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Are the old M&A stars of the entertainment world fading?

Can established players in the entertainment sector still succeed without serious innovation, as the sector evolves?

You know a sector is starting to get a bit tasty if Rupert Murdoch feels that it is got too big for him and he can no longer make any serious money from it.

But that is what is happening in the entertainment space, best exemplified by the recent sale of Sky's entertainment assets to Disney for a reported U.S.$71bn.

On top of this, to relatively little of the usual fanfare, Apple has launched its woefully-named video on demand service Apple TV+, clearly a play against the likes of Netflix, Amazon Prime, Google, and FireStick. It might as well be called Betamax or MiniDisc.

Little fanfare because, unlike many of the keynotes in the Steve Jobs days, there was no amazing product reveal at the end. It did not feel 'hot', revolutionary or likely to change the way we live our lives. Those are high expectations for sure, but that is where the bar is set for Apple.

No iPad, no iPhone, nothing revolutionary. It feels like they would run out of ideas and instead, fielded a rather awkward looking Oprah Winfrey and Jennifer Aniston on stage, celebrities from an earlier era. Does this mean the company with the largest cash reserves in the world, some U.S.$250bn – twice the wealth of Croatia, in case you were interested – is all out of imagination?

Democratised

Something we can definitely say about global M&A in the entertainment sector is that the established players, often under significant state or government influence, are creaking at the seams as technology has democratised the space they previously monopolised.

In the UK, for example, state broadcaster, the BBC, which reputedly touches 90% of households each week, is struggling to face the facts of the new world.

Right now, we're seeing corporate valuations topping out and starting to decline, with so many uncertainties on the horizon.

These uncertainties suppress projected earnings, and therefore suppress corporate valuations. Not all sectors are affected, however. Some are Teflon-coated at the moment: anything with IT, artificial intelligence, medical or healthcare in the title for example.

Cautious outlook

Our experience of recent transactions in the media and entertainment space reflects the cautious outlook of Mr Murdoch.

While it is not the best time for entertainment businesses to sell for a good price, there are many interesting opportunities for the truly disruptive.

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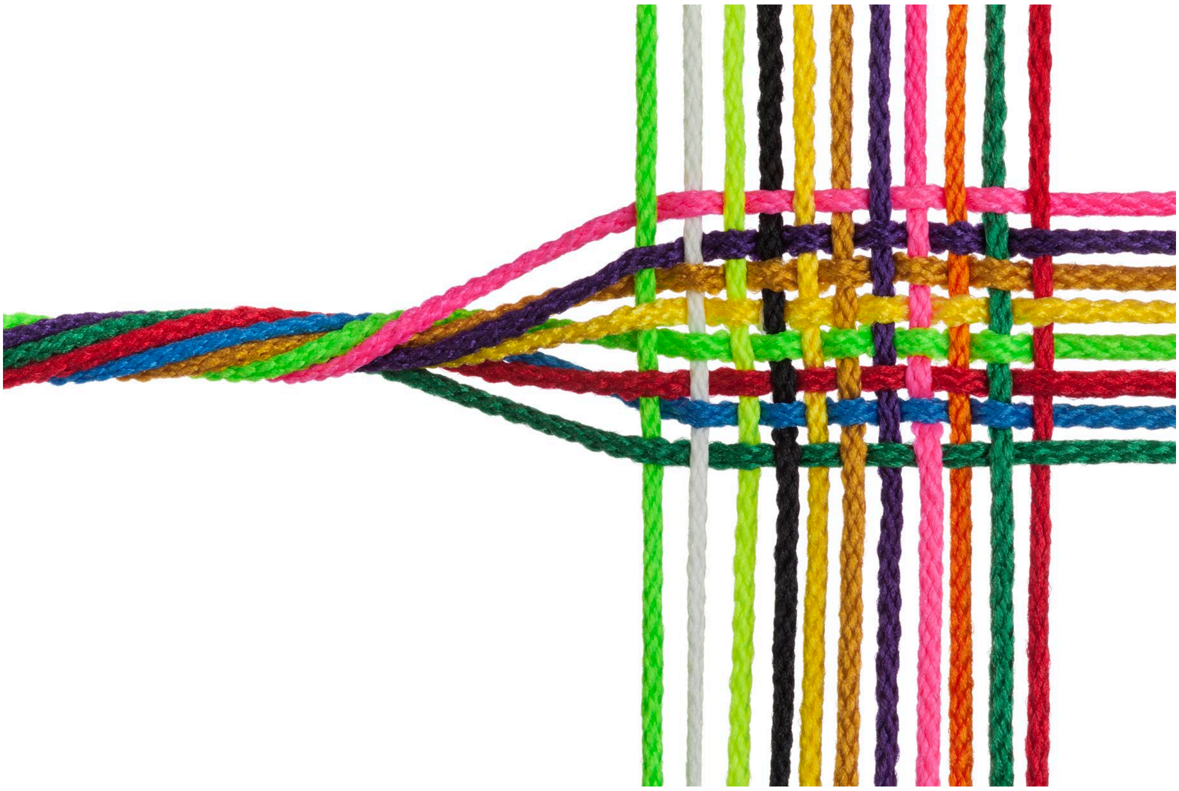
Global M&A deal value up as EMEA remains active



The value of global M&A increased by 10% in 2018, reaching its highest level since 2015 – but the number of deals completed fell, for the third year in a row.

