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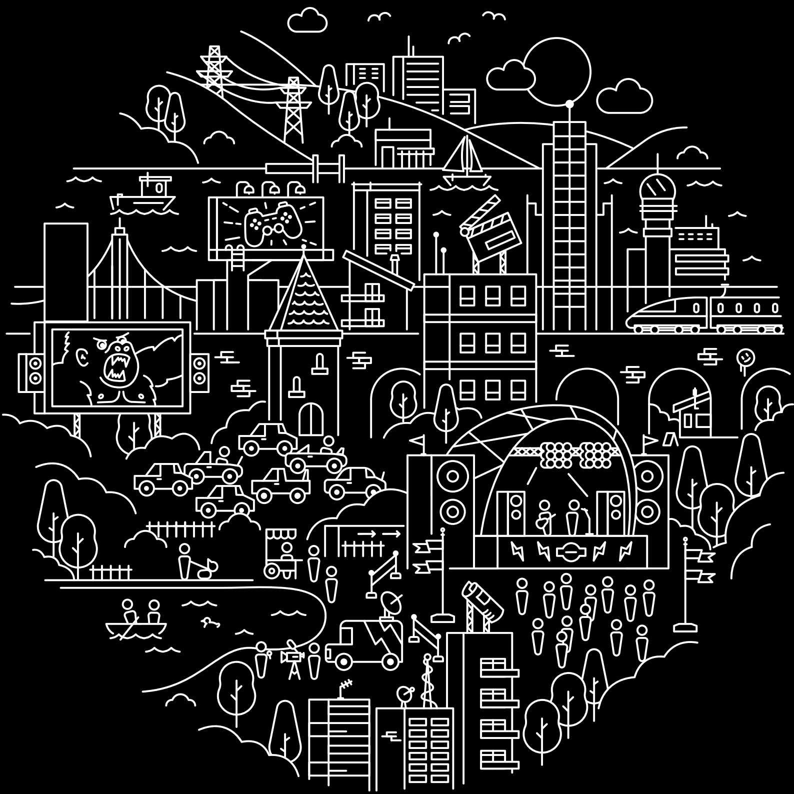

Media Metrics 2017

The state of UK media and entertainment

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Foreword

Welcome to the 2017 edition of Media Metrics, Deloitte's annual definitive review outlining the scale and dynamics of the UK media and entertainment sector. This exciting and creative sector is now £96 billion in size, a £10 billion increase on 2016.

Our index ranks the top 100 companies in the UK media and entertainment sector, with the largest company by revenue, Liberty Global plc generating £14.8 billion, and the 100th largest £82 million. Our index also ranks the top 100 companies by revenue growth, by profit, and by profit growth. Through these top and bottom line business metrics, the dynamism in this growing industry can be described and examined.

The review covers business to business, as well as business to consumer companies, within which are the following sub-sectors (listed in order of revenue size, highest to lowest): TV Production and Distribution; Advertising; Information Publishing and Events; News Publishing; Film Production and Distribution; Video Gaming; Magazine Publishing; Book Publishing; Music Publishing and Distribution; and Social Media. Some of the companies in this report generate all their revenues from the media sector; others have diversified into other areas.

In this report, as well as looking at the revenue and profitability of the 100 largest media and entertainment companies, we also look at some of the core emerging themes that are likely to affect the performance of the industry, including:

- Special FX. Foreign exchange and its impact on interpreting business metrics for the UK's largest media and entertainment companies, given the global nature of the creative sector.

- Large as live. The rising importance of in-person events and live content, despite the rising capability of digital alternatives. We look at the financial performance of live across: trade events, TV and radio, music and cinema. We also look at the array of live content via on-demand platforms.

- Join the subs club. The value of subscription for content businesses. The ad-funded online model remains alluring – for its potential global marketplace of billions of users - and frustrating – given the challenges in monetising this model. We look at the growing focus on subscription among publishers, and how this follows in the commercial furrows ploughed by business information services, telecom, pay TV, music and, interestingly, certain consumer goods.

- Measure for measure. The increasing complexity of content measurement, particularly with video and advertising. Once upon a time there was simply a television in a living room and a handful of channels. Now there are ever more screens, most of which are portable, multiple video formats and a growing, potentially confusing array of performance metrics. Advertising is fundamental to the funding of content creation; measurement is core to advertising. Making measurement meaningful and consistent is critical. We look at the current landscapes and discuss potential resolutions.

- Deal or no deal. We examine M&A trends, at both the global and UK level. There has been a tangible boom in media and entertainment sector M&A both within the UK and internationally in recent years, and 2017 continues that trend. We outline the drivers for this, the dynamics across the sub-sectors, and the motivations of the key players.

The creative economy is a key platform for the UK's growth. Our Media Metrics report underlines that fact, and shines a light on the scale of the major companies as well as the likely drivers for profitable business performance. We trust you will enjoy both the index itself, and the narrative behind it.

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There was an

11%

increase in UK media industry's revenues over the last year, growing by **£10bn** to

£96bn

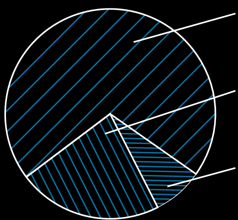
Although revenue figures are higher than ever **profits dropped**

52%

to

£4.8bn

The share of revenues is top heavy, with the percentage split being...

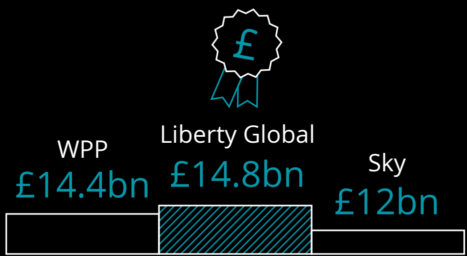


70%
Top **10** companies

22%
Next **40** companies

8%
Remaining **50** companies

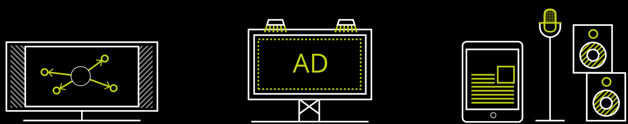
The top 3 companies by revenue were:



WPP
£14.4bn

Liberty Global
£14.8bn

Sky
£12bn



41% TV production and distribution + **21%** Advertising + **18%** Information publishing and events

These three sub-sectors generated

80% industry revenue

The UK media and entertainment sector in numbers, 2017

Approaching £100 billion in revenue

The UK media sector has performed robustly, with the 100 largest media companies, as ranked by revenue, reporting £96.3 billion in revenues (see the side bar for guidance on how this ranking was formulated).

This represents 11 per cent year-on-year revenue growth, with a significant proportion of this growth due to currency exchange movements that have occurred since last year's Media Metrics market sizing. The contribution of foreign exchange movements on revenues is analysed in the subsequent chapter: Special FX – what currency movements mean for media companies' financial metrics.

The sector's CAGR (Compound Annual Growth Rate) for the last three years is 6.9 per cent.[1]

TV Production and Distribution, Advertising, and Information Publishing and Events remain the three dominant media sub-sectors

The TV Production and Distribution sub-sector (these categorisations have been created by Deloitte), consisting of 19 companies, accounted for the largest share (41 per cent) of all revenues for companies in the index, and had the highest average revenue per company at £2.1 billion (see Figure 1). This sub-sector also had increased the most in terms of value, that is by £5.2 billion.

TV Production and Distribution, Advertising and Information Publishing and Events collectively generated four-fifths of all revenues of the top 100 media companies.

The average revenue for companies in Information Publishing and Events was £1.2 billion. For Advertising it was £1.1 billion. By comparison, the average revenue for companies in Book Publishing was £140 million, and in Newspaper Publishing £499 million.

