Content Economics Research

M&A activity in the UK indie sector

An analysis of M&A activity where the target is a UK-based independent TV production company, 2007-2009

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EXECUTIVE SUMMARY

Criteria and sources

This report attempts to detail all the completed, and publicly reported, merger and acquisition (M&A) transactions between 2007 and 2009 where the target company was an independent TV production company (or 'indie') headquartered in the UK.

Where possible, the data regarding these deals has been taken from public announcements and Companies House filings.

Over £503m invested, valuations today still below 2007 peak

From 2007 to 2009, over £503m worth of M&A transactions involving UK indies were completed. In 2007, more than £263m worth of deals were concluded. But this fell sharply to a mere £76m in 2008 before recovering to £164m in 2009. If Zodiak Entertainment's rumoured acquisition of RDF Media completes, then investments in 2010 may exceed 2007's level.

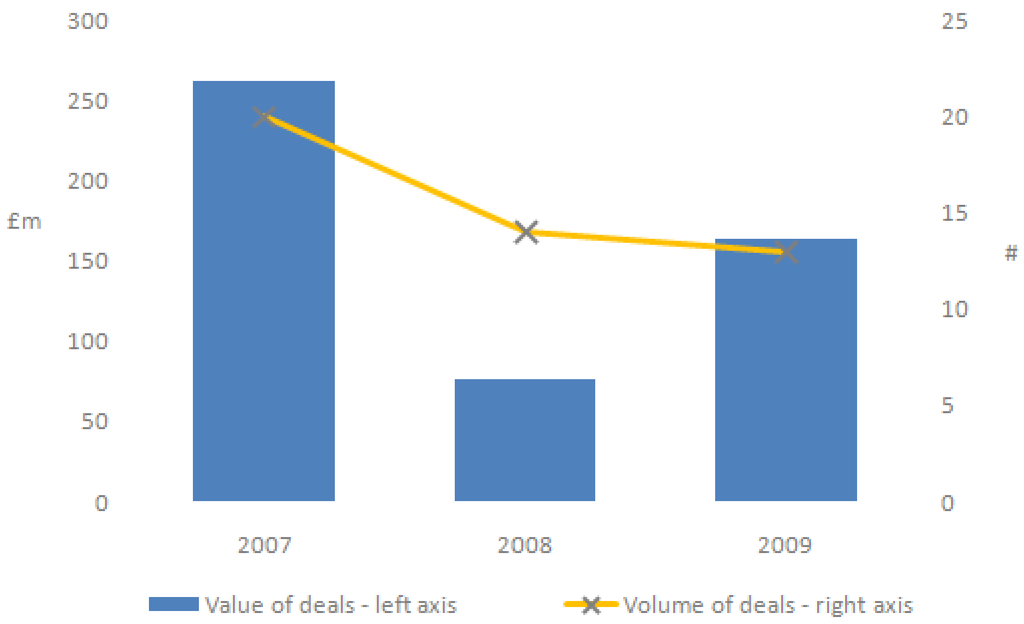
The average deal value to (historic) sales ratio throughout the period was 1.7x. In 2007, it was 2.1x but it declined steeply to 0.6x in 2008 before strengthening again to 1.3x in 2009. Deal value/ EBITDA was 13.3x for the period.

Note: the total amount actually paid during the period is unknown as companies do not always disclose the value of their transactions.

Activity levels fell in 2008 and 2009

There were 20 M&A transactions in 2007. As the credit crunch and subsequent global recession negatively impacted access to capital and indies focused on their own survival as programming budgets were reduced, the number of deals fell to 14 in 2008 and then down to 13 in 2009. (There has been one completed deal in 2010 so far with Banijay acquiring Zig Zag.)

Chart 1: M&A trends in the UK indie market, 2007-09



Source: Content Economics Research

Factual producers the key targets in 2009

Factual content is very much in vogue today with the commissioners at the UK's television broadcasters. With revenues under pressure, broadcasters are seeking to reduce programming costs. Few programming genres can produce low cost content which performs well, even at the 9pm slot, but factual can, and there has been a notable increase in commissions for factual content. As customers' needs change, the deal flows have followed, as indies seek to increase their exposure to the new paradigm. Of the 13 deals completed in 2009, 10 involved a target indie that produced factual content.

Grant Thornton and Olswang lead the advisers list

Of the 47 known deals that completed between 2007 and 2009, Grant Thornton was the leading corporate finance adviser and Olswang the leading legal adviser. Grant Thornton advised on transactions worth £166m while Olswang acted on deals worth £121m.

However, many of the super-indies use their own internal corporate finance resources. If one were to include 'in-house' in the financial advisory list, then it would actually represent the second largest deal maker. Legal advice is outsourced in almost all cases.

Database of deals available online

The Excel database behind the transactions listed in this report is freely available on the Content Economics Research website (www.ContentEconomics.com). The database will be updated as further deals are completed in this market.

Please quote 'Content Economics Research' as the source if any of this data is used.

Comments or questions?

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INTRODUCTION

An 'indie'

An indie – an independent production company – is defined by the regulators as a television production company in which a broadcaster has no more than a 25% shareholding and which itself owns no more than 25% of a broadcaster.

The advantage of qualifying as an indie is that European regulations require public service broadcasters (BBC, ITV, Channel 4 and Five, in the UK) to commission a minimum proportion of their content from indies. In the UK, Ofcom has set the quota at 25%. To ensure access to as wide a revenue opportunity as possible, most deals involving broadcasters taking stakes in a UK indie are thus for no more than 25%.

Criteria for inclusion in the transaction list: UK-based indies

This report details all the known M&A transactions that have take place between 2007 and 2009. The specific criteria that have been applied are:

- An M&A transaction (be it for 1% of the target company or 100%) where the target company is based in the UK;
- That the target company's primary business is TV production (i.e. an indie);
- That the deal was completed between January 1st 2007 and December 31st 2009.

