

M&A Insights

Will European media deals switch back on in 2010?

Deal volumes picked up in the second half of 2009 and with some sizeable announced deals that are yet to complete, 2010 is already looking up.

Stay ahead.



Welcome – what can we learn from 2009?

Welcome to the eighth edition of Media M&A Insights from PricewaterhouseCoopers (PwC). As always in this publication, we analyse the trends driving M&A activity in the European media sector and set out our thoughts for 2010.

2009 was a rollercoaster year and no-one predicted that the impact of the global credit crunch would be as deep or as dramatic as we've seen. Levels of M&A activity in the sector have dropped significantly, with only 90 deals worth a combined €6.3bn completing across Europe last year – a considerable fall from the 135 deals worth €17.1bn that we saw in 2008. The UK fared little better with only 29 transactions totalling €2.7bn completing in 2009, down from 45 deals worth €4.1bn recorded in 2008.

As we start to see signs of recovery in the main economies of Europe, there are also encouraging signs of life in the M&A market. Both UK and Europe saw an increase in the number of deals in the second half of 2009 and there is a cautious sense of optimism of a progressive step-up in activity through 2010. We are not out of the woods yet, but a recovery in M&A activity could be sharp as confidence returns, strategic challenges still need to be addressed and the need to deliver growth and not just cost savings becomes more acute.

The ongoing structural transition in the sector will drive acquisitions in the digital space as companies seek to replace eroding advertising revenues with digital revenues. We are already seeing consolidation within the digital sector as this segment comes of age.

2009 saw a rise in the number of restructurings and refinancings as banks opted to refinance debt and reset covenants rather than force a sale of assets. Banks increasingly have an economic interest in a number of assets in the sector and will provide a flow of deals in 2010 as they look to reduce debt to more manageable levels with a view to sell. As the leveraged lending markets slowly open up, we expect to see greater levels of activity from Private Equity (PE), which was largely absent in 2009.

The PwC Media team has been very busy helping clients secure and position their businesses to take advantage of the upturn and develop their strategy and business models. PwC advised on the purchase of Live Nation's Theatres by Ambassador Theatre Group (ATG), backed by Exponent Private Equity. Further completed deals included Endemol's acquisition of Tiger Aspect Productions and Darlow Smithson Productions, the sale of Verivox to Oakley Capital, Apollo Group's acquisition of BPP Holdings and the sale of Decision News Media to William Reed. PwC has also worked on some of the largest and most high profile restructurings including Mecom, and Johnston Press.

One of our continuing objectives is to maintain a dialogue and build on our relationships with companies throughout the media sector. We hope that this publication will help to facilitate this and look forward to receiving your feedback.

If you would like any further information or would like to comment on any aspect of this report, please do not hesitate to contact us.



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M&A revival as the economy gains strength

Acquisition and divestment programmes, largely placed on the backburner during the recession, will be resurrected in 2010 as Europe's media companies move out of survival mode, lift their heads and begin shaping M&A strategies ready for the upturn.

As the major European economies begin to show signs of recovery, so does the M&A market. The second half of 2009 saw 18 deals worth €1.4bn in the UK – a dramatic rise from a low of just 10 deals totalling €320m in H2 2008. These are encouraging signs and we expect further growth in M&A values and volumes in 2010.

With the digital transition gaining pace, 'old media' businesses must capture and capitalise fully on digital distribution channels. This will lead to further add-ons and infill acquisitions and, as the digital technology market matures, transaction sizes will increase.

There is already an element of maturity in the digital landscape with some 'old media' players profit-taking on portfolio digital businesses – witness the recent £15 million sale by INM of its 49% stake in Verivox, the price comparison site, to Oakley Capital. The recent merger of two online market research companies, Research Now and e-Rewards (€89m) indicates a further maturing in the digital sector and we expect to see similar consolidation within digital sectors in 2010.

Banks now have a real economic interest in a number of media assets as they have opted to restructure and refinance debt rather than force asset sales at depressed prices. As the companies reduce debt and recover to a stronger financial position, banks will look to sell and recoup their investment. As the leverage lending market recovers, we would expect to see greater activity from PE buyers.

In the year ahead, media assets will still need to be managed carefully and proactively but, with a General Election and the football World Cup set to boost advertising, a return to GDP growth and increasing credit; 2010 should see a sharp step up in M&A, albeit from a low base.