Methodology (excerpt from the Research methodology chapter)

The 100 companies in this ranking have been selected based on their UK Standard Industry Classification (SIC) codes, as defined by their registration at Companies House. The UK SIC 2007 codes covered by this report are:

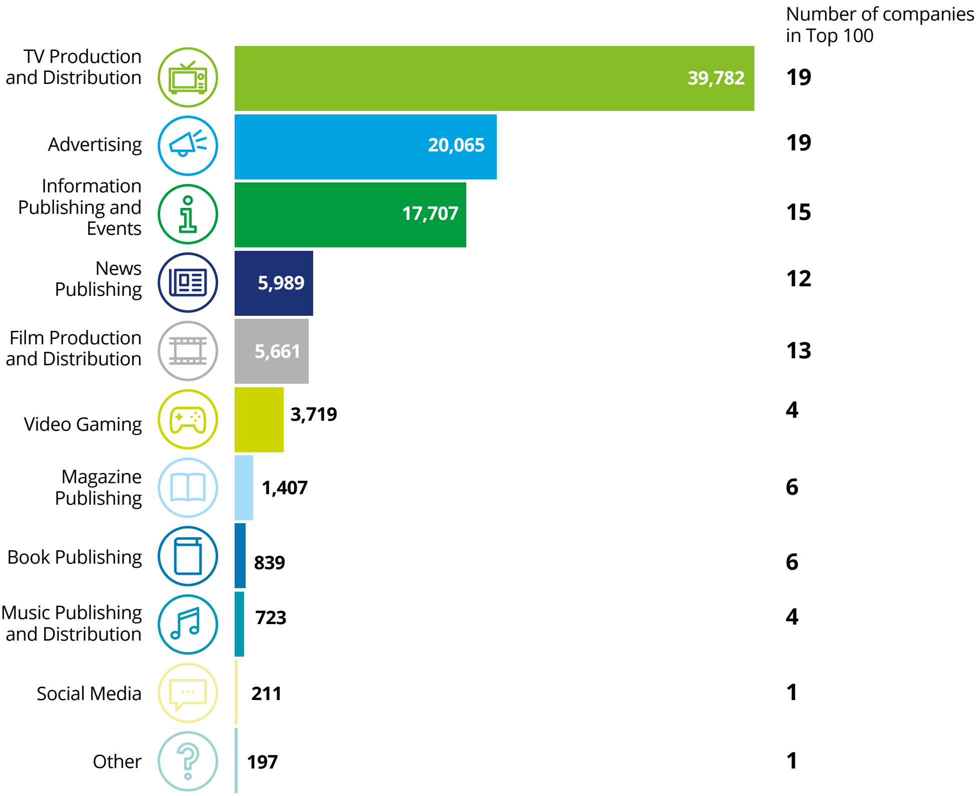
- 581 – publishing of books, periodicals and other publishing activities
- 59 – motion picture, video and television programme production, sound recording and music publishing activities
- 60 – programming and broadcasting activities (includes radio and TV)
- 731 – advertising.

We have also included companies whose SIC code is not shown in the list above, but who we believe are part of the UK media industry, due to their close interrelationship with the other companies in our ranking, or because their major competitors are included in our definitions. The most notable examples are Thomson Reuters, Google and Facebook, who we believe play a crucial role in the media and entertainment industry today.

The data covers media and entertainment companies who are registered in the UK and their position in the ranking is based purely on reported revenue that is recognised within these entities. This approach provides us with a consistent basis on which to rank companies, but it does mean that some large, global media and entertainment organisations with a UK presence may be excluded because revenues generated in the UK exist within a company that is registered elsewhere. Conversely, some UK entities recognise all of their global revenue in their UK-based company, or present group accounts that consolidate the revenues of all their international operations.

We note that some SIC codes may describe a company's historical categorisation, but not reflect current scope. For example, an advertising company may have diversified into a range of adjacent sectors.

Figure 1. Top 100 by sub-sector: Total annual revenue (£m) and number of companies



Source: Deloitte, 2017, based on published company accounts

The fastest growing sub-sectors were Social Media (101 per cent year-on-year growth), and Film Production and Distribution was second increasing by 16 per cent.

Looking at three-year growth rates, the fastest growing sub-sector was also Social Media, with a CAGR of 83 per cent (see Figure 2).

All sub-sectors in publishing (Music Publishing and Distribution, News Publishing, Book Publishing, Information Publishing and Events and Magazine Publishing) have had zero or negative CAGR over the last three years.

Figure 2. Three-year CAGR by media industry sub-sector

Media sub-sector	3 year CAGR
Social Media	**83%**
Video Gaming	**14%**
TV Production and Distribution	**14%**
Film Production and Distribution	**12%**
Advertising	**6%**
Other	**5%**
Music Publishing and Distribution	**0%**
Book Publishing	**-1%**
Information Publishing and Events	**-2%**
News Publishing	**-3%**
Magazine Publishing	**-5%**

Source: Deloitte, 2017, based on published company accounts

Liberty Global plc is the new #1

Liberty Global plc is now the top-ranked company in our top 100 (see Figure 3). Liberty Global plc's revenue increased by £2.8 billion (23.5 per cent revenue growth over the prior year). Revenue growth in Europe was partly driven by a 24 per cent year-on-year increase in 2016 Revenue Generating Unit (RGU) additions, and a total of 964,000 new subscribers.[2]

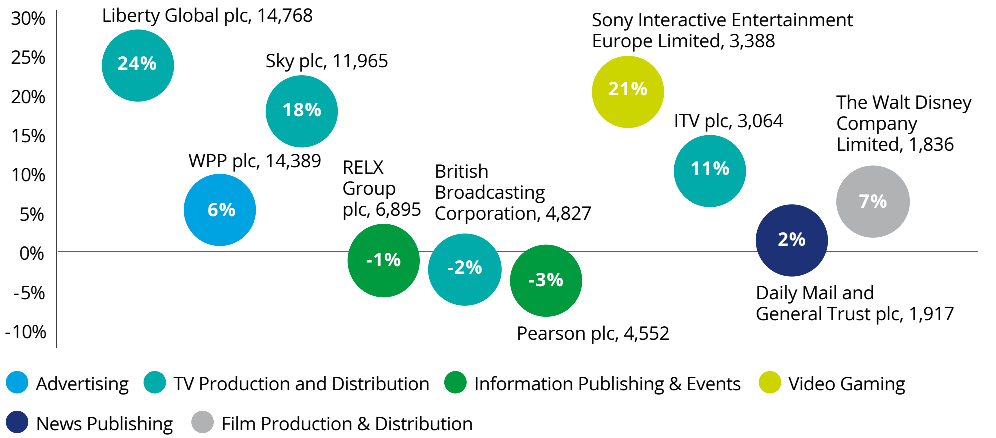
Figure 3. Top 10 media companies by revenue

Rank	Company	Most recent annual revenue (£m)	Second most recent annual revenue (£m)	3 year CAGR	Year on year growth
1	Liberty Global plc	14,768	11,955	24%	24%
2	WPP plc	14,389	12,235	6%	18%
3	Sky plc	11,965	9,989	18%	20%
4	RELX Group plc	6,895	5,971	1%	15%
5	British Broadcasting Corporation	4,827	4,805	2%	0%
6	Pearson plc	4,552	4,468	3%	2%
7	Sony Interactive Entertainment Europe Limited	3,388	2,936	21%	15%
8	ITV plc	3,064	2,972	11%	3%
9	Daily Mail and General Trust plc	1,917	1,843	2%	4%
10	The Walt Disney Company Limited	1,836	1,581	7%	16%

Source: Deloitte, 2017, based on published company accounts

Of the top ten, Liberty Global plc was also the fastest growing company over three years, with three-year CAGR of 24 per cent. Sony Interactive Entertainment Europe Limited was in second place (see Figure 4).

Figure 4. Three-year CAGR for top ten largest media companies in the UK by 2017 revenue (£m)



Source: Deloitte, 2017, based on published company accounts
Note: Top ten companies ranked 1 to 10 – left to right by most recent annual revenue figure.

Ten companies generate 70 per cent of the media industry's revenues
The top ten companies in our ranking account for 70 per cent of revenues; the bottom 50 companies account for 8 per cent of revenues (see Figure 5).

Figure 5. Top 100 revenue concentration (share of total)

Source: Deloitte, 2017, based on published company accounts

Profit halves

The media industry's profitability declined by 52 per cent year-on-year to £4.8 billion from £9.9 billion last year. This was almost entirely due to a huge decline in profitability in the Information Publishing and Events sub-sector by £5.04 billion (see Figure 6).