As such, this report does not analyse acquisitions made by UK indies in Europe or other territories, and nor does it analyse deals where the target is primarily a television distribution and/ or facilities company. The principal idea is to enable a like-for-like comparison, something that international deals or those involving UK-based distribution/ facilities companies do not permit.

It is quite feasible that some deals will have slipped through the net as not all are announced.

Start-ups and joint-ventures excluded

A number of reported M&A deals in this sector have effectively been joint-ventures (JVs) or investments in start-up companies, rather than explicit M&A transactions, despite being reported as such. Content Economics Research has stripped out those deals in which the target company had only been actively trading for a short period. Arguably, if these deals had been included, then like-for-like comparisons and average valuations would have been relatively meaningless.

'Deals' excluded on this basis include: BBC Worldwide's stakes in Big Talk Productions (2008), Cliffhanger Productions (2007), Left Bank Productions (2007) and Plain Vanilla Productions (2008); Eyeworks' stake in Byron Bay Productions (2009); ITV's stake in Crackit (2008); and Hat Trick's stake in Plum Pictures (2007).

Other notable exclusions include BBC Worldwide's 50.1% stake in Bedder 6, the company co-owned by Jeremy Clarkson. This deal, completed in November 2007, has been excluded because Bedder 6 is not a production company, even though it does exploit commercial opportunities from *Top Gear*. And also, IMAC's additional £2m investment in Whizz Kid Entertainment in February 2008 because IMAC's ownership stake size did not change as a result of this investment, just its economic rights.

Deal values, revenues and EBITDA

The acquiring company and all known advisers in each transaction have been contacted, where possible, for confirmation of the specific details of the deals. Not all requests for information have been answered. Secondary sources and proprietary internal databases have also been leveraged. The Excel database behind the transactions listed in the appendix is freely available to download at the Content Economics Research website.

Deal prices

In 17 of the 47 completed deals, the consideration paid is unknown. Where the price has not been announced or reported in a Companies House filing, it has been listed as not available (n/a) in the tables. However, where there is widespread industry rumour or well-founded, but unconfirmed evidence, the price has been included, but indicated as 'estimated'.

The price, or consideration, paid in a transaction includes the entire value of the deal, where known. That is, it includes both the initial consideration and the earn-out payment, if there is one and if it has been disclosed.

Historic financial data applied

The revenues and EBITDA for the target companies are predominantly historic values. That is, they refer to the performance in the last financial year before the deal was completed. In some cases this could be one month before the deal closed, but it could also be 11 months before. The information has come from Companies House filings or public statements, except where it is stated as 'estimated' or 'n/a'.

In financial circles, the use of historic financial data to analyse valuation multiples is often referred to as 'trailing'.

EBITDA is rarely reported in Companies House filings, but it has been calculated where possible because it is seen by many investment analysts as a ‘cleaner’ measure of operating profit. Additionally, the deal value/ EBITDA metric is a prominent financial analysis tool for comparing deals.

EBITDA has been calculated as:

Operating profit + depreciation + amortisation

THE TRANSACTIONS

Between 2007 and 2009 over £503m was spent acquiring stakes in, or full ownership of, UK indies. 2007 was the biggest year, with 20 transactions totalling in excess of £263m. But in 2008 the deal values declined 71%. For the period, the average deal value/ sales multiple was 1.7x, while the average deal value/ EBITDA multiple was 13.3x. There have been 47 M&A deals in the sector.

Deal prices, valuations and volume have fallen since 2007

During 2007, the UK indie sector was a hot-bed of M&A activity, as it had been for the preceding few years. Successful talent (producers, directors and writers) had been creating their own indie's, before selling out a short time later for a sky-high valuation to a larger peer. Consolidation was rampant and it peaked, like transactional activity in many other industry sectors, in early 2008.

As the credit crunch and subsequent recession hit the global economy, the UK indie community was also hit hard. Investment in UK original commission content, the bread and butter of an indie, declined as the television broadcasters cut back on their programming budgets to offset shrinking revenues. Growth via acquisition was no longer the mantra of indie management teams', instead the focus moved to down-sizing and survival. A handful of indies consolidated during the downturn, in an attempt to achieve profitability by shedding central overhead costs, but most have simply focused on winning new commissions.

With top-line growth forecasts pared back, and the access to capital to fund an acquisition severely restricted due to the credit crunch, it is little surprise that M&A activity dwindled and valuations shrunk.

71% drop in transaction values between 2007 and 2008

£503m worth of M&A activity was concluded between 2007 and 2009. (It should be noted that only 64% of the recorded deals during this period, have a known, or rumoured, price.) But the value of deals plummeted in 2008, with only £76m known to have been invested. In 2009 there was a recovery and £164m was spent.

If Zodiak Entertainment's rumoured acquisition of RDF Media does complete in the coming months, then 2010 will be on target to match or exceed the total investment in 2007. It is understood that Zodiak Entertainment is negotiating to acquire RDF Media for £150m, it already owns 25% from investing in the RDF Media MBO in 2009. Meanwhile the Board of Shed Media plc is currently reviewing, not for the first time, a management buyout offer (MBO). In January, Banijay completed its deal to acquire Zig Zag for a rumoured £20m.

Table 1: The total value of M&A transactions in the UK indie market

	2007	2008	2009	Total
Deal values (£m)	262.7	76.3	164.0	503.0

Source: Content Economics Research, company information, adviser companies and public information

A 39% drop in the size of the businesses acquired from 2007 to 2008

The sharp decline in the size of the transaction values is closely related to the size of the businesses acquired. In 2007, stakes were acquired, or full takeovers completed, in companies with revenues that totalled over £180m. But by 2008, the size of the target companies had declined significantly and total revenues were a mere £110m – a decline of 39% on 2007.

