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New World Order

There is always merger and acquisition activity in the production and distribution sector, but a series of transformative deals have seen new players emerge as power brokers in the sector, reports Stewart Clarke

The main players in the production and distribution business are well known, but a series of transformative deals has seen new groups emerge as serious players in recent times and other companies bulk up further. Meanwhile, some have got it wrong and fallen by the wayside.

Banijay, eOne, Zodiak and Shine have all broken through and joined the group in, or close to, the top tier of production and distribution companies, alongside the likes of FremantleMedia and Endemol.

Some of the M&A activity is all the more surprising as it took place through the worst economic conditions since the 1930s. "The steep recession alongside a lack of available funds and general uncertainty put a halt to some strategic visions that were in motion," says Phil Stokes, UK head of entertainment at business advisers PricewaterhouseCoopers (PWC). "The multiples didn't look right and people couldn't get the finance. Also, people stood back and looked at what they'd invested in and asked if it was right for their organisation. There's been a lengthy period of introspection."

If, with exceptions, the deal-flow has slowed, it's about to get moving again with analysts citing pent-up demand. The prevailing economic conditions put the companies with private backing and/or significant cash-flow from their current businesses on the front foot.

I think most creative people want to be in a company that cultivates creativity. You can be big in a good way or you can be big in a dull way.

Alex Mahon, president, Shine Group

Those needing to raise finance, meanwhile, are the have-nots in the current environment. Well-capitalised, privately held companies have unsurprisingly been active. Shine and France-based Banijay have been in the vanguard.

François de Brugada, the executive VP of Banijay Entertainment says that in format production and distribution the company has already taken a seat at the top table since its creation at start-2008.

"There is a group of about six international players and we are part of that group. We are the youngest, but we are a challenger," he says. "We believed when we started that the market was very fragmented and we knew that there were international producers that we could gather into a single group. Phase one has been about setting up in Europe and the US and that's almost finished. Phase two will be about moving into emerging markets in the Middle East, Latin America and Asia."

That first phase involved acquiring a raft of producers including Solar Television in Finland, Air, ALJ, JES and Depeche Productions in France, Brainpool in Germany, Intelegencia in Russia, Cuarzo in Spain, Angel City Factory in the US and, this year, Zig Zag Productions in the UK and Bunim Murray in the US. In March it created its distribution arm, Paris and Copenhagen-based Banijay International, using the infrastructure of another of its acquisitions, Nordisk Film TV.

"We don't want to be a big global organisation, driving everything from Paris. We want to build what we describe internally as a 'confederation of entrepreneurs'," says the Banijay executive.

The approach is reminiscent of the early growth strategy of another formats company, Endemol. That's unsurprising given Banijay founder Stéphane Courbit ran Endemol France before cashing out for several hundreds of million Euros in 2007.

Endemol cofounder John de Mol remains a key power broker and active buyer and seller in the TV sector. He has bought back into Endemol and created his own formats business, Talpa. It is growing through a series of international joint ventures, in which the local partners, which include Banijay, represent its formats in a given country.

It's a model John de Mol says he wishes he had pioneered earlier. "At Endemol it was about acquiring companies, but it isn't necessary to do that, which is why we are following the track of JVs," he told TBI earlier this year. "I'm banging my head against the wall because I didn't think of this JV model earlier."

De Mol has also built and sold a significant stake in RDF Media. The UK company has been at the forefront of the financial dealings in the TV sector. It built a production group around RDF Television, which launched in 1993, comprising The Foundation, IWC Media, Presentable, Radar, The Comedy Unit, RDF USA, Pangea Management and distribution arm RDF Rights.

"At RDF we wanted to, especially in the early days of acquiring production companies, create a business that had a lot of different shareholders and as a small public company we could use our own shares as a consideration," says former RDF CFO and now Zodiak senior VP, strategy and operations, Jonny Slow. "By the time we came off market we had a long list of shareholders. The people we wanted were not those wanting to cash-out but those wanting to invest in the business."

In the deal of the year (to date), RDF was acquired in June by Zodiak Entertainment. It joins the assets Zodiak has been collecting since it was itself acquired by Italian publisher DeAgostini in late 2008. By the time the RDF deal was done in June, Zodiak already comprised over 30 production companies including Marathon and ALP from France, YellowBird from Scandinavia and Italy's Magnolia.

DeAgostini's ambitions in TV were made clear with an audacious, but doomed, move for Endemol, before it bought Zodiak in late 2008. It is also one of the original backers of Banijay.

There is a group of about six international players and we are part of that. We want to build what we describe internally as a 'confederation of entrepreneurs'.