Figure 6. Media sub-sector average profit margin, most recent annual profit and second most recent annual profit

Media sub-sector	Profit margin	Most recent annual profit (£m)	Second most recent annual profit (£m)	Difference (£m)
Advertising	8%	1,661	1,356	305
Book Publishing	11%	89	-3	92
Film Publishing and Distribution	1%	33	110	-77
Information Publishing and Events	1%	198	5,239	-5,041
Magazine Publishing	11%	159	13	146
Music Publishing and Distribution	7%	53	346	-294
News Publishing	-2%	-144	747	-891
Social Media	-20%	-41	-29	-13
TV Production and Distribution	7%	2,618	1,666	951
Video Gaming	4%	154	455	-301
Total	**5%**	**4,778**	**9,900**	**-5,121**

Source: Deloitte, 2017, based on published company accounts

While the Information Publishing and Events sub-sector as a whole may have experienced a sharp fall in profitability, individual companies fared well. Four of the top ten companies with the greatest profit levels were from this sub-sector (see Figure 7). These included the number one, Auto Trader, whose profit margin increased from 56 per cent to 70 per cent, and the number two, UBM, with a 58 per cent profit margin.

The News Publishing sub-sector's profitability declined by £891 million.

The most profitable media sub-sector was TV production and Distribution with £2.6 billion in profit, an increase of 57 per cent. The top five companies by profit generated a combined annual profit of £5.1 billion over the last year.

Figure 7. Top UK media companies by profit margin

Rank	Company	Profit margin (%)	Media sub-sector
1	Auto Trader Limited	70%	Information Publishing and Events
2	UBM plc	58%	Information Publishing and Events
3	Time Inc. (UK) Limited	56%	Magazine Publishing
4	The Economist Newspaper Limited	46%	News Publishing
5	Hm Publishers Holdings Limited	46%	Information Publishing and Events
6	Euromonitor International Limited	23%	Information Publishing and Events
7	NGC Europe Limited	21%	TV Production and Distribution
8	Exterion Media Metro Services (UK) Limited	20%	Advertising
9	UKTV Media Holdings Limited	19%	TV Production and Distribution
10	Penguin Books Limited	18%	Book Publishing

Source: Deloitte, 2017, based on published company accounts

Special FX: what currency movements mean for media companies' financial metrics

It's been a great year for the top 100 UK media companies, at least in terms of nominal revenues: 11 per cent growth has taken industry revenue to £96.3 billion.

However, how much of this is organic growth, and how much is simply down to exogenous factors, such as exchange rate movement?

Since last year's index of the top 100 UK media companies by revenue, the pound has fallen sharply. At its lowest it was down 22 per cent relative to the dollar. On the day of the Brexit vote, as the polling stations closed, a pound was worth $1.50. At the start of 2017 it had fallen below $1.20. In the middle of May, it passed $1.30.[3] At the end of May it had fallen to $1.28.[4]

What has the decline in sterling's value implied?

Media companies that generate a large proportion of their revenues abroad in other currencies, especially dollars, and which account for these transactions in pounds, have enjoyed an uplift in nominal revenues and profits. Deloitte estimates that the just over half of revenue (55 per cent) generated by the top 100 UK media companies by revenue in our index is earned abroad. For the Information Publishing and Events within the index, four-fifths is from overseas. For advertising companies within the index it is over three-quarters (see Figure 8).[5]

In most cases currency movements over the past year have increased companies' reported revenue and profit; in a few cases it has shifted results from a loss to breakeven.

Figure 8. Share of revenue generated overseas by media sub-sector for top 100 UK media companies by revenue

Sub-sector	Share of revenues generated overseas
Advertising	**74%**
Book Publishing	**48%**
Film Production and Distribution	**43%**
Information Publishing and Events	**81%**
Magazine Publishing	**29%**
Music Publishing and Distribution	**50%**
News Publishing	**25%**
TV Production and Distribution	**42%**
Video Gaming	**61%**
Average	**55%**

Source: Deloitte, 2017, based on published company accounts

Among the ten largest companies in this year's index, Deloitte estimates that currency movements have increased reported revenue by up to 11 per cent. Profitability among the top ten in this year's index has been boosted by up to 13 per cent.

Companies that generate revenues in pounds, but account for these in dollars, have seen nominal revenues decline as a result of currency movements. Among the major media companies we analysed, the biggest impact that we have seen is an estimated minus four per cent reduction in nominal revenues.

Many companies provide guidance on the impact of foreign exchange (FX) on their results, but there is no statutory requirement on how this guidance, which is not audited, is provided. This makes comparison of revenues, after allowing for FX impact, more difficult.

The impact of FX movements varies by company, as each company has a different hedging strategy. FX volatility is a constant, and many companies manage this volatility by hedging, which enables the company to manage or eliminate its foreign exchange risk. It does this by agreeing to buy or sell foreign exchange at a particular rate at some point in the future. Each hedge is customised.[6] Companies would not feel the effect of FX changes until these hedges unwind, that is, potentially not for several years.

FX affects all companies that operate overseas or trade with overseas entities. There has long been a global trade in media assets, such as television programming, or sports rights. Some media assets are paid for in instalments, and those payments may be due over the course of several years.

A UK-based TV broadcaster might put down a deposit for a series that does not air for several months, and then make further payments at the start and end of the broadcast period. Over the last year, this may have caused a UK-based broadcaster to end up having to pay more than it had originally budgeted for.

A UK-based exporter of content – be this television programming, video games, business information or even exhibition space – selling overseas, with pricing in dollars, may be able to book higher nominal revenues as a result of a fall in the pound.

Currency fluctuation is a constant, and overseas trade is likely to become increasingly important for UK media companies, so understanding how to cope with, and ideally profit from, FX movements may become increasingly important.

High-end television content – costing millions of pounds per episode – often requires multiple partners to fund production. Football rights are often priced in dollars, even if the content originates from the UK. For example, overseas rights to the FA Cup are priced in dollars.[7] Video games can cost tens of millions of pounds to produce. Companies could sell the rights or end-product to hundreds of countries, and those rights may be earned over the course of years. UK-based exhibition companies operate all around the world.

Currency movements are unpredictable. At the time of writing, sterling was the best performing G10 currency relative to the dollar. However, just after Brexit, it was one of the worst performing of any currency. If sterling continues to strengthen relative to the dollar, companies whose top and bottom lines benefited from currency movements may experience sluggish or even falling nominal revenues and profits as a result.

Several factors influence currency movements. A strengthening US economy, and the expectation of rising interest rates in that market, would likely cause the dollar to increase. Conversely, expectations of weaker growth could have the opposite impact.

The bottom line for the 2017 index is that currency movements had a significant impact, and interpreting the £10 billion increase in nominal revenues needs to factor in the impact of a significant fall in the value of the pound. At the same time, the focus on overseas markets is likely to increase, and a core management skill will be the capability to better manage foreign exchange risks.

Subscription salvation: is there light at the end of the tunnel for online publishers?

There are two, typically complementary models for funding content creation: advertising and direct payment, with the latter comprising subscriptions and one-off payments.

Historically these two models co-existed. With the move to online, equilibrium is arguably yet to be reached in all sectors, with the publishing sector having particularly struggled to find the optimal funding mix.

Advertising can be highly lucrative. The price for TV ads in the Super Bowl are approaching $10 million (£8.9 million) per minute.[8] In the UK a TV ad typically costs in the tens of thousands of pounds per 30 second primetime slot on a main channel.[9]

Two of the most valuable companies in the world, Google and Facebook, earn the vast majority of their global revenues and profits from online advertising. Both have reported strong global revenue and profits so far in 2017. Alphabet, Google's parent company, announced $24.75 billion (£21.98 billion) in global revenues for the first quarter of 2017, a 22 per cent increase on the prior year.[10] Its global operating income was $6.6 billion (£5.9 billion), a 23 per cent increase on 2016.[11] Facebook announced global sales of $8 billion (£7.1 billion), a 50 per cent year-on-year increase, with mobile generating 85 per cent of global revenue.[12]

At the outset of the digital revolution in the 1990s the major onus was on ad-funded content, and this was the mentality that has guided many traditional publishers. The thinking was that the sheer scale of the global market available would enable advertising to fund content creation.

Publishers such as *The Guardian* have indeed gathered enormous online presence, with digital audiences far outnumbering readers of physical copy. In April 2016, *The Guardian* had 155 million unique monthly browsers, up from 129 million a year earlier.