However in 2009, the size of the companies targeted increased substantially and the total even exceeded that in 2007. This is presumably partly because the acquiring companies tended to target the more established companies – who thus represented less of an investment risk. The revenues of the target companies rose 205% from 2008 to £337m – 87% higher even than in 2007. (Note, despite the use of historical revenues in this analysis, the relative impact on company sizes' is still a relevant metric for comparison.)

Table 2: The revenues of the target indies involved in deals

	2007	2008	2009	Total
Target company revenues (£m)	180.1	110.4	336.8	627.3

Source: Content Economics Research, company information, adviser companies and public information

Valuation ratios also declined

Over the period the average deal value/ sales ratio was 1.7x. But the peak was in 2007, when indies traded hands for 2.1x sales. In 2008, sales multiples declined to 0.6x before a strong recovery in 2009 when deals were completed for an average of 1.3x sales.

In terms of deal value/ EBITDA, the outlier deals of All3Media/ Maverick and Electra/ Target Entertainment have been stripped out of the calculations due to their substantially different ratio size. Excluding these two deals, the average deal value/ EBITDA for the period was 13.3x. In 2007, the multiples paid peaked for the period at 16.2x EBITDA and then fell to 13.4x in 2008, before declining even further in 2009 to 10.4x. (Including the Maverick and Target deals, the average for 2007 was 42.7x and for the period, 26.9x.)

Table 3: The key ratios of M&A transactions in the UK indie market

	2007	2008	2009	Average
Deal value/ Sales (x)	2.1	0.6	1.3	1.7
Deal value/ EBITDA (x)	16.2	13.4	10.4	13.3

Note: the average deal value/ EBITDA ratio excludes the 2007 deals to acquire Maverick and Target Entertainment due to their substantial outlier status

Source: Content Economics Research, company information, adviser companies and public information

Deal volumes declined, but less severely

Given the difficulty in obtaining full financial information about deals in this sector, perhaps a more accurate picture of the state of the M&A market can be seen in the volume of deals taking place. This too shows a decline from 2007 to 2008, but at 30% it is not as stark as the decline in investment levels. In contrast to the uptick in total deal values in 2009, the volume of deals declined further in 2009, to 13.

Table 4: The number of M&A transactions in the UK indie market, 2007-09

	2007	2008	2009	Total
Number of deals	20	14	13	47

Source: Content Economics Research, company information, adviser companies and public information

ANALYSIS AND TRENDS

The key M&A trend over the past 12-18 months has been the acquisition of indies specialising in factual content. However, most of the deals from 2007-2009 have been mid-sized and there were no market-transforming transactions. Yet, it is notable that the hand of the private equity industry can be seen behind all of the important transactions. Given the weakness of the pound in the foreign exchange markets, any large-scale acquisitions in the near-term are likely to come from European indies – particularly those with private equity backing.

Factual producers the key targets

Indies that have been acquired in the past year have generally had one factor in common: they produced factual content. Of the 13 acquisitions completed in 2009, 10 involved target companies that produced factual content. Factual producers have become much sought after because, at present, their genre represents one of the few growth areas in UK television production.

With advertising revenues declining on most channels, commissioning teams have been forced to cut their costs. In many situations this has meant showing more repeats, or acquiring content – which is generally cheaper than commissioning it. But, where they have actually commissioned original content, broadcasters have sought to fill their schedules with lower-cost genres. In general, factual programming is one of the lowest cost-per-hour genres, particularly when it comes to being able to deliver satisfactory audience levels during peak-time.

Given that the revenue opportunity for factual content is increasing, it is little surprise that companies have sought to gain exposure to this growth opportunity be acquiring fellow indies which are factual specialists. This acquisition trend is unlikely to have finished.

A period of mid-sized deals

Despite the deep-pockets of some investors in production companies, such as those behind All3Media, Banijay, Shine Group and Zodiak Entertainment, there have been no blockbuster deals during this period. The largest in the period was Boomerang Media's £60m acquisition of the UK and US operations of Entertainment Rights, when it ran into financial problems, in April 2009. The second largest was the £52m MBO of RDF Media in February 2009 while third, was All3Media's acquisition of Objective Productions for £50m in the summer of 2007 – which came after a couple of years of rabid sector consolidation.

If one combines Shine Group's three simultaneous acquisitions (Firefly, Kudos and Princess Productions) at the beginning of 2007, they would represent the largest deal in the period, with £74m potentially being paid.

Table 5: The five largest transactions, 2007-09

Date	Target	Acquirer	Price
April 2009	Entertainment Rights	Boomerang Media	£60m
Feb 2009	RDF Media	MBO/ Cyrte	£52m
Aug 2007	Objective Productions	All3Media	£50m
Jan 2008	Kudos	Shine Group	£48m
May 2008	Tinopolis	Vitruvian Partners	£45m

Source: Content Economics Research, company information, adviser companies and public information

To put this into perspective, in 2006 private equity company Bridgepoint sold the super-indie All3Media to Permira Funds (a fellow private equity company) and the All3Media management team for £320m, while it is understood that Zodiak Entertainment is seeking to acquire RDF Media for approximately £150m.

ITV paid high multiples

Most of the transactions were completed for 1-2x sales, but there are a couple of deals which fell outside this range. Of particular note were ITV's acquisitions. The only two deals (it completed three in the period) in which the financial details are available indicate that both were made for more than 3x sales. Carbon Media was completed at 3.4x historic sales while the multiple for 12 Yard was 3.9x.