From mountains to molehills

With the woes of the financial crisis compounded by continuing collateral damage to traditional advertising-based revenues, M&A in the media sector fell in 2009 to its lowest level in more than a decade.

Cost cutting and capital restructuring rather than acquisitive expansion were the primary concerns for many CEOs. Behind the scenes there were numerous restructurings, refinancings and rescues alongside the renegotiation of banking covenants, as banks opted to refinance debt and reset covenants rather than force the sale of assets into a moribund market at fire sale prices.

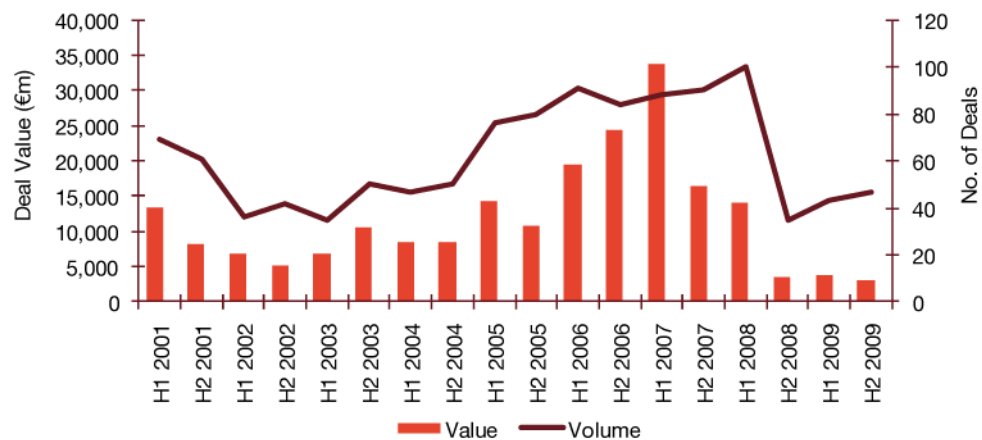
While transaction volumes are down significantly from previous years, it is worth noting that our analysis focuses on deals with disclosed transaction values. The number of deals we identified with an undisclosed deal value (hence not in our published numbers) actually rose by 10% this year, a rise which could be explained by vendors not wanting to publicise disappointing sale prices.

A total of 90 media deals* worth a combined €6.3bn were completed across the UK and mainland Europe last year. This represents a 33% fall in volume and a 63% fall in value from 2008, which saw 135 deals worth €17.1bn.

Although total deal value and volume are significantly down from the previous year, 2008 was very much a tale of two halves. 80% of the deal value in 2008 came from deals completed in the first half of the year – many of which were announced before the recession hit. Both mainland Europe and the UK show significant signs of recovery compared to the low point of H2 2008.

* With a disclosed transaction value

European Deal Activity



This chart covers M&A transactions completed between 2001-2009, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million
Source: Dealogic, Mergermarket

In the UK the second half of 2009 saw completed deal values increase four fold over the equivalent period in 2008, with deal volumes also increasing over 70% compared with the first half of the year. The deal pipeline looks encouraging for a positive start to 2010.

Smaller transactions dominated the landscape in 2009, with the average deal value falling by some 45%. Altogether 21 deals worth €100 million-plus were completed in the UK and mainland Europe last year with only the €612m secondary buyout of the UK-based energy and

information consultancy Wood Mackenzie by Charterhouse Capital Partners exceeding €500m – a deal that shows assets are able to achieve good prices where they have a clear market leadership position, highly ‘saleable’ business models, rapid revenue and profit growth and a natural resilience to the downturn.

In 2008, 104 deals were valued at more than €100m including seven worth more than €500m and four €1 billion-plus transactions. All the deals over €1bn were recorded in the first half of 2008, however, before the market’s dramatic second-half decline.