However over that period, digital revenue per unique monthly browser declined to £0.044 per month from £0.054 a year prior.[13] Overall digital revenues declined by £2 million to £81.9 million.[14]

Johnston Press has estimated that every traditional paper reader generates the same revenue as 20 digital readers.[15] The News Media Association and Deloitte have estimated that the industry average is eight digital readers generating equivalent revenue to one print reader.[16]

Print publishing has not had a good start to 2017 in the UK: Enders Analysis estimates that print display advertising fell by 20 per cent in the first three months of 2017, with advertisers moving their budgets to online platforms.[17]

For publishers, one response to falling rates per online ad is simply to place more adverts per page. Place too many ads, however, and consumers may respond with ad blockers. It may also be the case that not all ads are viewed.[18]

A further challenge for publishers is that when ads are sold programmatically (using an automated bid-based mechanism), about 75 per cent of the advertiser's spend may be paid out to intermediaries, leaving the content creator with a minority of the ad spend.[19]

Another approach is to create advertorial, more contemporaneously known as "native advertising". But just as with traditional advertorials, readers may soon readily identify paid-for content, and skip it. An inherent restriction on the growth of advertorials is the resource required to create them – each piece of content needs to be individually created. A proliferation of advertorials may upset existing journalists. There have been some reports that the peak for advertorial has already passed.[20]

Relying on advertising alone to fund online publishing appears unsustainable, and based on the experience of recent years, it feels like a Sisyphean torment. The chase for additional browsers is nullified by ever falling revenue per browser.

Relying on print would also appear to require an unlikely turnaround in demand for print copy, given the continuing declines in sales volumes. In the year to April 2017, the majority of UK paid-for titles declined by between by -2.2 per cent and -20.1 per cent.[21] Only two titles, *The Times* and the *Financial Times*, saw an increase in print circulation.[22]

The required response for publishers – certainly broadsheets and possibly also the more popular press – may be an increasing focus on subscriptions at the expense of the number of readers.

Over the past year, there has been a marked increase in the number of publications earning regular income from subscribers, and in *The Guardian's* case, from supporters. The *Financial Times*, which has always had a paywall, ended 2016 with 650,000 digital subscribers, a 14 per cent increase on the previous year.[23] As of end June 2016, *The Times* and *The Sunday Times* had 413,600 subscribers, of which 182,500 were digital only.[24] *The Guardian* offers subscriptions as well as memberships. In July 2016, there were 50,000 members, each paying between £5 (equivalent to 111 unique browsers) and £30 (666 unique browsers) per month.[25] As of March 2017, there were 200,000 members[26] and a further 185,000 subscribers. In November 2016, *The Telegraph* replaced a metered paywall with a range of subscriptions, with digital only service starting at £2 per week.

There has also been an increase in digital subscriptions among newspapers abroad. In February 2017, *The New York Times* announced it had passed two million digital subscribers, and three million for print and digital.[29]

Publications are diversifying into a range of subscription services, on top of online and physical copy. For example Business Insider offers subscriptions to its BI Intelligence service, which is priced at $2,500 (£2,220) and has an estimated 7,500 subscribers. Enterprise level access costs up to $150,000 (£133,200). One reason why Business Insider diversified was its recognition that it could not keep growing solely via unique users, which numbered 54 million in March 2017.[30]

Condé Nast has diversified into offering subscriptions to gift boxes themed around magazine titles, including *GQ*, *Teen Vogue*, *Condé Nast Traveler* and *Brides*.[31] The logic behind this venture is that it can bolster circulation and drive direct e-commerce revenues.[32] There are currently tens of thousands of subscribers; each subscription costs a few tens of dollars per month (for example the Teen Vogue box costs $39 (£35) per month[33]). The publisher has a wholly owned subsidiary that sources, packages and despatches each box.

Business Insider is complementing its BI Intelligence service with its own 15,000-person research panel, recruited from its most avid online readers.[34] Other publishers are looking into panels to boost business-to-business revenues. Vice Media, for example, is building a 30,000 user panel, which may double in size in 2018.[35]

In focusing on subscriptions, publishing would be following in the footsteps of the music industry, which passed the 100 million global subscriber mark at the end of 2016.

Subscriptions for music services are about £10 per month in the UK, about the price of what people used to pay for a CD. In 2015, the average per-stream rate for online music videos worldwide was $0.001, half that the prior year. Ten pounds is equivalent, in revenue terms, to the royalties for 1,300 streams.

The music industry has attained this milestone by creating a product that is built around existing mainstream digital tools: the smartphone, fixed and mobile broadband connectivity, search, hyperlinked messaging and cloud storage. It blends ease of use, portability, instant access, social features and more in a way that is superior to the music formats that preceded it. Growth should continue to increase for years to come – the number of subscribers is still a fraction of the number of ad-funded consumers, and any smartphone can be a repository of or conduit to music services.

Publishing would also be following television. The largest share of UK TV industry revenue is now from subscriptions. Most of this is for traditional pay TV service, which blends content, a set-top box and online access. And monthly payment is the predominant business model for video-on-demand services, either as a standalone service (Netflix, hayu), or within a wider bundle (Amazon Prime).

Subscription is also the mainstay of business-to-business publishing. In the UK this sector had year-on-year revenue growth of 2.3 per cent in Q3 2016. One of the principal drivers of the increase was growth in subscriptions of 28 per cent.[36]

Consumers are becoming accustomed to subscribing to an ever wider array of products and services, spanning contact lenses, pre-packaged meals,[37] chocolates,[38] nuts,[39] razor blades,[40] as well as online shopping passes[41] and cinema visits.[42]

Publishers that strive for volume to boost revenues may perennially find themselves on the path to profitability. Is it worthwhile chasing after millions more unique browsers, each generating a few pennies per month, or should publishers rather gather tens of thousands of subscribers each generating a few pounds per month?

While the Internet offers a route to billions of readers, only a small proportion of these may be valuable to each publisher. It is worth recalling that even at the peak of circulation, each newspaper title in the UK only ever appealed to a minority of the population. However the members of this minority might each be prepared to pay for content, and may each generate significantly more revenues than an ad-funded reader.

For the love of live

Digital offers vastly more control over what, where and when people can consume content. Digital capabilities have been improving exponentially over the last few decades. Despite this, demand for live content – for consumers and business – has remained vibrant and valuable.

The three largest media sectors in this year's Media Metrics index – TV Production and Distribution, Information Publishing and Events, and Advertising – all generate much of their revenue and profit from the consumption of live content. These three sectors generate collectively 81 per cent of all revenues among companies in the index.

Plenty of life in live for business

For decades there have been predictions of virtual workplaces and gatherings.

The oil crisis of the early 1970s provided one of the first major prompts to work remotely. Telecommuting would not just conserve scarce resources, but also liberate the worker from traffic and the office commute.[43]

A decade ago, the virtual world known as *Second Life* offered the ability to send one's avatar to meet other avatars within virtual workplaces, including exhibition venues. By 2009, more than 1,400 companies had held conferences and other meetings within its virtual space.[44] Enterprise users were offered various business oriented amenities including an auditorium and two conference centres.[45]

At about the same time, sophisticated high-resolution video conferencing suites were being rolled out, enabling participants to feel as if they were in the same room as those on the other side of the table to them.

Over the last decade, advances in fixed and mobile communications have reduced the cost of a video call significantly. Connectivity to offices has steadily improved to reach multi gigabit speeds. Three decades ago, companies would procure individual leased lines with 1.5 Mbit/s capacity each.

Yet despite the much enhanced video communication capability, exhibitions, conferences and other trade shows (as well as going to work) have remained mainstream, and revenues have steadily risen. Global trade show revenue has risen every year since 2010 and is forecast to continue growing, with the industry expected to generate about $40 billion (£35.5 billion) by the end of the decade.[47 48]

The value of events is partially reflected in the market capitalisation for two of the companies in the index. The two UK headquartered companies whose market value had increased most over the last 12 months, were RELX and Informa.[49] RELX, which as of 31 May 2017 was the most valuable UK-headquartered company in this year's index, hosted seven million participants across 500 events worldwide in 2016, generating £1,047 million, a 22 per cent increase on 2016.[50] UBM has also performed well, with 9 per cent growth in market capitalisation and 12 per cent growth in revenue.

The largest shows appear to be getting ever larger, demonstrating the benefit of intense concentrations of buyers and sellers in the same venue. There are still major benefits to be gained from meeting people face to face, not just in booths, but also at networking events.