Arguably, both target companies were on high growth trajectories and thus could command higher than average valuations. But it also, perhaps indicates the problems of telling the industry that there is a production growth strategy which involves spending up to £200m on acquiring indies. Equally, producers who set-up indies generally prefer to work for themselves or amongst other like-minded indies, thus the appeal of indie consolidation. The temptation to be acquired by a large broadcaster, particularly a commercial one, is that the price would probably have to be well above the going rate.

The IMG/ Endemol deal – 0.4x sales for a reason

To many in the industry, Endemol's acquisition of IMG's UK indie portfolio (Darlow Smithson, Tiger Aspect and Tigress Productions) in November 2009 was a surprise for a number of reasons. But it was the rumoured price of £33m, which surprised many corporate finance teams. The deal value/ sales ratio was 0.4x sales, far below the industry average. But, when one investigates deeper, the valuation becomes more understandable. Combined revenues at the three indies had gone into sharp reverse between 2008 and 2009 and had dropped 32%. Revenues were up 1% at Darlow in the period, but had fallen 39% at Tiger and 33% at Tigress.

No single, key consolidator

The larger deals have been split amongst a wide group of companies, with no single company acting as a notable consolidator during the period. In the earlier years of this decade, a number of super-indies were created via consolidation, but the wider economic malaise has clearly slowed this trend.

In terms of the amount invested – and remember, prices are unknown for a number of deals involving the larger companies (see the Appendix for more information) – Shine Group invested the most money, £74m, in its three deals. (If the price that All3Media paid for Illumina Digital was disclosed, arguably All3Media would have been the largest investor.)

BBC Worldwide the most acquisitive

By volume of deals completed, BBC Worldwide was the most active, with four transactions – although it only spent approximately £10m combined on these deals. But, if one were to include JVs and deals that appear to be JVs or investments in start-ups in this calculation, then BBC Worldwide actually completed eight transactions during the period.

If Endemol's acquisition IMG's UK indie portfolio were to be split into three separate deals, then Endemol would have had five deals.

Table 6: Leading acquirers by value and volume, 2007-09

Company (no. of deals)	£m	Company	No. of deals
Shine Group (3)	74	BBC Worldwide	4 *
All3Media (3)	70 [1]	All3Media	3
Boomerang Media (1)	60	DCD Media	3
Cyrte/ RDF MBO (1)	52	Endemol	3
Vitruvian Partners (1)	45	ITV	3
Shed Media (2)	44	Shine Group	3
ITV (3)	37	Zodiak Entertainment	3

[1] One deal value, the acquisition of Illumina Digital, has not been disclosed

* Eight if investments in start-ups and quasi-JVs are included

Source: Content Economics Research, company information, adviser companies and public information

Little sign of consolidation-for-survival deals

Many had assumed that with a large proportion of UK indies operating with margins below 10%, there would be a rush of consolidation as the smaller companies sought to survive the downturn. However, so far there has been little sign of smaller indies merging together to cut costs.

Neither has there been much 'bottom-feeding' activity – by which deep-pocketed players seek to take advantage of lower company valuations. The RDF Media MBO stands out as a typical example, but RDF Media also had specific, non recession-related issues following the fallout of the editing of the Queen in a programme – which became known as 'Queensgate'.

The critical role of private equity investors

It is the private equity industry that has been pulling the strings of the key indie deals. Access to private equity capital was one of the principle drivers of the industry consolidation that took place earlier in the 2000s and it has played a critical role in the past three years. Of the five largest deals during the period, all the acquiring companies were backed by private equity money.

Private equity investors are active in the indie market for a variety of reasons. Primarily it is because of the attraction of regular, broadly predictable cash flows from sales of library content. Additionally, indies are typically run by creative people who tend to be focused on producing the very best content, rather than striving to improve the bottom line. Private equity investors, with their MBA-mindsets, can assist indies to perform far more efficiently – and thus increase the value of the equity when the investor seeks to exit its position. They are also likely to have much greater scope to access debt funding, enabling larger acquisitions or more efficient capital structures.

A further benefit is the opportunity to increase profitability by funding a process of consolidation which should increase the value of the investor's initial investment. Private equity investors bring unparalleled experience and skills in managing transactions and consolidating merged operations. Overheads such as finance and HR departments can be centralised which should lead to margin expansion after consolidation.

Examples of private equity involvement in the UK indie market include:

- 3i: a stake, believed to be 21%, in Shine Group;
- Acuity Capital: 40% stake in Target Entertainment;
- Cyrte: funded the RDF Media MBO; owns 1/3 of Endemol; stake in Shed Media
- GTCR: funding Boomerang Media's expansion;
- Permira: majority stake in All3Media;
- Van den Ende & Deitmers: 30% stake in Eyeworks;
- Vitruvian Partners: acquired Tinopolis.

Little standardisation in deal structures

In most transactions in this sector, a deal is comprised of two parts: the initial consideration and an earn-out payment. The earn-out is typically three years in duration and seeks to ensure that owners and key talent remain with the business after its acquisition. If the acquired business hits the pre-agreed targets, typically based on profit growth, then the ‘earn-out’ is paid. A minority of deals also include a deferred payment, which is typically made within 12 months of a deal completing.

Earn-out payments vary widely

It is difficult to ascertain the exact nature of the payment structure in most deals. However, in those transactions where there has been full disclosure, the extent to which deal prices are based on earn-outs show wide variations. It is interesting to note that the relative size of the earn-out varies even within one company, such as acquisitions made by Shed Media and Shine Group.