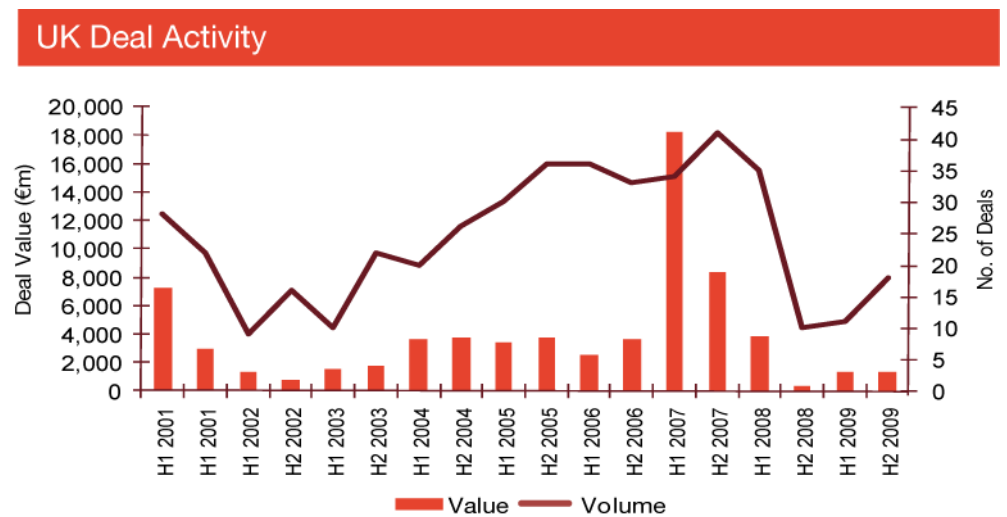
UK deals – the start of the upswing?

A paltry 29 transactions totalling €2.7bn were completed in the UK media industry in 2009. Both deal volume and value were down 36% compared with 2008 when 45 deals worth €4.1bn were recorded.

More encouragingly, however, the total value and volume of deals in both the first and second halves of the year outstripped the second half of 2008. This was thanks to the €612m secondary buyout of Wood Mackenzie in the first half of 2009 and, in the second, the €371m agreed takeover of the training and publishing group BPP by US educational specialist Apollo Global Inc, a joint venture between Apollo Group Inc and PE firm Carlyle*.

Six other UK deals weighed in at more than €100m last year. These were the €281m acquisition of Playfish, a developer of social online games, by Electronic Arts Inc; the €178m purchase of a 31% stake in Central European Media Enterprises (CME), a UK-registered operator of commercial television stations in Central and Eastern Europe (CEE) by the US media giant Time Warner; the €111m sale of Cashcade by Independent News & Media to PartyGaming; the €107m sale of Match.com, an online dating site to French dating site Meetic SA; the €110m acquisition of Live Nation's UK theatre portfolio by the UK's ATG and the acquisition of a majority stake in ATG by Exponent Private Equity.

* Although it is not purely a media company, the BPP deal was included as they have a significant publishing division.



This chart covers M&A transactions completed between 2001-2009, involving stakes greater than 10%, where the target was from the UK and the deal value was disclosed and greater than €10 million

Source: Dealogic, Mergermarket

Trade buyers might have been expected to make a bigger splash last year given the lack of leverage available and the generally low level of PE competition. However only assets with a clear strategic imperative or compelling differentiation were saleable and, with all but the most desperate vendors unwilling to countenance credit-crunch pricing, negotiations often ended in

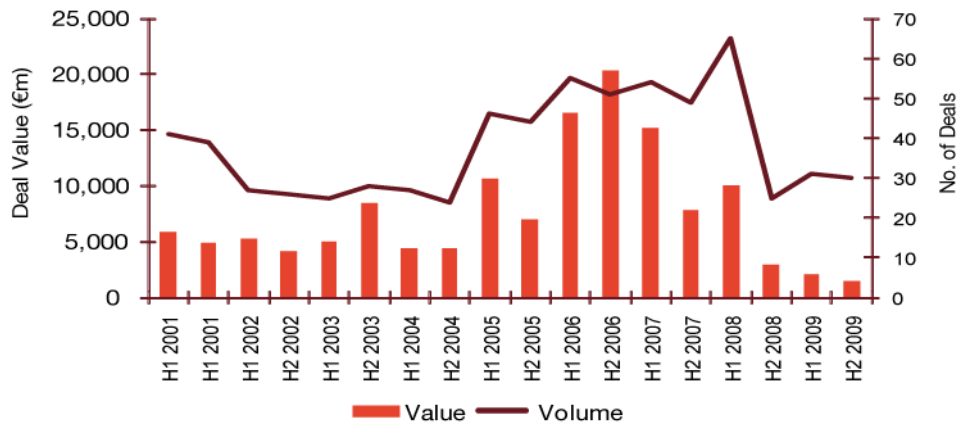
deadlock. Where deals did complete, we have seen a trend towards deal structures designed to bridge the vendor-buyer price-expectation gap with less cash paid up-front and more emphasis on deferred considerations and earn-outs, locking in management for longer and with higher targets.

