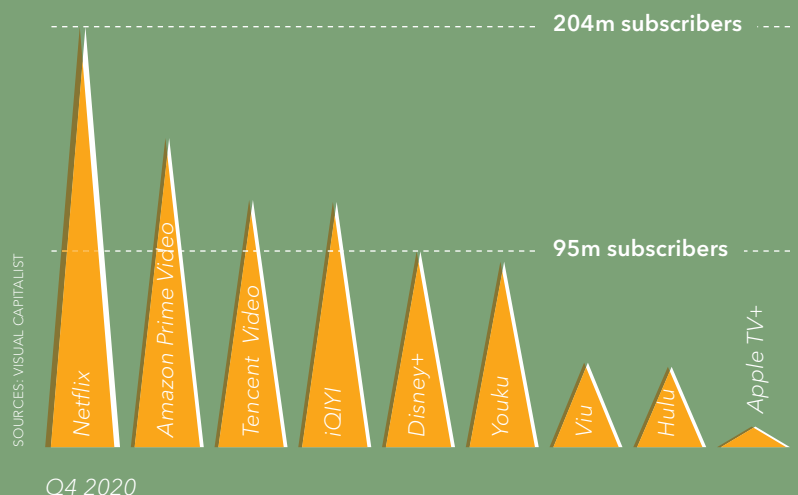


### July 2020

Banijay Group pays \$2.2bn for Endemol Shine Group. Banijay has used M&A to build one of the world's largest and most diverse international content producers.

## OTT REVOLUTION IN NUMBERS

Netflix currently dominates the competition among streaming services. But the battle is fiercer and involves more players than is often realised, particularly if you take into account several sizeable Asian competitors, which are not so well known in the West. Nevertheless, Netflix's huge subscription numbers give it reliable cash flow and huge purchasing power. It generated almost \$25bn of revenue in 2020, and \$542m of profits on \$6.6bn of revenues in the fourth quarter of last year alone. As a result, it has huge purchasing power. Netflix is expected to spend \$19bn on content during 2021. To put that into context, the BBC and ITV each spent around £1bn (\$1.4bn) on content in 2020.



**'ITV producing the BBC's most popular programme is not an issue. Rather, it heralds a new era, where the BBC and ITV can collaborate as well as compete'**

Productions, which in May 2017 was acquired by ITV Studios, as part of the broadcaster's strategy to increase its content output. The fact that ITV is effectively producing the BBC's most popular programme is not an issue. Rather, it heralds a new era, where – in the face of competition from the big streamers – the BBC and ITV can collaborate as well as compete. World Productions can still sell its programmes or series to anyone. Such production houses, provided they make high-quality, in-demand output, should command higher valuations because they now have more options for selling such programmes.

The UK is well placed to benefit from consolidation and demand for high-quality content, argues Linda Sullivan, head of media and digital technology at Cavendish Corporate Finance. She has advised several British content and production businesses sold over the past two years and, she says, "Globally, we punch well above our weight in the creative industries. The UK is an integral part of the OTT platforms' strategy for competing through content."

Netflix spent more than \$1bn in the UK last year, Sullivan points out, which is twice as much as in 2019. It has also now built a significant production hub at Shepperton Studios, one of the country's iconic facilities. Disney has followed Netflix's example, spending a similar sum on a deal to use Pinewood Studios, which owns Shepperton.

**The UK in focus**

Sullivan sees M&A and investment interest in UK companies now coalescing in at least three separate disciplines over the months to come. "Post-production is a particularly interesting area, one where the UK is a world leader," she says. She advised on the sale of leading post-production services The Farm Group to a Los Angeles-based acquirer two years ago.

"I think we're also going to see the creation of new studio facilities, given the shortage of studio space we now have in the UK, with lots of people looking at opportunities in regional locations, such as Wales, Ireland and the Isle of Wight. The UK is also strong on technical innovation – on everything from outside



broadcast to VFX and virtual studios – so that will be another area of interest."

Neil MacTaggart, finance director of Media Asset Capital, identifies another sector that may increasingly attract M&A interest. "The UK is a centre of excellence for the kind of technology OTT services require," he says. Examples include Cambridge-based plc Amino Technologies, which helps consumers to navigate the volume of content and manage their growing number of subscriptions across multiple devices.

Artificial intelligence (AI) is a sector that several UK companies are focused on developing. "AI is the key to building next-generation, intuitive user interfaces to find the content you want," MacTaggart believes. One company is Bristol-based Condense Reality. It is developing virtual reality technology to transform how viewers watch live entertainment and sports, and raised funding of more than £800,000 in October.