It is typically assumed that deals with a proportionately low earn-out involve an acquiring company desperate to get their hands on the target, or one in which the target company’s management are seeking to exit the business. While deals with high earn-outs are to keep the key talent assets focused on continuing to drive the business, particularly at young businesses with high growth potential. Additionally, they can be used to bridge valuation gaps in negotiations between the two parties. Effectively the acquirer says ’we do not believe that you can hit your business plan growth targets, but if you insist on £10m to sell, then we will pay £5m as the initial consideration (which is all we think the company is worth) and £5m as an earn-out.’ If the company hits its targets then it will indeed be worth £10m to the acquirer.

But given the wide variations in earn-out payments, such generalisations are too sweeping and individual factors are apparently at play. Perhaps it all comes down to who can negotiate best.

Table 7: The relative size of earn-out payments in selected deals

Date	Target	Acquirer	Earn-out as a % of the total price
Oct 09	Indus Films	Boomerang Plus	54%
Sept 07	Indie Kids	Coolabi	85%*
Dec 07	12 Yard	ITV	25%
Sept 07	Twenty Twenty	Shed Media	5%
Nov 07	Wall to Wall	Shed Media	20%
Feb 07	Firefly	Shine Group	69%
Jan 07	Kudos	Shine Group	52%
Feb 07	Princess Productions	Shine Group	31%

* The £129,000 12 month deferred payment is not included as part of the earn-out payment

Source: Content Economics Research, company information, adviser companies and public information

The Europeans are coming?

As the economy recovers, it is likely that the deal flow in the sector will continue to rebound. And while UK-based indies are likely to continue to be active, it is from Europe – and also potentially the US – that the most significant acquisitions are likely to come.

In general terms, the UK remains a key territory for the international production industry for three reasons:

- Size: the UK's original commission revenue pool is the second largest in Europe, after Germany;
- A protected industry: there is relatively strong regulatory support for the UK indie community, particularly with regards ownership of key secondary rights;
- A badge of success: the fact that a programme has been successful on a well-known UK channel, generally makes it more attractive (and thus more valuable) in the international sales market.

The decline of the pound makes UK indies even more attractive

In recent months, the currency markets have reduced the value of the pound sterling against both the dollar and the euro. According to many financiers, this relative weakness is unlikely to reverse in the near-term. If foreign companies truly do believe that the UK is an attractive market in which to own a production asset, then the exchange rate advantage increases the arguments in favour of making an acquisition in the near-term. This is particularly the case for companies operating within the euro-zone, as the euro is approaching levels never before seen against the pound.

Some moves have already been made

The 'support' of international currency markets, combined with deep-pocketed investors and nakedly ambitious acquisitive growth strategies, indicate part of the rationale for recent M&A moves by Banijay and Zodiak Entertainment. Banijay (the French production house backed by a number of wealthy families) acquired Zig Zag in January 2010 for a rumoured £20m, while Zodiak Entertainment (the European indie backed by the Italian media conglomerate, De Agostini, and targeted with doubling its turnover by 2011) has offered a reported £150m for RDF Media.

These are unlikely to be the last of the acquisitions by large European players given the financial advantage on offer at present.

US broadcasters are also benefiting from a weak pound, and given the language and television market similarities between the two countries, investments from US companies should also be considered likely. Warner Brothers, for one, stated in August 2009 that it had started to put together a team to expand its international production operations. By hiring Andrew Zein, the long-term MD of the large UK indie Tiger Aspect, Warner now possesses intimate knowledge of the UK market and with valuations this low, may seek to establish a UK production base via acquisition.

ADVISORY SERVICES

During the period, Grant Thornton has been the leading provider of corporate finance advisory services and Olswang the leading provider of legal services. In most instances the legal aspects of a transaction are outsourced to an external company, but for corporate finance work, particularly amongst the larger indies, it is frequently under-taken by an in-house team.

Calculating the adviser league tables

In deals where an advising company was the sole adviser, it has been assigned 100% of the deal value. Where two companies worked on the same deal, advising different co-owners of the same company, the deal value was split between the advisers based upon on the ownership percentage of their specific client. However, both teams were awarded one deal in volume terms.

Corporate finance: Grant Thornton the market leader

Between 2007 and 2009 Grant Thornton's corporate finance team advised on transactions totalling £166m. Ingenious, the second-ranked team, acted in £98m worth of transactions. In terms of sheer volume of deals, Grant Thornton was by some distance the market leader and acted in 11 of the deals where an external adviser was named. Ingenious was second with four.

Specifically with regards 2009, Close Brothers led the market in deal value terms, having advised on the £60m Boomerang Media/ Entertainment Rights deal. Again, Grant Thornton led the market in volume terms with four transactions.

The critical role of the in-house team

While Grant Thornton may lead the rankings in terms of external providers, the busiest teams have actually been in-house finance and business development departments. A number of companies, particularly the larger players, such as BBC Worldwide, Endemol, ITV, Zodiak Entertainment, etc, tend to use internal resources to provide the corporate finance work on a deal.

Of those deals in which it is known that in-house teams were used, there were 16 completed transactions during the period, with valuations totalling over £121m. Note, many companies would not disclose who advised them on their transactions – but the expectation is that most companies who did not respond, actually use in-house teams.

Why are in-house resources so popular? It comes down to cost versus benefit. In-house teams are generally cheaper, they intimately know the background and specifics of the deal, there is no concern about outside parties seeing confidential information and the larger companies tend to employ experienced business development/ finance teams which are able to handle most transactions. However, the smaller indies tend to rely on external providers because they do not have the expertise, nor often the spare resource capacity, in-house.

Buy-side versus sell-side

There is a notable pattern that external corporate finance advisers tend to provide support to the target company, or the sell-side, while in-house teams are typically utilised by the acquirer, or buy-side. This reflects previous statements about the larger indies, who are in general the acquiring company, preferring to use in-house resources to complete deals, while smaller indies hire external expertise.