Mainland Europe – no hiding place from the global malaise

If we exclude the UK, 61 disclosed deals totalling €3.6bn were completed in mainland Europe last year. This compares with 90 transactions worth a combined €12.9bn in 2008 and a recent peak of 106 deals worth an aggregate €36.9bn in 2006.

The largest completed deals in Continental Europe last year were the €263m purchase of a 23% stake in several regional German newspapers by Verlagsgesellschaft Madsack; the €253m purchase of the outstanding 27% stake in the children's entertainment company Jetix Europe in The Netherlands by The Walt Disney Company of the US; the €184m acquisition of Stream-TV, the Russian provider of pay-TV, by Comstar UTS and the €153m acquisition of the German newspaper Berliner Zeitung by DuMont Schauberg.

European (excluding UK) Deal Activity



This chart covers M&A transactions completed between 2001-2009, involving stakes greater than 10%, where the target was from the Europe (excluding the UK) and the deal value was disclosed and greater than €10 million

Source: Dealogic, Mergermarket



Hail the Brave! What will future winners look like?

There were some unrivalled opportunities for strategic and financial buyers brave enough to continue deal hunting last year.

In the UK, Charterhouse Capital Partners' investment in Wood Mackenzie through a highly competitive auction process was a product of the prevailing economic climate and the existing PE owner's debt concerns. Electronic Art's acquisition of Playfish accelerates EA's position in social entertainment and strengthens its focus on the transition to digital and social gaming. Apollo's takeover of BPP expands its international educational services offerings to the UK and Europe.

ATG's acquisition of Live Nation's UK theatres transformed ATG into the UK's biggest theatre operators while DuMont's acquisition of Berliner Zeitung returned this flagship title to German ownership. The divestment of several regional German newspapers by Axel Springer to Verlagsgesellschaft Madsack will allow Axel Springer to focus on making investments in its own newspapers, pursuing the multimedia expansion of its brands and making acquisitions in new online growth businesses.

Oakley Capital's €18m acquisition of Verivox Holdings, the online consumer price comparison website for energy and telecom services, shows that investors have not lost faith in digital media, a trend which has continued despite the downturn, albeit at a slower pace.

Major European Deals 2009					
Date	Value (€m)	Target	Target Country	Acquiror	Acquiror Country
Jun 09	612.0	Wood Mackenzie & Co Ltd	UK	Charterhouse Capital Partners LLP	UK
Jul 09	370.6	BPP Holdings plc	UK	Apollo Group Inc	USA
Nov 09	281.6	Playfish Ltd	UK	Electronic Arts Inc	USA
Apr 09	263.0	Hanseatische Verlags-Beteiligungs AG	Germany	Verlagsgesellschaft Madsack GmbH & Co KG	Germany
Feb 09	253.1	Jetix Europe NV (27%)	Netherlands	Walt Disney Co	USA
Jan 09	184.8	Stream-TV ZAO	Russia	Comstar UTS OAO	Russia
May 09	177.9	Central European Media Enterprises Ltd - CME (30.9764%)	UK	Time Warner Inc	USA
Sep 09	153.6	Edipresse SA (Swiss business)	Switzerland	Tamedia AG	Switzerland
Feb 09	153.0	Cinemas (11 movie theatres in France and 1 in Spain)	France	Compagnie Fonciere Internationale SA; UGC SA	France
Mar 09	152.0	Berliner Zeitung Gruppe	Germany	DuMont Schauberg	Germany

Source: Dealogic, Mergermarket

The only way is up

UK deal volumes picked up in the second half of 2009 and, with several sizeable announced deals in mainland Europe that are yet to complete, the first half of 2010 is already looking relatively positive.

Some of the strategic reshuffling of media portfolios which were put on hold during the eye of the storm will also likely filter through into the deal market through 2010.

News Corporation has agreed to acquire a further 9% stake in Sky Deutschland AG for €1.3bn, taking its stake to 45.4%. In France, Vivendi has agreed to buy a further 9.9% stake in Canal+ France in a €744m deal. In the US, meanwhile, General Electric has agreed to buy Vivendi's 20% stake in NBC Universal for €3.5bn clearing the way for GE to pass control of the entertainment group to Comcast for €8.3bn.

We expect 2010 to see some progressive easing in the leveraged lending market and, as a result, we expect higher deal activity from PE buyers this year. This trend was reinforced at the end of 2009 by the pending acquisition of the German academic publisher Springer Science & Business Media from Cinven and Candover for €2.2bn by the Swedish PE group EQT and Singapore's Investment Corporation.

