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News media sector reaches A$576 million in advertising

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Australia's news media industry reported growth of 17.5 per cent in digital ad revenue for 2016, according to the news media index and SMI data

Australia's news media industry reachedAUD 576 in advertising revenue in the second quarter of 2016, according to the News Media Index and Standard Media Index (SMI) data.

The quarterly index shows digital advertising growth of 17.5 per cent, with a value of AUD 2.3 billion. The increase represents a 14.4 per cent rise year-on-year.

News Media Index reports on advertising investment in news media companies through a partnership of Australia's four largest publishers - News Corp Australia, Fairfax Media, West Australian Newspapers and APN News & Media. The collaboration is aimed at providing enhanced commercial transparency to advertisers and investors.

NewsMediaWorks, the newspaper industry body, has also partnered with SMI for data on advertising spend.

Mark Hollands, CEO of NewsMediaWorks, said: "Growth of 14.4 per cent in digital revenue for Q2 demonstrates the ongoing success of the industry in its transformation to create a profitable balance of print and digital news media offerings.

"For the entire fiscal year, digital revenues have risen 17.5 per cent compared with ➔

Increase in profit for Finnish media sector

The Finnish media sector reported positive growth trends in July with commercial media company Sanoma announcing a 75 per cent increase in profit.

On 27 July Sanoma's CEO Susan Duinhoven said the company's media operations in Finland were the biggest factor behind the profit increase. She attributed the turnaround to strict cost control and a rise in advertising sales.

Sanoma owns the largest newspaper in Finland, *Helsingin Sanomat*, as well as other newspaper titles and magazines. It also owns Nelonen Media, a broadcasting group focussing on radio and television.

In the same month, leading newspaper publisher Alma Media also announced profit for this year would increase. Its interim report covering January to June shows growth in profitability and digital business in the second quarter of 2016. Alma News & Life reports a 26.6 per cent increase in online advertising.

Alma Media publishes Tampere-based daily *Aamulehti*, national evening paper *Iltalehti* and business daily *Kauppalehti*. Alma Media's turnover for the second quarter of this year was up by 26 per cent.

The Talentum acquisition completed in late 2015 will increase Alma Media's revenue and operating profit in 2016. Nordic media company Talentum brings expertise in publishing books and magazines, online activities and telemarketing.

National news agency STT-Lehtikuva will also see a boost in activity after political intervention last month when an all-party working group said STT-Lehtikuva services should be used by state broadcaster Yle. ■

What's inside

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Pinsent Masons

Virgin Media buys Ireland's UTV in a €10 million deal

Virgin Media has entered into an acquisition agreement with ITV to acquire UTV Ireland for EUR 10 million.

Announced in July, the deal makes Virgin Media Ireland's leading free-to-air commercial broadcaster.

The agreement includes a comprehensive 10-year output deal for Ireland for ITV-produced programming, of which soaps Coronation Street and Emmerdale would be a key component.

The transaction follows the successful acquisition of TV3 Group by Virgin Media in December last year and highlights continued confidence in the Irish television programming and production sectors.

David Bouchier, Chief Digital Entertainment Officer at Virgin Media, said: "The acquisition of UTV Ireland gives us leadership in commercial broadcasting in Ireland and extends our platform to showcase the best Irish, UK and international programming."

The purchase price will be funded through existing liquidity with the deal reaching completion in the coming months.

Tony Hanway, CEO of Virgin Media Ireland said: "This is a very positive development for Irish broadcasting and ensures Virgin Media's continued investment in top quality programming and local production."

He added the investment demonstrates Virgin Media's "commitment to provide great entertainment for Irish viewers and adds Ireland's newest TV channel to our existing portfolio which includes TV3 and 3e."

Rise in media and entertainment sector deal activity

Deal volume in the media, entertainment and communications industry increased by 3 per cent in the US, according to a report by PwC published in July.

The report highlights growth in the second quarter with 188 transactions announced and a rise in deal value, reaching USD 41 billion.

Deal value is the highest it has been in 12 months and takes into account five mega-deals – those valued at more than USD 1 billion– including NBCUniversal's DreamWorks Animation takeover and Lionsgate's purchase of Starz.

Other areas of growth include increasing inbound activity from China. The report notes: "The continued search for growth fueled by significant capital available for deployment suggests inbound M&A from China will likely continue for the foreseeable future."

Bart Spiegel, media partner at PwC, said: "Seemingly, a majority of the transactions consummated these days are in the pursuit of quality content, complimentary distribution channels or technology. It is apparent that dealmakers are focused on these pockets of potential and are looking next door and around the globe to do it."