Of the 24 transactions in which the advisers have been disclosed for the target company, external advisers were appointed in 23 of the deals. While of the 23 transactions where the adviser for the acquiring company has been stated, only eight involved an external corporate finance company.

A shrinking opportunity for corporate finance houses?

The growth of the super-indies, with their strong in-house teams, is likely to continue to limit the new business opportunities for corporate finance houses. The small/mid-sized indies will always require expert, external advice, but the return of consolidation to the sector is likely to reduce the number of potential clients as the mid-sized indies are acquired or consolidate. As the number of mid-sized indies declines, so the number of deals worth £20-50m is likely to fall. With corporate finance advisers typically paid a percentage of the deal value as a fee, this is not a profitable prospect. The market is not at this stage yet, but this is a likely future scenario.

Table 8: Top five corporate finance advisers, 2007-09

Company	Total	
	Value (£m)	Volume
Grant Thornton *	166	11
Ingenious	98	4
Investec	97	2
Jefferies °	66	2
Close Brothers	60	1
In-house teams [1]	121	16

* Three deal values undisclosed. It worked both sides of the Firefly/ Shine deal – this counted as one.

° Jefferies' total includes deals by LongAcre Partners

[1] Six deal values undisclosed

Source: Content Economics Research, company information, adviser companies and public information

Legal services: Olswang the market leader

Olswang provided legal advisory services on M&A transactions worth a combined £121m over the period. Wiggin & Co was second in the rankings and advised on deals worth £90m. In terms of the volume of transactions completed, Harbottle & Lewis was first with ten and Olswang second with nine.

With regard deals completed in 2009 alone, Kirkland & Ellis and SJ Berwin co-led in terms of deal values solely due to their work on either side of the £60m Boomerang Media/ Entertainment Rights transaction. In terms of the number of deals completed, Olswang was the leader with three.

If one were to include BBC Worldwide's quasi-JVs and start-up investment deals, then its' preferred adviser, Field Fisher Waterhouse, would have ranked third by volume with eight transactions.

In contrast to the provision of corporate finance services, almost all transactions in this sector involve external law firms, on both sides of the negotiating table. Even the larger companies such as BBC Worldwide and Zodiak Entertainment use external providers.

The right relationships are imperative

In general, indies tend to use the same law firm for every transaction. Therefore, gaining the trust and maintaining a successful relationship with indies that are acquisitive, or are likely to make one or two large transactions, is an important task for law firm's partners and business development teams. Clearly, the super-indies are likely to make more, and larger deals, than the smaller players, thus the importance of a strong relationship with them.

However, relying on one large client can be problematic. With BBC Worldwide expected to make fewer investments in UK indies in the coming years, Field Fisher Waterhouse is likely to see its deal count rapidly decline in this sector. It apparently acts for no other client in the indie market.

Table 9: Leading legal advisers in indie M&A transactions, 2007-09

Company	Total	
	Value (£m)	Volume
Olswang *	121	9
Wiggin & Co	90	3
Harbottle & Lewis *	75	10
Weil, Gotshal & Manges [1]	70	3
Kirkland & Ellis	60	1
SJ Berwin	60	1
Morgan Cole	58	2

* Four deal values undisclosed

[1] One deal value undisclosed

Source: Content Economics Research, company information, adviser companies and public information

APPENDIX

Over the following pages is the detailed breakdown of the M&A activity in this sector from 2007-09. These tables are also available in Excel format on the Content Economics website.

Notes and key to the M&A tables

- n/a = not available
- = the figure is an estimate
- * = EBIT (earnings before interest and tax), or operating profit
- [1] = PBT (profit before tax)
- The deal value/ sales or EBITDA ratio is calculated as = (Price / Stake) / Sales or EBITDA
- The calculation for the average deal value/ EBITDA excludes those deals in which only the EBIT or PBT is available
- The 2007 average deal value/ EBITDA calculation excludes the outlier deals involving Maverick TV and Target Entertainment
- Genre definitions:
    - Ch = Children's
    - C = Comedy
    - D = Drama
    - Di = Digital
    - E = Entertainment
    - F = Factual
    - FE = Factual entertainment
    - I = Interactive
    - L = Lifestyle
    - MG = Multi-genre super-indie
    - P/B = Producer/ broadcaster
    - P/D = Producer/ distributor
    - PE = Private equity
    - T = Talent management

- Details from the table of JVs and start-up investments, including the price paid and valuations, have not been included in the statistics in this report. Neither have the corporate finance providers nor legal advisers been included in the adviser league tables.