The exit horizons for many PE portfolio companies have been put back. However, we would expect PE portfolios to provide a fillip to deal flow over the next 12-18 months, particularly as firms continue to seek buyers for debt-heavy assets or seek to raise cash to help troubled portfolios. Already we have seen the announcement of the pending €3.5bn acquisition of the German cable and broadband business, Unitymedia, by the US-based cable television operator Liberty Global, from BC Partners and Apollo Management.

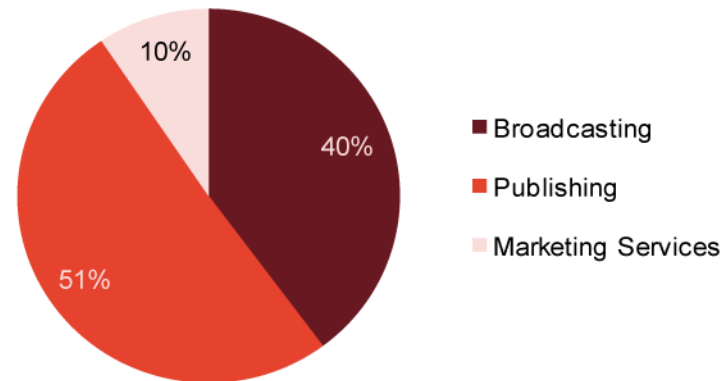
Despite the generally subdued PE presence last year, firms not weighed-down by portfolio issues and with access to funding still have an appetite for strongly-managed companies with good assets, positive cash flows and high growth prospects. Investors will not want to miss buy-side or sell-side windows of opportunity for those media assets at the front edge of the early cycle recovery.



Stop press – digital leads the way

By deal volume, broadcasting last year accounted for 42% of total media deals (2008 – 38%); publishing 40% (2008 – 44%) and marketing services 18% (2008 – 18%).

2009 European Deal Value by Sub-Sector



This chart covers M&A transactions completed in 2009, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million

Source: Dealogic, Mergermarket

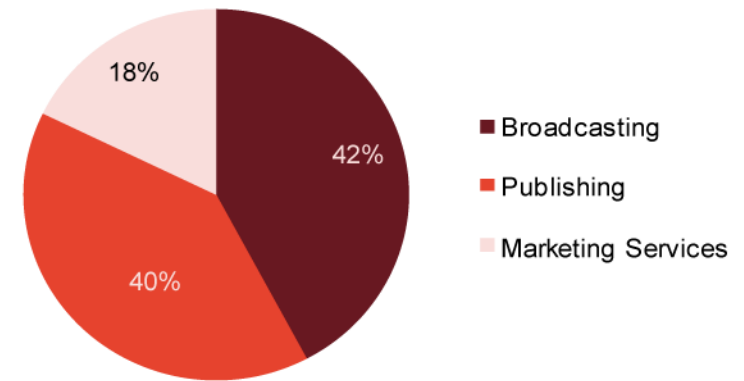
In value terms, publishing's share of activity in the sector was 51% (2008 – 42%); broadcasting 40% (2008 – 45%) and marketing services 10% (2008 – 14%), boosted by the £1.7bn takeover of Taylor Nelson Sofres by WPP Group).

The relatively high total value of publishing deals in 2009 was due to the secondary buyout of Wood Mackenzie, the €263m acquisition of regional newspapers by Verlagsgesellschaft Medsack, the divestment of Berliner Zeitung by the UK newspaper publisher Mecom, the €64m sale of its Norwegian newspaper interests

to Polaris Media, and the €130m sale of the Dutch newspaper publisher PCM Uitgevers to Belgium's De Persgroep.

Traditional advertising revenues are still being eroded and 'old media' companies have to transform to survive. News Corp is leading the way towards a new business model by seeking to charge consumers to access online content via a series of "pay-walls", although to date, online revenues bring in only 10 cents in every dollar of traditional revenues and publishers are struggling to monetise online content. An alternative model to charging for content

2009 European Deal Volume by Sub-Sector



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Source: Dealogic, Mergermarket

is to give it away – evidenced by the Evening Standard becoming a freesheet in October. Circulation was hit hard by rival freesheets and the Standard was forced to adapt in order to survive. Since becoming a freesheet, circulation is up from 250,000 to around 600,000 copies daily – it is estimated that advertising revenues will increase by 40% as a result of the higher readership.