Françoise de Brugada, executive VP, Banijay Entertainment

Strategically, the Zodiak-RDF deal makes sense as RDF's focus was always the UK and US while Zodiak has diverse interests throughout mainland Europe.

With finance difficult to raise, the expectation is there will be less cash on the table and stock will increasingly be used to fund deals. There is agreement that post-recession M&A deals will have a different structure. "And that's no bad thing," says PWC's Stokes. "There was too much liquidity before and asset multiples were too high. The consequence was overleveraged assets and write-downs. There's been a rebasing of acquisition multiples and the amount of equity involved."

The various brands [we have acquired] are well known, but clients have had enough time to get used to 'DHX'. We thought we were better off rebranding under a single name.

Steven DeNure, president and COO, DHX Media

Alongside acquisition, another way to build an international presence is to recruit high-calibre executives and build around them. Shine Group did this in France with Thierry Lachkar, Australia with the Fennessy brothers and Germany with Axel Kuehn. The start-ups came after it had acquired UK indies Dragonfly, Kudos and Princess.

Having been around since 2001, Shine's profile and influence rocketed after the US$200 million acquisition of LA-based Reveille in 2008 (Shine reported revenues of about US$400 million in 2009). That paved the way for it to launch distribution division ShineReveille International, now known as Shine International.

If company founder Elisabeth Murdoch is the big picture, strategic thinker, her right hand executive and Shine Group president, Alex Mahon plays a key role in executing deals. "We wanted to do a US deal," she explains when asked about Reveille. "A lot of other companies had gone there and set up an office, but that didn't seem that exciting to us. Reveille was exciting and they also managed to hold on to their rights."

The UK and US were stages one and two for Shine, international followed thereafter with the Australia, France and Germany deals. It also acquired Metronome, the largest production group in the Nordic region, comprising Meter Film and Television, Stockholm-Köpenhamn, Metronome Productions, Friday TV and others, for US$88 million in April.

Scale is important, but getting the culture right is more important, according to Mahon. She says: "I think most creative people want to be in a company that cultivates creativity, we spend a lot of time creating that culture. You can be a big company in a good way – or you can be big in a dull way."

Having recruited Emiliano Calemzuk

from Fox as CEO of its North American operation, Shine will be expanding in the US, Canada and, given Calemzuk's experience in the region, in Latin America.

In Europe most companies have preserved the production brands they have bought and there is a general acceptance that this is part of the value of what you are buying.

"If you fold them into one you are doing a disservice to what you set out to do," says Zodiak's Jonny Slow. Preserving a distribution brand is, evidently, less important. RDF Rights will become part of Zodiak's Zodiak Rights. "'RDF Rights' has served its purpose," says Slow. "RDF is now about a quarter of the new business and 'Zodiak' has a significant presence and a lot of momentum. Economies of scale kick in with distribution and it makes sense to bolt the [different distribution entities] together."

Since last December David Green has run UK-listed DCD Media, the company that acquired his indie producer September Films in mid-2007 for £9.1 million (US$14.2 million) and now comprises several UK production companies including West Park Pictures, Prospect Pictures, Done and Dusted and Matchlight. DCD Rights, formerly NBD, handles sales. After a testing period in which it wrote down the value of its production assets, the company parted company with Chris Hunt and is now in the black and carrying less bank debt. It reported revenues of £34.5 million in 2009.

Distress signals

There's a commercial imperative in keeping a lid on financial problems, the risk being a downward, potentially fatal spiral as confidence in a company disappears.

Target Entertainment, Power and RHI Entertainment have had problems they could not keep out of the public domain, but during the worst recession in living memory only a handful of companies found themselves in that position.

However, the bad news may be in the post as the legacy of borrowing too heavily to fund M&A is felt.

"Compared with other sectors very few people in media went under," says PWC's Phil Stokes. "But in the next 12 to 18 months, when the renewal of debt put in three or four years ago comes up for renewal, the banking terms involved might cause more distress."

This could open the door for acquisitive companies. "There would definitely be a business in rolling up distressed assets," says a senior figure at one company that has executed several notable M&A deals in the TV sector in recent years. "We have definitely had more companies coming to us saying 'we are in trouble, you can take us on for nothing and cover our expenses,' but in general those are not the best companies," the executive adds.

There was too much liquidity before and asset multiples were too high. The consequence was over-leveraged assets and write-downs.

Phil Stokes, UK head of entertainment, PricewaterhouseCoopers

Having one strong brand is absolutely crucial. We found with *Twilight*, which clearly carried Entertainment One branding, that its success created greater awareness for the whole company.

John Morayniss, CEO, E1 Television

"I think of us as small but beautiful in terms of the UK super indies – I'd like us to become larger and less beautiful," Green says.