The total value of global M&A deals reached U.S.$5,303,713m last year, although the number of deals continued to fall. In all there were 97,709 deals in 2018, a 7% fall from the 104,849 seen in 2017, although this is still a higher volume of deals than any year prior to 2014.

Total global M&A value in 2018 was the third-highest on record, behind the U.S.$5,871,269m achieved in 2015 and U.S.$5,647,577m in 2017.

Looking at M&A values by region, Latin America saw M&A deals worth U.S.$72.6bn, down 17.1% on 2017; North America went up 16.7% to U.S.$1.64 trillion; and Asia-Pacific (excluding Japan) rose by 2.6% to U.S.$717.4bn with Japan's total reaching U.S.$46.8bn an increase of 2.5%.

EMEA market progresses

The value of M&A deals in the EMEA region were the largest outside the U.S. in 2018, with annual total deal value up 12% year-on-year to €837.9bn.

The technology, media and telecom (TMT) sector was the most active last year in terms of value, growing 175% year-on-year. This was driven by a number of major transactions in the sector, with four of the top 20 largest European deals of the year being TMT deals.

Private equity continued to thrive in 2018, with record-high levels of activity. Buyout deal value in Europe reached its highest point this decade, at €170bn.

Near-term outlook

Analysis of companies for sale monitored by Mergermarket in the EMEA regions between 2013 and 2018 gives an indication of the likely trends over the short term.

The TMT and industrial-and chemical (I&C) sectors appear set to remain the most active in terms of M&A deal activity. Across all sectors, UK and Ireland are expected to be the most active, but whether these deals are actually completed or not will depend heavily on how the ongoing situation around Brexit turns out.

The Central and Eastern Europe (CEE) region is predicted to be the second-most active region. Healthy GDP growth in the region, combined with an ongoing wave of succession-related sales – as entrepreneurs who founded their businesses in the past decades look to retire – have encouraged dealmakers to explore sale processes.

Other hot spots on the chart include the I&C sector in the German-speaking region and the consumer sector, especially in Italy where deals around food and food ingredients, fashion and luxury goods were particularly active last year.

Challenges for this year are likely to be similar to those seen in 2018, including increasing protectionism, the U.S.-China trade war and tariffs, and uncertainty surrounding Brexit.

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Latin American entertainment industry attracts international M&A investment

The live entertainment sector in Latin America is drawing strong interest from overseas investors.

Like many other industries in the region, the live entertainment sector is seeing increasing consolidation and a strong flow of cross-border M&A as both Latin American and U.S. groups seek to extend their reach in large markets such as Mexico, Brazil, Colombia and Argentina.

This is often achieved through acquisition of businesses involving high-profile tour promoters, in a world where personal relationships exert a significant influence.

Since entertainment companies tend to purchase the rights to take musicians and bands on tour across the region, this also gives them access to smaller Latin American countries at relatively low cost. This can make it more affordable for top artists to perform in less-populated countries and increase their popularity.

Live Nation deal shines spotlight on the sector

The acquisition by U.S. media giant Live Nation Group of a 51% stake in DF Entertainment, a major Argentinian concert promoter and festival producer, founded and owned by Diego Finkelstein, is just one example of this cross-border M&A trend.

The NASDAQ-listed U.S. business is a major sponsor of a wide range of live music shows and manages a number of top artist tours.

Live Nation Group was keen to partner with a Latin American entertainment company to access the vibrant Argentinian market, and benefits from DF Entertainment's expertise and presence, which includes a number of venues in Buenos Aires.

Since the transaction, on which Nexia International member firm Abelovich, Polano & Asociados Nexia advised, the combined business has promoted a number of world-class concerts and shows in Latin America, including the Lollapalooza Music Festival in Argentina, Festival Asuncionico in Paraguay, and tours for artists including Sara Brightman, Phil Collins, Lenny Kravitz, Martin Garrix and Pearl Jam.

M&A challenges

One of the key challenges for any M&A deal in the sector is developing a robust plan prior to a deal that takes into account the corporate structure of the acquisition target and the tax implications of the sale. This requires a comprehensive due diligence process in order to protect the purchaser's interest.

In some cases, the seller's existing company structure may need to be modified to meet the purchaser's compliance requirements with regard to preventing money laundering, anti-corruption policies and effective internal controls, particularly if the buyer is a U.S.-listed company.

Finally, careful consideration should be given to international tax treaties in order to avoid double taxation.

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Mid-market entertainment sector hungry for cross-border M&A

Cross-border acquisitions are becoming an increasingly important consideration for mid-market entertainment companies, either looking to buy for growth or to increase their value on exit by looking beyond domestic acquirers.