The Canton Fair, which is a marketplace for textiles and garments, consumer goods and appliances held in China, hosted 196,490 buyers at its 2017 event.[51] Business turnover for this fair was over $300 billion (£266 billion) for the period 2012-16.[52] One of the largest technology events in Europe is the Mobile World Congress. In 2012, there were 67,000 attendees.[53] In 2017, there were 108,000.[54] CES is one of the largest electronics shows with 180,000 attendees in 2017,[55] a steep increase on the 153,000 who went in 2012.[56]

Music concerts and festivals

A generation ago, in the 1980s, live music generated sales of recorded music. For the past two decades, live music's importance has steadily grown. In 2015, the total live music audience reached 27.7 million, and generated £904 million in revenue, a 36 per cent increase on 2012 (see Figure 9).[57] Live music events are also a significant driver of tourism. Over 750,000 overseas visitors attended music concerts or festivals as part of their trip in 2015.[58] Tourism may be critical to the continued growth of the live music industry as most UK based concert goers attend just one concert per year.[59]

Interestingly, digital advances have contributed in some regards to the demand for live events. Smartphones, social networks and fast connectivity enable instant sharing of experiences, creating FOMO (fear of missing out) among those not attending. As technology improves, sharing has become increasingly sophisticated. A decade ago, a text-based commentary sufficed; today a concert-goer's experience can be live-streamed.[60]

Figure 9. Live Music Revenue, Exports and Employment, 2012-15

	Revenue (£m)	Exports (£m)	Employment
2015	**904**	**57**	**25,150**
2014	**924**	**42**	**25,100**
2013	**789**	**37**	**21,600**
2012	**662**	**30**	**19,960**

Source: Measuring music: 2016 report, UK Music

The growing demand for live music events in the UK is also mirrored globally. Live music generated $25 billion (£22.2 billion) in 2016, a $5.5 billion (£4.9 billion) increase on the previous year. While per show average grosses were up 25 per cent worldwide, they increased 39 per cent in North America.[61]

One of the more recent entrants into the live music business is Amazon, which has recently started a series of live concerts only available to Amazon Prime customers.[62] Amazon may be using its knowledge of Prime subscribers' music purchasing and listening tastes to curate the roster of artists who are providing exclusive performances. Artists include Robbie Williams, Blondie, Texas, Alison Moyet and Katie Melua.[63]

Live transmission: television and radio

Live has also remained the prevalent way to consume television and radio, despite the ever growing capability to go on-demand, thanks to ever improving broadband networks, and the ubiquity of personal video recorders.

Television represents the largest chunk of media consumption in the UK (and, indeed most other countries) today. The average UK viewer watched three and a half hours of television per day in 2016, most of this live.[64]

In 2016, 13.8 per cent of traditional TV viewed was time-shifted. Among younger viewers the proportion is higher, but still the minority. Last year, 25-34 year olds consumers watched over three quarters of traditional TV content live.

One of the drivers for the interest in live television may be technological advance: better networks enable experiences, including programmes, to be shared not just with those in the same living room, but everyone within a messaging group or a social network, or even the wider public.

Humans are in general social beings not solitary ones. It may just be that the majority will always prefer scheduled and collective experiences to on-demand but individual events.[65]

Live radio also remains extremely popular. Time spent listening to the radio has varied little – at about 20 hours per week[66] despite the increasing availability of on-demand alternatives. In 2016, 90 per cent of the population listened to the radio every week, and consumed slightly over 20 hours per week. Radio's penetration has shifted little since 2011, when slightly less than 90 per cent of the population listened to the radio.

Since 2011 smartphone penetration has risen considerably, and 4G mobile networks, which can readily cope with high-fidelity music streams, have launched and within a few years become the majority of mobile data connections.

Yet despite the widespread capability to create personal playlists, and against the backdrop of a surge in online music subscriptions, radio represented about 74 per cent of audio time in 2016, while on-demand music (music services, music videos and digital tracks) was only 17.2 per cent.[67]

These behaviours are mirrored in the US. Consumption of live TV among US adults was 4 hours 13 minutes in Q3 2014, 4 hours 7 minutes in Q3 2015, and barely changed the following year. Throughout this period average broadband speeds for fixed and mobile networks improved considerably.

Consumption of live radio was even more constant, at 1 hour 52 minutes in Q3 2014, 1 hour 50 minutes a year later, and back to 1 hour 52 minutes in Q3 2016.

Cinema: resilient

Box office revenues declined moderately in 2016, with a 1.1 per cent decline. Admissions (ticket sales) were down slightly to 168 million (a two per cent decline over the prior year) but were seven per cent higher than in 2014.[68]

All three cinema operators in the index had a strong year with double digit growth for the sub-sector (see Figure 10).

Figure 10. Revenue information and ranking for cinema operators

Rank (of top 100 largest UK media companies)	Company	Most recent annual revenue (£m)	Second most recent annual revenue (£m)	Year on year revenue
17	Cineworld Group plc	797.8	705.8	13%
19	Vue International Bidco plc	772.5	707.0	9%
20	Odeon and UCI Cinemas Group Limited	747.2	657.4	14%

Source: Deloitte, 2017, based on published company accounts

The performance of cinema in the UK has remained fairly constant since 2001 with out-turn for a specific year depending to a large extent on the response to the slate of blockbusters. For example, admissions in March 2016 were up 16 per cent year on year thanks to the launch of *Batman vs Superman: Dawn of Justice*, *Zootropolis*, *Kung Fu Panda 3* and *London Has Fallen*.[69]

2015 was always going to be a difficult year to follow given that it included *Star Wars: The Force Awakens* and *SPECTRE*, respectively the highest and fifth highest ever grossing films in the UK.[70]

Ticket sales since 2001 have varied between 160 and 180 million: demand has been little affected by technological advance, be it the growing availability of high definition broadcast and the mainstream adoption of HD ready, flat-screen TV sets, the emergence of subscription video-on-demand (SVOD), the adoption of broadband or the launch of 3G and 4G mobile networks.[71]

The future: live forever

But what of the future – will there still be massive demand for live events? Will live entertainment continue to monetise strongly? Will TV and radio continue to be consumed predominantly live?

Deloitte’s view is that demand for live business events should remain vibrant, as people attend events for a wide range of reasons, some of which cannot be replicated digitally, such as socialising together, often in pleasant locations. When the social, relationship- and trust-building aspect of trade fades, then events may be able to migrate online. Until then, online events are likely to be exceptional, as remains the case with working at home by default.[72]

As for live entertainment, for music, comedy and theatre, again we would expect this to remain a strong industry, as long as it continues to deliver memorable experiences that cannot be replicated in digital format.

As for future demand for broadcast, the current demand for radio may provide an indicator. Most broadband connections in the UK should be capable of supporting streaming audio. Yet demand for live radio via platforms built for on-demand remains strong. The majority of requests (between 60 and 70 per cent) for iPlayer Radio are for simulcast.[73]

The intrinsic demand for scheduled television is reflected in a slew of recent announcements from digital platforms on their live TV offerings:

- Amazon has launched Amazon Channels, a suite of live TV channels, featuring content from Discovery, ITV, Eurosport, MGM and others. This programming is additional (and charged additionally) to the on-demand content included within Amazon Prime.[74] In the US, Amazon has also purchased the rights to stream ten Thursday Night NFL games.[75] These will be available to Prime subscribers and also broadcast on TV

- Twitter, which live streamed ten NFL games in 2016,[76] announced in May 2017 that it had signed 16 live streaming deals, spanning concerts, sport and drama.[77] Twitter also partnered with the BBC to live stream five election specials[78]

- YouTube has offered, in conjunction with BT Sport, several Champions League matches, including the final[79]

- Facebook will, for the coming season, broadcast 20 live baseball games, and 46 live Mexican football matches to US audiences, via the Facebook Live platform.[80]

In the US, Hulu, which has offered subscription video-on-demand services in the US since 2006, recently launched a streamed live TV service. The SVOD service starts at $7.99 (£7.10) per month; the live TV service costs from $39.99 (£35.50) a month.[81] Live, in the digital era, would appear to still be alive. And it may always be the case that people use technology to enhance live consumption – not to avoid it.

Measurement evolved: a view on views in a digital age

Measurement of media consumption used to be relatively simple, and widely trusted, and nowhere is this more evident than for video. Yet trusted measurement is fundamental to many companies in the UK media sector, spanning TV and film production and distribution, advertising and social networks.

A mere 20 years ago, the majority of UK homes had just five terrestrial channels, with Channel 5 launching on 30th March 1997. About five million pay TV homes had a further few dozen channels, delivered via analogue satellite or cable.[82] There were far fewer screens per home, and TV sets easily outnumbered connected screens.