Table 10: M&A activity in the UK indie sector in 2007

Date	Target	Acquirer	Stake	Price (£m)	Sales (£m)	EBITDA (£m)	Deal value/ Sales (x)	Deal value/ EBITDA (x)	Target genre	Acquirer genre	Target M&A advice	Acquirer M&A advice	Target legal advice	Acquirer legal advice
Jan-07	Kudos	Shine Group	100%	47.8	32.0	n/a	1.5	n/a	D	MG	LongAcre	Grant Thornton	Olswang	Wiggin & Co
Feb-07	Firefly	Shine Group	100%	8.1	4.7	0.9	1.7	9.4	F	MG	Grant Thornton	Grant Thornton	Sheridans	n/a
Feb-07	Princess Productions	Shine Group	100%	18.4	18.0	n/a	1.0	n/a	FE	MG	LongAcre	Grant Thornton	n/a	n/a
May-07	Two Way TV	IMAC	84%	5.3	4.8	-1.1	1.3	n/a	I	PE	Ingenious	n/a	n/a	n/a
Jul-07	Mammoth Screen	ITV	25%	1.0	n/a	n/a	n/a	n/a	D	P/B	n/a	Inhouse	n/a	n/a
Jun-07	Maverick TV	All3Media	100%	20.0	8.2	0.4	2.5	46.8	FE	MG	n/a	n/a	n/a	Weil, Gotshal & Manges
Jul-07	Target Entertainment	Electra Quoted Management	40%	6.0	10.3	0.1	1.5	170.9	P/D	PE	Quayle Munro	n/a	Harbottle & Lewis	Mundays
Aug-07	At It Productions	Eyeworks	100%	n/a	17.0	1.5	n/a	n/a	FE	MG	n/a	n/a	Marriott Harrison	n/a
Aug-07	MoMedia International	Endemol	25%	n/a	0.2	-0.03	n/a	n/a	Di	MG	n/a	In-house	n/a	Berwin Leighton Paisner
Aug-07	Objective Productions	All3Media	100%	50.0	24.0	2.3	1.7	17.1	C; E	MG	Ingenious	n/a	Harbottle & Lewis	Weil, Gotshal & Manges
Aug-07	Prospect Pictures	DCD Media	100%	7.1	6.4	0.4 *	1.1	17.3 *	L	MG	n/a	n/a	n/a	Harbottle & Lewis
Aug-07	September Holdings	DCD Media	100%	9.1	7.3	0.7 *	1.2	12.8 *	FE	MG	Grant Thornton	n/a	Wiggin & Co	Harbottle & Lewis
Aug-07	West Park Pictures	DCD Media	100%	3.0	1.1	0.1 *	2.7	51.0 *	F	MG	n/a	n/a	n/a	Harbottle & Lewis
Sep-07	Indie Kids	Coolabi	100%	2.0	0.3	-0.3	7.2	n/a	Ch	Ch	n/a	n/a	n/a	n/a
Sep-07	Twenty Twenty	Shed Media	100%	19.0	9.4	1.6	2.0	12.1	FE	MG	Grant Thornton	In-house	Fladgate	Dorsey & Whitney
Oct-07	Amaze TV	Palamon Capital	Signif.	n/a	n/a	n/a	n/a	n/a	FE	PE	Van Tulleken	n/a	Hammonds	Slaughter & May
Oct-07	Bullseye TV	Zodiak Television	100%	n/a	2.9	0.5	n/a	n/a	F; E	MG	n/a	n/a	n/a	Sheridans
Nov-07	Parthenon Ent.	Arkaga	100%	6.1	5.0	n/a	1.2	n/a	F; Ch	PE	n/a	n/a	n/a	n/a
Nov-07	Wall to Wall	Shed Media	100%	25.0	19.5	1.2	1.3	20.7	D; F	MG	Ingenious	In-house	Olswang	Dorsey & Whitney
Dec-07	12 Yard	ITV	100%	35.0	9.0	2.0	3.9	17.5	E	P/B	Grant Thornton/ Ingenious (Hat Trick)	In-house	Olswang	Lovells
			Totals	**262.7**	**180.1**	**Average**	**2.1**	**16.2**						

Source: Content Economics Research, company information, adviser companies and public information

Table 11: M&A activity in the UK indie sector in 2008

Date	Target	Acquirer	Stake	Price (£m)	Sales (£m)	EBITDA (£m)	Deal value/ Sales (x)	Deal value/ EBITDA (x)	Target genre	Acquirer genre	Target M&A advice	Acquirer M&A advice	Target legal advice	Acquirer legal advice
Feb-08	Hardy & Sons	BBC Worldwide (15%); Left Bank Pictures (15%)	30%	n/a	1.3	0.2	n/a	n/a	D	P/D	n/a	In-house	Olswang	In-house
Feb-08	Greenlit Rights	Target Entertainment	100%	n/a	5.7	0.3	n/a	n/a	D	P/D	Clarity Capital Partners	Quayle Munro	Olswang	Harbottle & Lewis
Mar-08	Gogglebox Entertainment	Sony Pictures	25%	0.3	n/a	n/a	n/a	n/a	FE	P/D	n/a	n/a	Harbottle & Lewis	Olswang
Apr-08	Clerkenwell Films	BBC Worldwide	25%	n/a	n/a	n/a	n/a	n/a	D	P/D	n/a	In-house	DLA Piper	Field Fisher Waterhouse
Mar-08	Pure Grass Films	Endemol	40%	1.0	n/a	n/a	n/a	n/a	Di (D)	MG	n/a	In-house	n/a	Berwin Leighton Paisner
May-08	Tinopolis	Vitruvian Partners	100%	44.7	66	3.3	0.7	13.5	MG	PE	Investec	KPMG	Morgan Cole	Dickson Minto WS
Aug-08	Films of Record	Ten Alps	100%	0.1	1.4	0.0 *	0.1	34.8 *	F	F	n/a	n/a	n/a	n/a
Sep-08	Baby Cow Productions	BBC Worldwide	25%	n/a	8.3	0.6 [1]	n/a	n/a	C	P/D	n/a	In-house	Harbottle & Lewis	In-house
Sep-08	Carnival	NBCU	100%	30.0	23.2	2.3	1.3	13.2	D	P/D	Grant Thornton (25%; Carnival CEO); n/d (75% Southern Star)	n/a	Bryan Cave (75%, Southern Star); Rosenblatt (25%, Carnival CEO)	Ashurst
Sep-08	Illumina Digital	All3Media	100%	n/a	4.3	0.6	n/a	n/a	Di	MG	Smith & Williamson	n/a	n/a	Weil, Gotshal & Manges
Sep-08	KMB Productions	Talent Group	100%	0.1	0.2	-0.02 [1]	0.4	n/a	F	FE	HWB	Merchant John East Securities	n/a	n/a
Oct-08	Amaze TV	Amaze TV MBO	Significant	n/a	n/a	n/a	n/a	n/a	FE	FE	n/a	n/a	n/a	n/a
Oct-08	Mast Media	Zodiak Entertainment	50%	n/a	n/a	n/a	n/a	n/a	E	MG	n/a	In-house	Clintons	Travers Smith
Oct-08	V Good Films	Illumina Digital	100%	n/a	n/a	n/a	n/a	n/a	D	Di	n/a	n/a	n/a	n/a
			Totals	**76.3**	**110.4**	**Average**	**0.6**	**13.4**						