Done and Dusted and September Films have US offices. The US accounts for 35% of company revenues today and the target is for that to hit 50% in 2011.

It has become a cliché that it's better to buy UK production companies because they can retain rights, according to Green. He says: "While the US doesn't offer producers the ability to do that, what it does offer is volume and if you generate enough business the revenues and margins are substantial. You do not need to collect IP trophies to be successful in the US market with a 20% margin on a US$5 million to US$10 million series."

The received wisdom in Europe that you retain the production brands runs counter to current thinking in Canada, another hotbed of consolidation and M&A activity. Canada-based companies are tending to roll up various brands into one, perhaps because of their proximity to, and reliance on the US. It looks better to turn up in LA as part of a large media organisation than as a scrappy indie, especially in a world that is dominated by the huge, vertically integrated studios.

If large independent, consolidated groups in Europe strive for 'super-indie' status, in North America the equivalent is 'mini-major'. Entertainment One (eOne) has rolled the Blueprint, Barna Alper Productions and Oasis International brands into a single unit, E1 Television. Kids producer Contender is now part of E1 Kids. The TV division of the company reported 2010 revenues of £43.7 million.

John Morayniss is CEO of the company's TV division and says that unifying the brands was a no-brainer. "Having one strong brand is absolutely crucial," he says. "We had strong [TV] brands in individual markets, but in the mid-to-long term we felt very strongly that there's greater benefit to building one strong brand. Success in one area can have a halo effect in the others. We found with [hit movie franchise] *Twilight*, which was clearly branded eOne, that its success created greater awareness for the whole company."

Canada-listed production and distribution group DHX Media has just rebranded its various subsidiaries, unifying the various production units, Decode, Halifax Film and Studio B under a single brand. Distribution arm Decode Enterprises and consumer products division DHX Interactive will also fall under that label. For the nine months to end-March it reported revenues of C$31.4 million.

I think of us as small but beautiful in terms of the UK super indies - I'd like us to become larger and less beautiful.

David Green, CEO, DCD Media

Steven DeNure, president and COO says: "The various brands are well-known, but clients have now had enough time to get used to 'DHX' and know the brand. We thought we were better off rebranding under a single name."

Timing is key. DHX acquired Wildbrain, the US-based producer of *Yo Gabba Gabba!* and *The Ricky Gervais Show*, in September for US$8 million and, as a new addition to the DHX fold, it will keep its own branding for the time being.

In the UK most production companies of note are now affiliated to larger groups. The paucity of acquisition targets has helped maintain valuations through the recession, as proved by All3Media's acquisition of Optomen for a reported £40 million and Warner Bros's acquisition of Shed Media in a deal that values the UK indie producer/distributor at £99.9 million, almost a 40% premium on its closing share price.

Economies of scale kick in with distribution and it makes sense to bolt different entities together.

Jonny Slow, senior VP, strategy and operations, Zodiak Entertainment

All3Media has been at the forefront of the deal-making in the UK and will fold Optomen, which in turn has a joint venture with celebrity chef Gordon Ramsay and produces all of his shows under the One Potato Two Potato banner, into a group already comprising Bentley, Cactus TV, Company Pictures, Lion, Maverick, MME Moviement, North One, Objective, Studio Lambert and Zoo Productions.

With fewer companies to acquire, some are being bought right out of the gate. As an ex-agent and ex-RDF USA boss, Chris Coelen already had the industry expertise so valued by investors when he set up Kinetic Content in March. In September he sold a 51% stake to Red Arrow Entertainment, the production and distribution company owned by German commercial broadcaster ProSiebenSat.1.

When the opportunity came along to team up with a pan-European broadcaster with a presence in numerous countries, we had to do it.

Chris Coelen, founder, Kinetic Content

Coelen was not expecting to sell a chunk of his start-up so soon. He says: "We wanted to build a base in the US and from that a strong network of international partners. Red Arrow is well positioned and extremely ambitious in terms of content creation. It wasn't originally part of the plan, but when the opportunity comes along to team up with a pan-European broadcaster with a presence in numerous countries, we had to do it."

The lack of attractive companies to buy and high barriers to entry because of the lack of financing options might mean a relatively settled period in terms of M&A. Alternatively, it might mean an era of mega deals as the large, consolidated groups eye one another. Zodiak and others are likely to float within a few years, giving themselves healthy war chests and access to capital markets. Others are committed to spreading into new regions and territories meaning the M&A activity takes on a more international flavour. And, as some companies struggle to service large piles of debt, who can tell which will falter and come into play. Will deal-making slow down in the TV sector? Don't bank on it. **TBI**