There were no personal video recorders (PVRs). Time-shifting viewing relied on one's prowess in programming video cassette recorders (VCRs). There was no network-based video-on-demand (VOD), the closest analogue equivalent to on-demand video being a wander to the neighbourhood video rental store. There was also a stable and limited set of television genres, each of which had a relatively predictable audience profile.

In 1997 a nationally representative sample of a little over 5,000 households and their inhabitants could provide a sufficiently accurate indication to advertisers of who was viewing their commercials. Ad-funded TV stations generated sizeable audiences, with the most watched programmes boasting over ten million viewers, enabling relatively accurate estimates of audience size, due to lower incidence of sampling error.

The only other colour screen in UK homes was a computer, owned by a third of the population,[83] and this would rarely be used to watch video. About a fifth of the population had a mobile phone, with small monochrome screens.[84]

2017: an infinity pool of video content

Today, consumers are in a state of perfect distraction: they are awash with content choice, have access to multiple vivid high-definition screens and can connect via high speed fixed and mobile networks.

There are hundreds of channels on pay TV platforms and a vast supply of on-demand content, from professional and amateur producers.

Video content can be watched on multiple screen sizes, from four- to six- inch smartphones through to 80-inch TV sets.[85] In most UK living rooms connected screens – which often now include the TV set – now outnumber scatter cushions.[86]

There are multiple content formats, ranging from GIFs (Graphics Interchange Format) lasting seconds to traditional programmes, typically 30 minutes or one hour in length, to series which for some are best watched as day long binges.

There is an endless range of genres, some of which may have never thrived without the emergence of self-publishing platforms. One new genre of video content, for example, is unboxing children's toys: the most successful publisher of this genre has so far amassed 13 billion views.[87]

Viewing at any time, on any screen, and anywhere is possible thanks to a combination of ever more capacious and ubiquitous personal video recorders (PVRs), an increased array of broadcaster and specialist VOD platforms, and ever faster fixed and mobile broadband networks.[88] On-demand platforms, armed with ever larger content budgets, offer ever more variety.[89]

The increasing complexity of video metrics

The expansion of consumer choice can lead to advertiser confusion. This is problematic: reliable measurement is core to advertiser confidence. Campaigns are created according to the expected audience profile (age, gender, social class, location and more) for each programme, and analysed post-broadcast to determine who has watched their advertising messages.

Accurate measurement may determine which programmes an advertiser places ads in, or even which medium (TV, online video or other) to use.

There are multiple sources of confusion at present.

First, traditional TV measurement has become harder, as audiences are now spread over more channels. Audiences per programme are smaller (even though audience share remains concentrated among the six largest channel groups). Smaller audiences mean a greater margin of error. Further, some viewing, specifically that on PCs, tablets and smartphones, may not be captured, as measurement is only now being extended to these devices. Audiences have shrunk in size due to the proliferation of channels, particularly for the principal channel groups. Whereas 20 years ago there was just one ITV, it now has four broadcast channels, as well as on-demand options. There has also been an expansion of pay TV funded content which can be profitable with much smaller audiences than is the case for ad-funded content, as revenue per pay TV viewer is often higher than for an ad-funded viewer.

Second, there are now multiple, additional forms of online video content now available to advertisers as well as traditional TV programmes. Each video format offers a different value proposition and may have distinct, but similar sounding, measurement terminology, as well as additional metrics, such as engagement. For traditional TV viewing a view may be a continuous period of 30 seconds watching the same piece of content. For online video a view may be mere seconds in length, and in some cases may not even be visible to the user: music videos (played on any screen) may be listened to, rather than watched; or they may be playing in one tab among 20 tabs open on a browser. For some on-demand sites the core metric is a request, i.e. a user's computer, tablet or phone sending a request for a file to be downloaded.[90] For all types of video there may be a response to the advertising message seen. For traditional TV, the reaction (such as a search on an advertiser's website) is not normally captured. For online video platforms, all engagement (such as a comment, like or click) can be tracked and linked to the individual consumer.

Third, and related to the second point, video is now consumed in far more contexts. Variables affecting context include screen size, time of day, if the content was watched live and the consumer need being served. Is an ad watched live on a 49-inch TV, at 8 PM, by a weary viewer equivalent to one watched absent-mindedly on a 5-inch smartphone at 8 AM, by a commuter waiting for a bus?[91] In some cases consumers may be passive (such as at the end of the day), while at other times they may want to interact with content.

Fourth, there is a diversifying range of companies selling ads against video. As well as traditional TV broadcasters and cinemas, there are social networks, online video aggregators, print publishers, mobile games publishers and out-of-home media companies – any screen space is being used to offer video ads.

Fifth, for some online video formats, ads may now be placed programmatically, with advertisers bidding in real-time for each slot. This may mean that advertisers are not fully aware of what content their ads are being placed next to, and as a result, ads may be shown adjacent to content that does not align with the advertiser's brand values. One major advertiser has recently taken steps to prevent their ads being shown next to unaligned content.[92]

Sixth, there have been questions around the accuracy of online measurement. Online content measurement provides high degrees of granularity, but there have been questions as to whether all claimed users were real, or if bots are simulating the actions of users. One company estimated fraud of $7.8 billion globally on programmatic advertising alone in 2016.[93] A trade association estimated $7.2 billion in bot driven ad fraud in the same year.[94] One executive has asked whether measurement of digital platforms should be conducted by a third party that is independent of the digital platforms.[95]

An additional factor is the emergence of traditional TV programming on online platforms: until recently most online video served via an online platform did not resemble traditional TV, often being much shorter in length, and with different production values. In the last year online platforms have started purchasing access to more conventional TV programmes, such as sports and drama, causing the potential for confusion to be exacerbated and making the collision of different measurement systems more apparent.

For example, in 2016, in the US market, Yahoo live-streamed an NFL (American football) game globally. The programme had 15.2 million unique viewers using typical Web platform metrics. Applying traditional TV metrics, however, there was an average of just 2.4 million viewers.[96] The former number counts anyone that watched any quantity of the game, from a second to the entirety. The latter is the average of the total number of viewers for each minute of the 195 minute live stream, that is the average of the total number of viewers for the first, second and each minute thereafter all the way through to the 195th.

The former number is similar to the typical audience this game would have had if shown on regular TV in the US market, and would, at first sight, be appealing to advertisers. The latter number, arguably less so. In the US market, Twitter has started using television measurement principles to enable comparability, and this is expected to increase confidence among advertisers. Applying the same metrics for an NFL match, the average minute audience was approximately 17.5 million for CBS and NFL network, and 327,000 for Twitter.[97]

Video views: definitions and methodologies

To illustrate the potential for advertiser confusion, it is worth describing the range of video measurement terms and underlying methodologies currently available. Advertisers now need to become familiar with multiple types of measurement, each of which has different metrics and methodologies.

Traditional TV on TV sets

The Broadcasters' Audience Research Board, more commonly known as BARB, manages measurement of traditional TV programmes in the UK.[98]

BARB's measurement is based on the metered, indoor viewing behaviours of 5,100 nationally representative households; this is a similar approach to that used in most other major TV markets. Each household represents about 5,000 other households in the UK. Size, age, gender, geography and TV platforms are the principal variables considered so as to have a highly representative sample.[99]

A meter installed in each panel member's home identifies each programme watched via an audio sample, which is matched to a database of programmes.[100] In Sky TV homes, the set-top box relays programme information to the meter. For online television content, programmes are identified via metadata tags.[101]

The metrics generated include:

- Audience: the audience is calculated by averaging the audience for all minutes covered by the programme, from start to finish, but excluding advertising breaks and promotions[102]

- Commercial audience: this is "the audience for the clock minute in which the commercial starts"[103]

- Viewer: this requires a panel member, or guest, being in a room when a television is on, and a programme is being shown.[104] With this approach, measurement cannot tell if someone is watching the screen. Viewing outside of home is not counted

- Viewing unit: viewing is measured per clock minute. A programme is counted as viewed if a panel member spends at least 30 seconds within every clock minute in the room in which a TV set is showing a programme.[105] The panel member only has to be present in the same room; the metering cannot tell whether the person is actually watching

- Viewing on same day as live (VOSDAL): time-shifted viewing of traditional TV programmes that took place on the same day as broadcast transmission.[106] A large proportion, often close to half, of all time-shifted viewing takes place on the same day as broadcast[107]

- Consolidated data: consumption of TV programmes watched after, but within seven days after broadcast.[108]

Traditional TV on other devices

TV programmes are also watched on PCs, tablets and smartphones. Historically, consumption of traditional TV content watched on these devices was not counted, and not included in viewing data.