Findings also show it was another strong quarter for film and content M&A activity with 13 deals valued at USD 3.7 billion. As highlighted in the report, "Deal volume in the quarter was driven by production-related services (over 50 percent of the deals in this quarter) with a heavy interest in companies with virtual reality production capabilities."

News media sector reaches A$ 576 in ad value

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FY15. Importantly, direct revenues have held up well with a small decline of 1.2 per cent in Q2 compared with the corresponding period in 2015."

The report, which is independently verified by SMI, highlights all print and digital revenue as well as revenue for the industry as a whole. Findings show that the total advertising revenue contracted by 5.4 per cent, not the significantly higher rate of 13 per cent reported in SMI agency-only data for newspapers.

Mr Hollands explained: "Our latest revenue results again illustrate the true size of the sector and the robustness of the news media business in challenging economic times.

"The buying decisions of media agencies continue to be out of synch with those of direct advertisers. The recent agency-only spend data from SMI shows investment off 13 per cent for Q2 for newspapers when compared with Q2 2015, while the whole of industry picture shows the decline to be much smaller at 5.4 per cent.

"Advertisers with close publisher relationships, and who understand the engagement of their audiences, see the value in news media brands and remain with them because they represent a successful marketing investment."

Change to legislation threatens independence of public media

Agnieszka Wiercińska-Krużewska

Media as a "fourth branch" of government should be recognised as a tool of democracy

Under the "separation of powers" model, the government is divided into branches, each with separate and independent powers and areas of responsibility. What is relevant is the powers of one branch are not in conflict with those of other branches.

In the Polish constitutional system, there is a classic separation of powers between a legislature (the parliament), an executive (the President and the ministers) and a judiciary (the courts of law).

However, the role of the media as a "fourth branch" should also be recognised. The Polish constitution confirms that the media (a forum for public discussion and debate) is an important tool in maintaining democratic standards. These standards are protected by the National Broadcasting Council (commonly referred to by its Polish acronym KRRiT), which guarantees the independence of the media (TV and radio).

The KRRiT was created in 1992 to manage the public media, which was previously tightly controlled by the state, and to regulate private broadcasting, which was emerging at that time, and its powers are specified in the Polish constitution.

Moreover, in order to keep the media free from political pressure, each of the members of the KRRiT is elected by various political powers (i.e. by the president and each of the parliament's chambers) for a six-year term. There is also a requirement that KRRiT members cannot belong to a political party or a trade union, or perform other public activities incompatible with their function.

The main task of the KRRiT is to protect: (i) the freedom of speech and broadcaster independence, (ii) interests of viewers and listeners, (iii) open and pluralistic character of radio and television.

The implementation of these tasks is in part facilitated by, among other things, the KRRiT's right to appoint members of the supervisory boards and programme councils of individual public radio and television entities. However, recently, this right has been significantly limited.

On 08 January 2016, an Act amending the Polish Broadcasting Act came into force. The amendments transferred the right to appoint and dismiss the management and supervisory boards of public broadcasting entities to the sole competence of the Minister of the Treasury.

There were no express legal limitations on the exercise of those rights, allowing the minister to introduce virtually unlimited changes in the membership of those bodies. Subsequently, on 07 July 2016, new regulations came into force setting up a National Media Council (Rada Mediów Narodowych) to which the minister "delegated" these rights. By virtue of the new regulations, the government (or, more specifically, the Minister of the Treasury) no longer holds the powers. The situation nevertheless raises concerns.

These changes substantially undermine the position of the KRRiT. Unlike the KRRiT, the independence of the National Media Council is not protected under the Polish constitution, but still has a decisive impact on Polish public service media. Most notably, its members can be "political".

For these reasons, there is genuine concern that these measures aim to reintroduce the model of politically-dependent state media, known in the past, by eliminating the necessary distance between the authorities and the "fourth branch" (media) which should be independent in a democratic state.

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Brexit and the Impact on media sector M&As

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While Brexit may not directly impact merger and acquisition activity in the short term, joint venture backing for UK businesses may be limited in the future

Over a month has passed since the UK voted, on 23 June 2016, to leave the European Union. In that month, much was written on the potential impact of Brexit. Given no one currently knows what form Brexit will take, however, most commentary to date, albeit well-informed, amounts to little more than speculation.

Mergers and Acquisitions

So, let's start with M&A and what we have seen in the immediate aftermath of the Brexit vote. Some buyers walked away from potential deals. Where this occurred, the most frequently cited reasons were the economic and regulatory uncertainty which the vote had caused.

Perhaps surprisingly, however, the majority of deals on which we were advising at the time of the vote either continued or came back after a short delay. We saw a degree of price renegotiation, but not as much as might have been expected. To a degree, for international buyers at least, the desire to achieve a better deal may have been satisfied by the fall in sterling that followed the vote.