Stop press – digital leads the way

Publishers are prominent buyers of digital companies, given the structural shift in the sector and their need to substitute eroding print advertising revenues with digital revenues. In 2007 DMGT bought JobsGroup.net, an online recruitment site for €10m and in 2005, Fastcrop (Prime Location), an online real-estate advertiser, for €71m. Trinity Mirror acquired TotallyLegal.com, an online recruiter for €12m and Email4Property, an online directory for estate agents.

The trend towards digital has been more subdued during 2009, due to the high debt levels of companies in the publishing sector and a lack of acquisition finance. Online businesses face a challenge to demonstrate growth in a difficult market, which they must do in order to achieve their value expectations. Many publishing companies have been focussed on survival rather than pursuing acquisitive strategies but we would expect these acquisitions to return once their financial position stabilises. Companies will look to make acquisitions that bring new offerings in the digital space or could possibly swap assets (e.g. newspaper titles) to achieve efficiencies or gain critical mass in a particular region.

Dramatic cuts in discretionary advertising spend together with the shift in focus from “above-the-line” to “below-the-line”, are hitting topline revenues of marketing agencies, which are being forced to cut

costs in the ongoing struggle to survive. Fewer new contracts and more contract re-tenders have resulted in strong pricing and margin pressure through the recession. This could lead to some consolidation in the marketing sector as companies look to improve margins, increase efficiencies and reduce their cost base.

2010 promises to be a good year for the mobile advertising sector. The market for mobile advertising in the UK is relatively small – the Internet Advertising Bureau values it at £28.6m in 2008, around 0.16% of the total UK advertising market (£17.5bn). Although small, the mobile advertising market is growing fast, increasing by 99% from 2007. There is a sense that mobile advertising has been waiting for technology to catch up but with the recent release of



Google's Nexus One as a serious challenger to Apple's iPhone, the market share of smart phone technology is growing rapidly.

Both Google and Apple have recently made significant acquisitions in the mobile advertising market, displaying their commitment to this relatively immature market. In January this year, Apple announced a deal to buy Quattro Wireless for \$257m in response to Google's planned \$750m acquisition of AdMob – both deals remove any doubt about the future growth potential of the mobile advertising market and we anticipate more deals in this sector as others look for a slice of the action.

Speculation remains rife in the UK Broadcasting sector around Channel Four and potential mergers with RTL owned Channel Five or ITV, whilst the future structure and role of the BBC is the subject of ongoing debate.

December saw the final break up of AOL and Time Warner, which were united in 2002 in an ill-fated \$182bn deal. The multi-channel dream which led to the tie-up didn't come to fruition and the conglomerate has been broken up into pure-play businesses again. We will likely see more of these types of transactions in the near future as the underlying strategic rationale and ongoing commercial benefits of internet bubble vintage tie ups are subjected to the harsh examination of the new world.

Digitisation and debt dynamics

The digital revolution will continue to generate deals in 2010.

Last year these included the acquisition of Research Now, a UK-based online market research company by e-Rewards Inc for €89m; the acquisition of the UK-based online advertising company Unanimis by Orange; the sale of a 50.1% stake in Digital Window to Axel Springer and PubliGroupe; and the €353m acquisition of the US interactive advertising agency Razorfish by Publicis Groupe of France.

William Reed Business Media reinforced its commitment to online publishing with the acquisition of the online business-to-business publisher Decision News Media in France while the Swedish streaming music service, Spotify, attracted expansion capital from Hong Kong's Li Ka-shing and the UK venture capital firm Wellington Partners.

To date, we have seen fewer than expected high-profile casualties in the Media sector as banks have opted to refinance debt and reset covenants rather than let the larger companies go under. The key difficulty currently facing both corporates and their financial stakeholders is that the options available in a restructuring have narrowed significantly. In particular, continued depressed M&A values, restrictions on the availability of credit to refinance and a sense of pervading pessimism in the sector, particularly with regard to 'old media' businesses, and uncertainty as to what the future holds for online. As lending banks reach the end of the road in terms of refinancing and restructuring options, we would expect to see more sales of non-core assets and even some wholesale 'break-up' of companies in the sector.

Banks increasingly have an economic interest in a number of assets after recent debt restructurings. They will be looking to recoup their financial interest when the companies are back in financial health and the deal price is right. The current focus for the next 12-18 months is on recovering senior capital and reducing debt to more manageable levels, with a view to an eventual sale. As such, management are being re-incentivised to repay debt quickly.