BARB is currently extending the metering of consumption of broadcasters' content watched on tablets and PCs. This is being implemented to the same standards as those applied to viewing on a TV set. Viewing data will indicate what is being watched, and by whom.[109]

At least half of homes within the BARB panel now measure viewing on tablets and PCs; approaches for measuring consumption on smartphones are being developed.

Viewing data that fuses consumption of traditional TV programmes across all devices is planned to be rolled out in March 2018.

Online views

One of the promises of online consumption is the ability to measure an individual's consumption. In the UK the viewing patterns of every single digital consumer could be measured; you would not need to rely on a panel of a few thousand homes.

The two largest online platforms in the UK for the dissemination of advertising-funded video are YouTube and Facebook.

Online measurement incorporates a wider range of measures than those for traditional television. In addition to viewing stats, platforms also offer data on the extent to which content is interacted with, for example by clicking on a link or leaving a comment.

Viewing data for Facebook includes:

- reach, that is the number of people the ad was shown to
- 3-second video views – the number of views of at least three seconds' duration, or for 97 per cent of its duration
- 10-second video views – the number of views of at least 10 seconds' duration, or for "nearly 97" per cent of its duration
- video watches at 25, 50, 75, 95 or 100 per cent including watches that skipped to this point
- average watch time.[110]

Viewing data for YouTube includes:

- views (if these are 11 seconds or longer they are counted in the public YouTube view tally)
- video viewership counts how often a video is played either to a quarter, or half, or three-quarters' duration or to completion
- traffic source – how the viewer discovered the content
- audience retention is proportion of viewers still watching for every moment of the video
- engagement – likes, comments, shares and other forms of interaction.[111]

Interpreting viewing metrics: recommendations for advertisers

Video ads – on any platform – are likely to be one of the most important formats for advertisers for the foreseeable future. However there is a massive variation in types of video and underlying measurement.

Arguably there is need for a simple, integrated, independent and comparable measurement approach: creating this would require significant collaboration, coordination and effort. Ideally measurement would also incorporate consumption of other forms of media, including text and music.

Until that is available advertisers should make every effort to understand what they are purchasing, and consider at least the following:

- What influence does the size of the screen have on the effectiveness of an advertising message? On Facebook 65 per cent of views are on a mobile device.[112] A 49-inch TV set has 67 times the screen area of a 6-inch smartphone. A core question for advertisers is to determine the value of a view on a smartphone versus that on a larger screen such as a tablet or a PC, and relative to a TV. A corollary would be to understand how important screen size varies by age group

- How important is sound to your advertising message? On Facebook, it is estimated that between 50 per cent and 90 per cent of videos delivered via digital platforms are consumed with the sound off.[113] On YouTube, mobile (which may include tablets) accounts for over half of all viewing.[114] Smartphones have relatively weak speakers, so when sound is on, does it have the desired impact? Should advertisers create a silent version of each ad which is optimised for consumption on muted smartphones?[115] How often is the advert being shown? Is your advert being shown at too high a frequency, leading to a viewer resenting the ad?[116]

- Where is the advert being placed? Is there third party verification of the content the ad is being shown against?[117] Is the ad being placed amid complementary content: should political campaign ads be shown against all genres of content?[118] Should or can these ads be shown to viewers of any age?

- Are the metrics reliable?[119] This includes, if third party verification is available, confirming that bots are not artificially swelling views or other metrics, ads which are shown are viewable, and likely to be viewed. Techniques that have been used to augment numbers include pixel stuffing, whereby an ad designed to appear at 1,024 by 480 pixels is crammed into a one-by-one pixel square, but still counted as an impression,[120] and 'ad stacking' where multiple ads are placed on top of each other, counting as multiple views.[121]

The next era for video measurement

Video measurement is already complex; in the near term it may become even more complex as further measures are introduced, and as advertisers' ability to interpret these new metrics matures.

- In the near term, we would expect developments such as linking traditional media consumption to online activity, e.g. seeing a TV ad and tracking resulting online behaviour such as a search. This could be enabled through an app that could meter programmes being shown in the proximity of the phone and which also tracked browsing behaviour on the device. Tracking would ideally be over an extended period of time

- Also in the near term, a growing number of homes may be served with TV ads customised to the household. For example a higher proportion of home furnishing ads could be shown to a family that had recently moved house

- In the medium term, and subject to individual consent, offline behaviour in response to broadcast or online ads could be tracked. A smartphone app could meter video consumption and use location information on the device to determine whether the individual went to a store, restaurant or other advertised venue as a result of seeing an ad.

Media and entertainment M&A: momentum continues

The Media sector has experienced a high level of M&A activity in the UK and globally since 2013. This has been fuelled mostly by corporates taking advantage of unusually fertile deal-making conditions: low interest rates, benign debt markets and record levels of cash reserves on balance sheets.

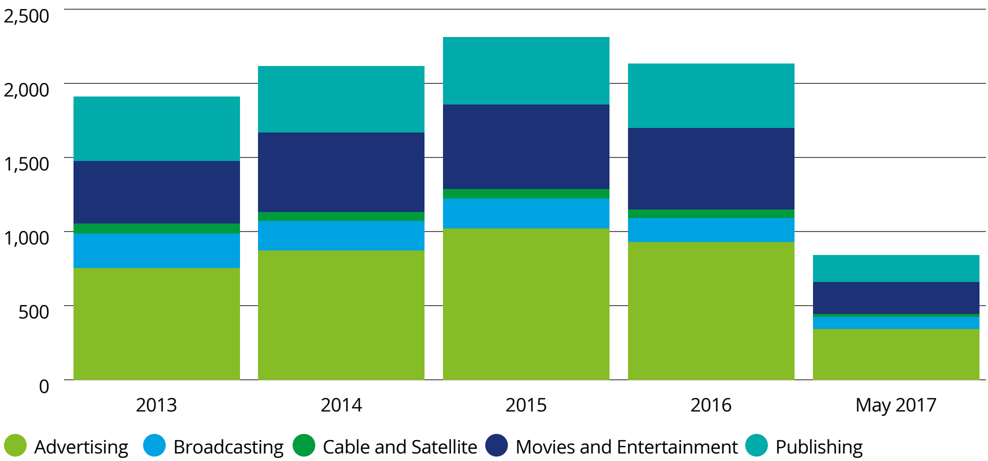
Global outlook

There were £262 billion worth of global deals in the media sector in 2015 and 2016, of which £163 billion occurred in 2016 alone. However, in recent months there have been significant political shifts and uncertainty over economic policy.

Deloitte's analysis shows that M&A markets are sensitive to such uncertainties, and after a stellar year in 2015 in which there were 2,311 deals announced, Global Media M&A activity slowed in 2016, falling eight per cent by volume (see Figure 11). This trend has continued into 2017 with deal volume at the end of May down by six per cent year on year.

Conversely, the value of deals announced in 2016 (when measured on a total enterprise value basis) increased by 65 per cent year on year fuelled by two mega deals: AT&T Inc.'s proposed[122] acquisition of Time Warner Inc.[123] and Twenty-First Century Fox Inc.'s proposed acquisition of Sky plc.[124] Both deals remain subject to regulatory review, but have served to inflate global deal values in the sector even when volumes are down year on year.

Figure 11. Global deal volumes: 2013 – May 2017



Notes: The chart shows the number of deal announcements within each period noted. Transactions that have subsequently been cancelled have been removed from this analysis. The sub-sector categorisation refers to the target company.
Source: Capital IQ, Deloitte analysis, 2017

Despite a slight decline in the number of deals, we do not expect the momentum generated from the last couple of years to disappear overnight. Rather we expect dealmakers to show caution, with one consequence likely being prolonged timelines. There are still many attractive assets in the market and we expect the corporate sector to use M&A as a key pillar for their long-term growth plans.