Increasingly, these start-ups are coalescing around established media hubs in locations such as Salford, Bristol and Cardiff, and the UK government is keen to encourage this development in order to support the creative economy. In the meantime, transaction activity has already stepped up. Before the pandemic, deal volumes in the UK broadcasting sector roughly doubled over 2018 and 2019, compared with previous years.

While COVID-19 created practical difficulties that may have put the brakes on some M&A



**'The thing about independents is that many of them value their autonomy'**

**Stephen Bristow**  
head of film and television,  
Saffery Champness



**'The UK is strong on technical innovation – on everything from outside broadcast to VFX and virtual studios'**

**Linda Sullivan**  
head of media and digital technology,  
Cavendish Corporate Finance





Broadcasting disruption: the popular BBC drama *Line of Duty* is made by a company owned by ITV



**'The UK is a centre of excellence for the technology that OTT services require'**

**Neil MacTaggart**  
finance director,  
Media Asset Capital

## COMPETITION FOR CONTENT

It would be a mistake to think of COVID-19 as a turning point for the broadcast sector. But the fact that so many people across the world have been stuck at home with more time on their hands has affected the pace of disruption in broadcasting. Almost a third of consumers have taken out at least one extra subscription to a video streaming service during the pandemic, according to Deloitte's latest *Digital Media Trends* survey. In the US, 80% of consumers now subscribe to at least one OTT service, and among younger generations this rises to more than 90%.

Deloitte's research might make painful reading for traditional broadcasters who are struggling to compete with the streamers. But it also includes red flags for the new kids on the block. Competition may be reaching saturation point. Some 40% of millennial consumers complain that they feel "overwhelmed" by the number of subscription services they are now juggling. And 5% of consumers have cancelled at least one OTT subscription over the past year. That may rise as the world returns to the workplace and other forms of entertainment reopen.

Mounting competition is forcing streaming services to vie for an audience with increasing aggression. While individual subscriptions may be modestly priced – £10-£20 a month, say – the aggregate cost soon adds up. Services lure in new subscribers with introductory offers and special rates, but they must win their loyalty quickly in order to retain them once such deals come to an end.

One option for streaming services is to adopt a strategy from the traditional playbook. In some parts of the world, notably Asia, broadcasting is dominated by advertising-funded streaming services that require no fees. Deloitte's report does, however, suggest that viewers in the West are more focused on the range of shows on offer and the availability of exclusive content than on cost. And that implies the battle for control of content will only intensify in the years to come.

activity over the past year, transactions continued to take place in the UK broadcasting sector, with international players swooping in. For example, Fremantle bought unscripted drama specialist Naked Television, while Sony invested in Eleven Film, best known as the maker of *Sex Education*. Domestic consolidation has also been a feature of recent times, with BBC Worldwide, ITV Studios, Channel 4 and Sky all making strategic investments in the past three years.

### That's not all, folks

Stephen Bristow, head of film and television at Saffery Champness, expects further deal-making in 2021 and beyond, although he also warns that acquirers will have to be prepared to pay high prices. "The thing about independents is that many of them value their autonomy and, because they are currently making a good living, there is often a reluctance to sell," he says. "That is feeding through into high multiples."

In practice, suggests Bristow, consolidation in the UK production sector tends to come in waves. "The most successful businesses get bought up, but after a while their senior staff often want to return to the indie sector, so they spin out to launch new ventures. This cycle is bound to continue."

Arrow International Media's Pelling agrees with this, having himself been on a similar journey. "There is a certain creativity that sits more comfortably outside the vertically integrated organisations." He also points out that independents in the UK continue to benefit from protections enshrined in the Communications Act 2003. These entitle them to retain secondary rights when selling content to the BBC, ITV, Channel 4 or Channel 5. The rights can then be monetised globally.

One question yet to be resolved in this fast-paced environment is the future of the BBC and ITV themselves, the dominant incumbent players in UK broadcasting for the past half century. While the licence fee affords the BBC some protection – albeit requiring ongoing political consensus – it is not immune to competition. ITV, meanwhile, once saw its future in the building of a strong position in digital. Now, however, massively outgunned by OTT services in recent years, it has invested heavily in its content arm, ITV Studios, and hopes to double its sales to the streaming services this year.

The BBC and ITV have also made their own foray into the OTT market, recognising the value locked up in their own archives of content. BritBox is now available across North America, where it has 1.5 million subscribers and is profitable, as well as in the UK, Australia and South Africa. Still, sceptics wonder whether BritBox will survive, as consumers question the cost of growing numbers of subscriptions – and ponder whether they have time to watch all that content.