Restructurings, refinancings and rescues

Despite the implementation of cost saving programmes to protect levels of profitability, many media businesses forecast potential covenant breaches or had new money requirements and were forced into a financial restructuring in 2009.

A few over-gearred companies continued to raise funds through the sale of assets but, on the whole, the operational reorganisations which have accompanied financial restructurings have yet to generate wholesale divestments and disposals. When the market recovers some of its composure with better visibility on earnings, however, more companies are likely to be brought to market, adding to the M&A resurgence anticipated over the next 12-18 months.

Yell Group secured its finances with a fully underwritten placing for £660m in November, to reduce its £3.8bn debt burden and extend its facilities out until 2014.

Recent high profile restructurings include 3i-backed VNU Business Media Europe which faced a creditor takeover. 3i and HIG injected €17.2m into VNU and own equal stakes, with VNU's management also getting a minority stake in the restructured company. In return VNU's lenders agreed to relax the company's banking covenants and wrote off some of its debt. EMI, supported by Terra Firma, had to negotiate a major write-down of its debt amid rumours of a possible sale. Education Media & Publishing Group last year announced plans for a new capital restructuring whilst Entertainment Rights, the children's television rights owner, was acquired out of administration by Boomerang Media.

Independent News & Media (INM) recently announced a restructuring plan to help reduce its debt levels and completed the sale of non-core companies including Cashcade and Verivox in 2009. Most of the estimated €150m proceeds from these disposals will be used to reduce bank debt. Newspaper publisher Johnston Press also successfully negotiated a £485m debt restructure.

Russia's RBC Information Systems held debt restructuring talks as did the German pay-television broadcaster Premiere AG while Thomson's CEO, Frederic Rose, delivered an ultimatum to creditors to accept his proposed restructuring plan or face one imposed by the courts.

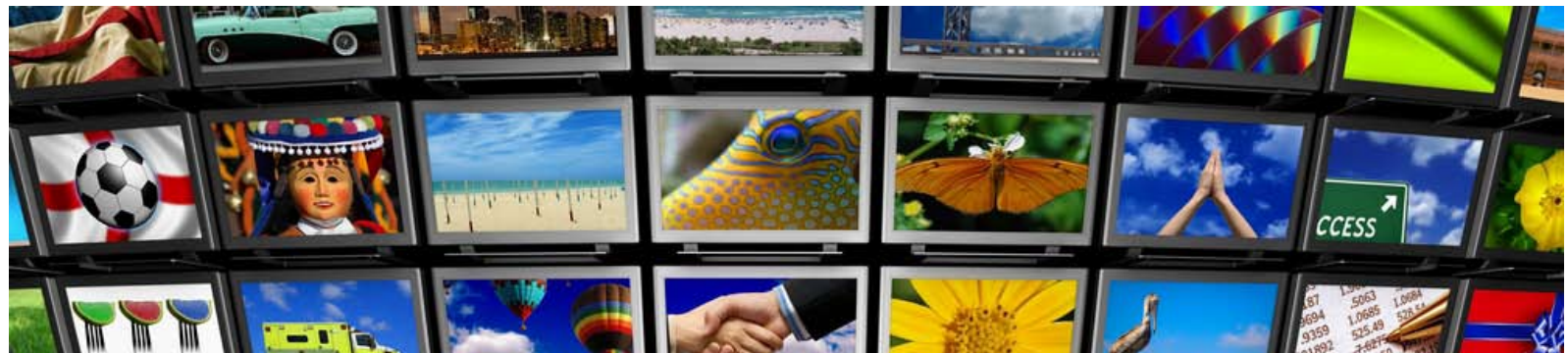
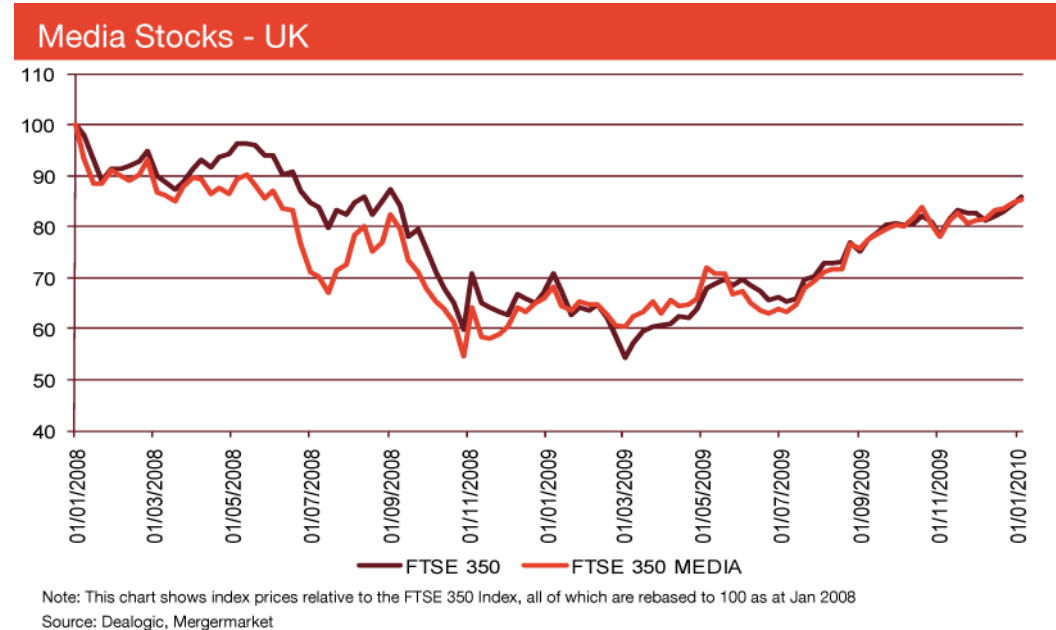