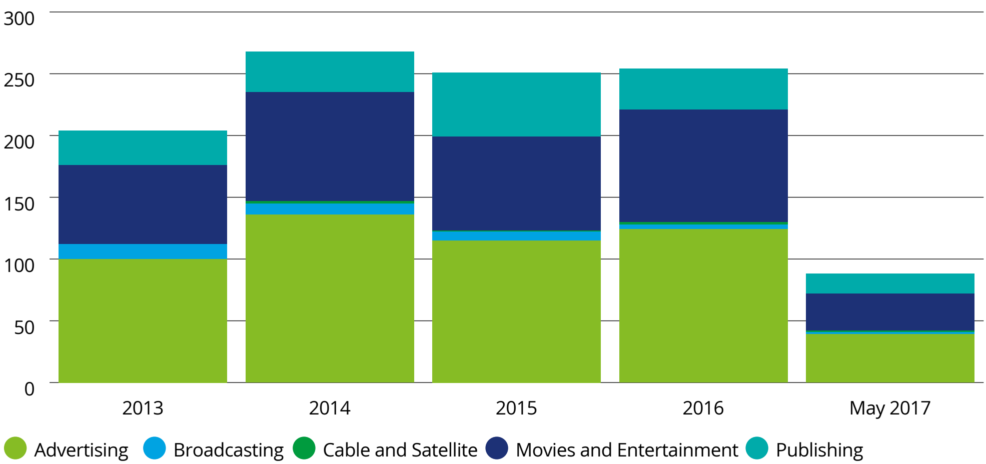
From a geographical perspective, US domestic consolidation coupled with continued outbound investment from Asia have been notable themes. In addition, European deal activity rebounded in 2016 representing 24 per cent of global deal activity by value (up from 13 per cent in 2015).

UK outlook

The UK market is viewed as an attractive environment for developing media businesses. The combination of an impressive talent pool, dynamic innovation and entrepreneurial culture continues to attract investors. While uncertainty over Brexit has created some understandable concerns, the UK has maintained its reputation as a global creative hub for the media and entertainment industry.

UK Media companies remain attractive to overseas buyers. There were 254 deals related to UK M&E companies in 2016, three more than in 2015 (see Figure 12). Another notable example, in addition to the aforementioned proposed acquisition of Sky plc, is Newscorp's acquisition of Wireless Group, owner of talkSPORT.[125] More recently, Incisive Media sold its magazine titles including Insurance Post and Risk.net to French firm, Infopro Digital.[126]

Figure 12. UK deal volumes: 2013 – May 2017



Notes: The chart shows the number of deal announcements within each period noted. Transactions that have subsequently been cancelled have been removed from this analysis. The sub-sector and country categorisation refers to the target company.

Source: Capital IQ, Deloitte analysis, 2017

We have not yet seen a decisive impact from sterling weakness following the outcome of the Brexit referendum vote. While it may have given some encouragement to US inward investment, it does not appear to have formed a key element of the investment thesis. Arguably, it may have triggered more opportunistic interest in the short term, representing a partial hedge against prevailing deal multiples.

The continuation of corporate acquirers

Industry-wise, the most significant change in the market over the last three years has been the return of corporates to the M&A market and a shift in their behaviour.

Prior to 2015, corporate acquirers often chose not to participate in competitive M&A auctions. When they did participate, they were often beaten by Private Equity (PE) funds. They lost on price and their inability to manage process dynamics given the timescales involved and the challenges with their internal approval and sign-off process.

In the last 12 months, the pendulum has continued to swing away from PE firms towards corporate acquirers, with corporates accounting for 94 per cent of global M&A activity by deal value in 2016, up from 81 per cent in 2015. This was the result of an increased willingness among corporate purchasers to pay higher multiples for media assets, despite the background of increasingly dynamic changes to the industry landscape and operating models.

For example, UBM and Informa have shown their willingness to participate in competitive auctions. UBM acquired Advanstar[127] and Allworld;[128] Informa acquired Penton[129].

Among media and entertainment corporates, there now appears to be greater recognition that organic growth is difficult. We are witnessing a quiet but consistent level of boardroom determination to continue pursuing growth through strategic investment, often combined with further internal restructuring. While boards are mindful of regulatory and political intervention regarding major proposed transactions, we expect deals to rise in the short to medium term.

With the high-profile exception of the proposed acquisition of Time Warner Inc. by AT&T Inc., the majority of transaction flow has been driven by three key themes:

- the desire to achieve further efficiency gains through industry consolidation (for example RELX and Informa in the international trade shows, events and exhibitions)

- many companies are focusing on optimising their portfolio of assets; this is leading to a steady volume of divestitures by major international media groups, such as Transcontinental Inc.'s recent announcement of an asset review and divestment of its publication portfolio in Canada

- large corporates continue to look to M&A opportunities outside of the UK to combat limited growth opportunities in their domestic markets. For example, WPP and ITV continue to buy businesses in the US and Asia.

Research methodology

We have collated data on companies based on their UK Standard Industry Classification (SIC) codes, as defined by their registration at Companies House.

The UK SIC 2007 codes covered by this report are:

- 581 – publishing of books, periodicals and other publishing activities
- 59 – motion picture, video and television programme production, sound recording and music publishing activities
- 60 – programming and broadcasting activities (includes radio and TV) and
- 731 – advertising.

While the SIC codes provided a starting point, the report team worked jointly with our TMT Consulting practice and our Insight research team, to include companies whose SIC code is not included in the list above, but who we believe are part of the UK media industry, due to their tight interrelation with the other companies in our ranking, or because their main competitor set is included in our definitions. The most notable examples are Thomson Reuters, Google and Facebook, who we believe play a crucial role in the media and entertainment industry today.

Where possible, we have removed duplicated entities and rolled them up to group consolidated results where an eligible group company registered in the UK exists.

Where a group parent company does not exist, does not meet the profile of a media company, is not registered in the UK or does not consolidate the results, the UK subsidiaries are shown separately.

Associate companies are presented separately from their ultimate owners, as associate revenues are not included in the consolidated figures of the parent company.

One company in the top 100, Euromoney International Limited, is partially owned by Daily Mail and General Trust plc (DMGT), another ranked company. Both companies report accounts, and both their revenues qualify for a ranking in the top 100. We have listed both companies in the top 100, but have only included DMGT's revenues when calculating aggregate revenue for the top 100 so as to prevent double counting. There are no other PLCs within a PLC in the top 100.

The data covers media and entertainment companies who are registered in the UK and their position in the ranking is based purely upon reported revenue that is recognised within these entities. This approach provides us with a consistent basis on which to rank companies, but it does mean that some large, global media and entertainment organisations with a UK presence may be excluded because revenues generated in the UK exist within a company that is registered elsewhere. Conversely, some UK entities recognise all of their global revenue in their UK-based company or present group accounts that consolidate the revenues of all their international operations.

We note that some SIC codes may describe a company's historical categorisation, but not reflect current scope. For example, an advertising company may have diversified into a range of adjacent sectors.

Financial information has been sourced exclusively from publically available information ranging from Companies House, annual reports and results statements in order to ensure that the top 100 listing of media and entertainment businesses represents an accurate record.

The ranking of companies by size is based on their most recent annual results, available as at 7 April 2017.

As we are comparing the market at a point in time, we defined 2016 revenue as that which was primarily recognised in that calendar year. As such, companies with financial year ends in January to June will find their revenue categorised as 2015, as 6 months or more relate to the 2015 calendar year.

Where companies report their results in a currency other than British Pound, their results have been converted using the average exchange rate for their reporting period. Given the exchange rate movements following the EU referendum, to better understand the impact of FX, we have also looked at the company's reporting to the market and investors, and in particular the performance on a constant currency basis.

Comparable measurements were selected across all companies where possible; however, there may be some discrepancies due to variations in reporting requirements across the listing (for example, UK GAAP versus IFRS and restatement from historical UK GAAP to IFRS 101 or 102). Financial results include discontinued operations but exclude the results from joint ventures, and profit after tax is selected as the profit figure.

For advertising companies, where possible, net billings were cited as revenue instead of gross billings. Where a net billings number was unavailable, these have been identified in the full Top 100 listing.

Where comparatives were restated, these restated numbers were selected.

There have been no adjustments made to reflect revenue or profit gained through internal or external operations.

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Endnotes

1. For most companies, to arrive at a three-year CAGR, we compared revenues for 2012 and 2015; for those companies where a revenue figure for 2012 was not available, we compared revenues for 2013 and 2016; for those companies where a revenue figure for 2015 or 2016 was not available, we compared revenue figures for 2011 and 2014; two companies have been excluded from the analysis due to a lack of sufficient data.
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Notes

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