Source: Content Economics Research, company information, adviser companies and public information

Table 12: M&A activity in the UK indie sector in 2009

Date	Target	Acquirer	Stake	Price (£m)	Sales (£m)	EBITDA (£m)	Deal value/ Sales (x)	Deal value/ EBITDA (x)	Target genre	Acquirer genre	Target M&A advice	Acquirer M&A advice	Target legal advice	Acquirer legal advice
Jan-09	Carbon Media	ITV	25%	1.1	1.3	0.2 [1]	3.4	22.0 [1]	F	P/B	Rights.TV	In-house	Rights.TV	Charles Russell
Feb-09	Below the Radar	Ten Alps	100%	0.8	0.3	-0.03	2.4	n/a	F	F	n/a	n/a	n/a	n/a
Feb-09	RDF Media	RDF MBO (Cyrte Investments)	100%	52.0	130.6	9.1	0.4	5.7	MG	PE	Investec	RBS (Cyrte; 76%); Teathers (mgmt; 24%)	Freshfields	Herbert Smith (76%; Cyrte); Olswang (24%; RDF mgmt)
Feb-09	Sprout Pictures	BBC Worldwide	25%	1.3	n/a	n/a	n/a	n/a	F; D	P/D	n/a	In-house	Lee & Thompson	In-house
Mar-09	Darrall Macqueen (Fairfax Media)	Darrall Macqueen MBO	75%	n/a	2.3	-0.2	n/a	n/a	Ch	Ch	n/a	Grant Thornton	n/a	Harbottle & Lewis
Apr-09	Entertainment Rights	Boomerang Media (GTCR)	100%	60.0	68.1	25.7	0.9	2.3	Ch	Ch	Close Brothers	n/a	SJ Berwin	Kirkland & Ellis
Jul-09	Parthenon Entertainment	Parthenon Media Group MBO	100%	n/a	9.1	n/a	n/a	n/a	F; Ch	F; Ch	n/a	n/a	n/a	n/a
Aug-09	Flame	Avalon	100%	n/a	1.9	0.1	n/a	n/a	F	F; C; T	n/a	n/a	Marriott Harrison	n/a
Oct-09	Dangerous	Zodiak Entertainment	70%	n/a	7.2	0.8	n/a	n/a	D (F)	MG	Grant Thornton	In-house	Olswang	Travers Smith
Oct-09	Indus Films	Boomerang Plus	100%	2.4	5.3	0.3	0.5	9.1	F	MG	Inhouse	In-house	Capital Law	Hugh James
Oct-09	Pioneer Productions	Tinopolis	100%	13.5	15.0	0.9	0.9	15.0	F	MG	Grant Thornton	n/a	Sheridans	Morgan Cole
Nov-09	IMG's indies (Darlow Smithson; Tiger Aspect; Tigress Productions)	Endemol	100%	33.0	74.4	1.7	0.4	19.7	F; MG; F	MG	The Raine Group	In-house	Farrer & Co	Wiggin & Co
Dec-09	Hat Trick (August Equity)	Hat Trick mgmt	45%	n/a	21.2	-1.9	n/a	n/a	C; E	C; E	Grant Thornton	n/a	Olswang	Harbottle & Lewis
			Totals	**164.0**	**336.8**	**Average**	**1.3**	**10.4**						

Source: Content Economics Research, company information, adviser companies and public information

Table 13: Joint-ventures and investments in start-ups in the UK indie sector, 2007-09

Date	Target	Acquirer	Stake	Price (£m)	Sales (£m)	EBITDA (£m)	Deal value/ Sales (x)	Deal value/ EBITDA (x)	Target genre	Acquirer genre	Target M&A advice	Acquirer M&A advice	Target legal advice	Acquirer legal advice
Jul-07	Left Bank Pictures	BBC Worldwide	25%	1.0	n/a	n/a	n/a	n/a	D; C	P/D	n/a	In-house	Olswang	Field Fisher Waterhouse
Sep-07	Plum Pictures	Hat Trick	25%	n/a	n/a	n/a	n/a	n/a	F	C; E	n/a	n/a	Michael Simkins	n/a
Nov-07	Cliffhanger Productions	BBC Worldwide	25%	n/a	n/a	n/a	n/a	n/a	D	P/D	n/a	In-house	Lee & Thompson	Field Fisher Waterhouse
Feb-08	Whizz Kid Entertainment	IMAC	n/a	2.0	4.2	-0.7	n/a	n/a	E	PE	n/a	n/a	Olswang	Marriott Harrison
May-08	Crackit	ITV	25%	2.0	n/a	n/a	n/a	n/a	FE	P/B	n/a	In-house	Lee & Thompson	Charles Russell
Oct-08	Big Talk Productions	BBC Worldwide	25%	0.4	n/a	n/a	n/a	n/a	D; C	P/D	n/a	In-house	Lee & Thompson	Field Fisher Waterhouse
Oct-08	Plain Vanilla Productions	BBC Worldwide	25%	0.8	n/a	n/a	n/a	n/a	D	P/D	n/a	In-house	Aslan Charles Kousetta	Field Fisher Waterhouse
Jan-09	Byron Bay Productions	Eyeworks	75%	n/a	n/a	n/a	n/a	n/a	E	MG	n/a	n/a	Harbottle & Lewis	n/a

Source: Content Economics Research, company information, adviser companies and public information

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