Media stocks rally

In the public markets, media stocks mirrored the upward curve of the FTSE all-share index over the last six months of 2009 with the FTSE 350 Media price index slightly out-performing the main index.

This relative strength in media stocks, as well as the squeeze on senior debt, deterred public-to-private LBOs. However, the stock market recovery, investor appetite, and an urgent need to pay-down debt at many media companies, did produce a flurry of rights issues.

In April last year Luxembourg-based Metro International set out to raise £45.2m to repay a loan of €28.7m and replenish the company's working capital for the next year, while Germany's Premiere secured some €412m. Informa launched a £240m rights issue in May to alleviate debt concerns while Mecom unveiled a deeply discounted £142m issue to bolster its finances. Reed Elsevier completed a £824m fundraising at the end of July and November saw Yell Group raise £660m and INM more than €90m.



IPOs - remaining an endangered species or set for a revival?

Whilst there is much talk of a burgeoning IPO pipeline for 2010, coupled with a desire among PE investors to broaden their realisation options in a world where secondary and refinancing options are more limited, it remains to be seen how many of these will come to fruition.

There have been no IPOs in the sector over the last year as the markets remained firmly shut. Germany's Unitymedia was preparing to go public at the beginning of 2010 but is currently under offer from Liberty Global. However, the Polish media group ITI announced in November that it wants to float its cinema operator Multikino over the next two to three years.

Media IPOs are likely to remain in short supply in 2010, with many more of those trailed as potential candidates succumbing to advances from trade predators. UK public takeovers are likely to come more into play in 2010, as valuations recover from their low point, confidence returns and the attention of CEOs turns firmly towards the growth agenda. Valuation is likely to remain a thorny issue however, and may prove a stumbling block for many potential

deals. Centaur Media successfully fought off an unsolicited approach from Critical Information Group in November. The public relations group Next Fifteen also remained independent after takeover talks with rivals Chime and Huntsworth were abandoned. Some public market deals did get across the line however - online marketing services group TMN completing a reverse takeover of AIM-listed Progressive Digital Media in June.



Will media deals switch back on in 2010?

Already we are seeing signs of life in the Media M&A market after what has been a challenging year.

As confidence returns to the markets and European economies begin to emerge from recession, we are beginning to see a rise in deal volumes. With a number of sizeable deals pending completion, 2010 shows encouraging signs of a significant increase in M&A activity.

With the digital transition gaining pace, 'old media' businesses must capture and capitalise fully on digital distribution channels. Growth in immature markets like mobile advertising and a structural shift to the digital space will drive the M&A market in the coming year.

We continue to see the gradual opening of the leverage lending markets, which will lead to greater activity from PE buyers in 2010. We are still a long way from the heady heights of 2007, but as companies begin to think about positioning themselves to take full advantage of the anticipated upswing, 2010 should see a marked upturn in M&A activity.



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