This was stated expressly by Adam Aron, CEO of NYSE-listed AMC in the context of its USD1 billion acquisition of European cinema chain Odeon and UCI:

"While we acknowledge that there are some uncertainties related to Brexit, we are encouraged that current currency rates are highly favorable to AMC with the pound falling to a three decade low versus the dollar."

With some analysts forecasting a further drop in sterling, we might expect M&A to remain reasonably buoyant in the short-term, with international buyers taking advantage of the pound's ongoing weakness.

Interestingly, when this point was put to Masayoshi Son, CEO of SoftBank, in the context of SoftBank's GBP 24 billion bid for ARM Holdings, he said that Brexit had not influenced his investment decision and nor had the timing of the deal been driven by currency fluctuations.

In fact, ARM's share price had increased post-Brexit, owing to the fact that its revenues are largely in dollars.

So, in the short term, I think we can expect M&A activity to remain relatively strong. The greater concern, however, is the longer term.

It is worth looking at a handful of recent strategic deals in this context. In June of this year, about a month before the Brexit vote, Twitter acquired Magic Pony Technology, an 18-month old machine learning start-up.

Going back a little further, at the tail end of 2015, Apple acquired VocalIQ, a start-up focussing on natural language and the use of machine learning to create virtual assistants.

At first look, you might think that Brexit would not affect deals like these. In both cases, the value of the business derived from the technology and expertise within the business which had developed that technology.

Given this, it is fair to say that Brexit, in itself, would have been unlikely to affect the rationale for either deal.

And yet, both target businesses were funded by UK-based venture capital (VC) firms.

Every entrepreneur knows that finding funds to enable a business to scale up, is tough. Unfortunately, in the UK, it may be about to become tougher. The European Investment Fund, ➔

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UK: Some Thoughts on Brexit

a cornerstone investor in UK VC funds and the biggest investor in VC in Europe, issued a press release in the wake of the Brexit vote, stating that it would have to re-evaluate, alongside the European Investment Bank (its majority owner), its approach to UK investment.

There is no suggestion of an immediate change of policy, but this cannot be ruled out in the future.

There is, therefore, a concern that VC backing for UK businesses may be more limited in the future and that as a consequence of this, the next generation of businesses like VocalIQ and Magic Pony may find it harder to raise finance.

Perhaps some consolation can be found by looking a little further back, to Google's acquisition of DeepMind at the beginning of 2014.

DeepMind, like VocalIQ and Magic Pony, had also benefitted from VC funding, but in that case, both institutional investors were US-based.

With US-based VCs in general playing a more active role in the UK, a falling off in European VC activity may actually encourage further US investment.

In short, uncertainty will be the new norm in the UK for the foreseeable future.

Theresa May has indicated that she will not give notice under Article 50 of the Treaty on European Union of the UK's intention to leave the EU (which starts the clock on the two-year period at the end of which the UK will exit the EU) until next year.

In the meantime, sterling and stock prices remain depressed, meaning that there are opportunities for buyers.

Article by Andrew McMillian

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Media-specific Concerns

As I said at the beginning of this article, there has been much speculation as to the potential impact of Brexit on every sector.

What we do know for certain, is that the government will not have sufficient capacity or indeed, expertise, within any meaningful timeframe, to negotiate treaties equivalent to those which we currently enjoy as a member of the EU.

One recent US estimate placed the number of trade treaties that would have to be negotiated between the UK and the US alone at around 60.

Given this, it is clear that at some point, a list of issues and treaties will be drawn up which the government will prioritise over all others.

An obvious example of this, given London's standing as an international financial centre, is the ability currently enjoyed by financial services groups registered in the UK, to passport their services into other EU member states.

It is not only financial services groups which rely upon passporting, however.

An obvious example in the media sector, is the Audiovisual Media Services Directive (AVMS), which guarantees broadcasters freedom of reception across the EU, subject to their being regulated by the member state in which they are based.

Numerous broadcasters have relied upon this right in establishing international channels based in the UK and are concerned that rights will be lost if an equivalent right to passport services is not negotiated separately with the other member states of the EU.

They are right to be concerned, but the potential downside is not as extreme as it might at first seem.

If AVMS were to fall away in its entirety, UK-based broadcasters would be able to fall back on a separate treaty to which the UK is a signatory, the European Convention on Transfrontier Television.

That said, the protections under the latter treaty are more limited than under AVMS and cover only linear broadcasts and not the supply of on-demand content.

The bigger point right now, however, is not in the detail. All players in the media sector should at this stage be identifying those EU treaty rights which are critical to their business and which they need to see negotiated as part of any Brexit deal.

They should then be lobbying the government, both jointly and independently, to ensure that their concerns are not lost behind those of other sector interest groups. ■

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