In 2018, there were more than 9,500 mid-market M&A transactions globally (involving companies with an enterprise value of less than U.S.$300 million) that generated a total enterprise value in excess of U.S.$350 billion. Of these, 21% were cross-border transactions.

The entertainment industry – including industry groups such as broadcasting, cable and satellite, interactive home entertainment, interactive media and services, movies and entertainment, and publishing – comprised 3% of total mid-market M&A activity by both volume and value.

This involved 257 transactions with a total enterprise value of U.S.$6.5bn and, of these, a quarter were cross-border deals.

Companies in the entertainment industry generally have a high level of intellectual property in their businesses and demand beyond their local market. As such, the value of entertainment companies has strong potential for growth beyond local borders.

One of the key drivers of these cross-border transactions is the ability of companies to gain access to new technology to service their existing market.

For example, last year U.S. gaming giant Electronic Arts acquired the cloud gaming technology assets and personnel of a subsidiary of Israeli business Gamefly, to deepen its expertise and capabilities in cloud gaming.

Cross-border acquisition can also provide a number of other benefits. Canada's Entertainment One purchased British company Whizz Kid Entertainment to improve its television production capabilities in the UK and ability to deliver programmes in both markets.

In turn, Britain's Keywood Studios bought Snowed In Studios in Canada, an engineering and co-development services studio for the video games industry. The acquisition gives Keywood Studios access to significant global clients, new markets and engineering talent to support growth in both regions.

Cross-border acquisitions can also give acquirers access to assets located in a specific region such as U.S.-based Live Nation's acquisition of the Rock in Rio festival in Brazil.

With a strong outlook for M&A activity generally and greater global connectivity, cross-border transactions in the entertainment industry are likely to continue, primarily driven by demand for entertainment products beyond domestic markets and for intellectual property that is not available locally.

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Mix of concern and optimism driving U.S. business sentiment

The major issues affecting U.S. business sentiment this year are the risks to the global economy associated with the UK's withdrawal from the EU and the impact of Amazon on the competitive environment.

In Nexia International member firm CohnReznick's latest annual survey of U.S. business leaders and investors[1], 22% said Brexit and Amazon issues top their list of worries.

On a positive note, the survey indicates increased confidence in meeting financial goals in 2019, with optimism standing at 81%, up from 79% previously.

[1] Survey of 80 business leaders and investors at CohnReznick's annual Liquidity & Capital Raising National Forum published in November 2018

Issues on business leaders' minds

The long-running uncertainty around the eventual outcome of the Brexit negotiations is expected to have wide-ranging effects on the finance, real estate, and other sectors of the global economy, according to the business leaders surveyed.

However, some of the fallout from Brexit could be positive for the European operations of U.S. companies and some sectors of the U.S. economy in the medium term.

While Amazon's decision not to locate its new headquarters in New York will have an immediate impact, the company's aggressive posture remains a continuing source of uncertainty.

Amazon is bringing transformative change to the consumer goods market, where it is developing its own product lines, as well as to medical care, where its venture with Berkshire Hathaway and JP Morgan Chase could be game-changing.

Amazon is also expected to extend its reach into pharmacies, package delivery and logistics, and almost certainly in other areas too.

Wider foreign investment scrutiny

A less well-publicised issue, cited by 25% of survey respondents, concerns the Committee on Foreign Investment in the U.S. (CFIUS), which has approval jurisdiction over new foreign investments.

CFIUS was given additional powers and a broader mandate by Congress last summer and has since quashed several high-profile transactions, including the proposed takeover of the MoneyGram funds transfer company by Chinese electronic payments operator Ant Financial.

Concerns focus on how the deteriorating relationship between the U.S. and China may play out, while new legislation means financial transactions from many countries may be scrutinised more closely, making approval more difficult and time-consuming.

Tech worries remain

Cybersecurity is clearly a concern, with nearly 70% of business leaders in the CohnReznick's survey believing their companies are likely to be attacked, while only 26% said they were adequately protected. Respondents also expressed concern over the best ways to effectively leverage their digital assets.

The wider outlook

Overall, the outlook for 2019 is mixed, with just over half of companies saying they expect valuations to decline this year, in contrast to 2018 when 75% expected them to increase.

Yet most believe 2019 could also be the year to pursue growth initiatives, with 68% saying the next 6 to 12 months is a good time to pursue acquisition, and 89% a good time to raise capital.

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Brexit: what would trading under WTO rules mean?

For UK and European Union (EU) businesses concerned about their trading arrangements post-Brexit, risk mitigation should be the priority.

The greatest commercial risk from Brexit remains a no-deal scenario where the UK and EU may need to fall back on World Trade Organisation (WTO) rules for their trading and tariff arrangements. But what does trading under WTO rules mean in practise?

Put a plan in place

All manufacturing companies that import or export goods from or to the EU without a formal trading agreement in place, need to have a plan formulated to counteract threats that include:

- **Higher tariffs**. Every WTO member has a list of the tariffs it applies to imported goods, plus quotas. In the event of a no-deal Brexit, the UK government has issued a list of proposed tariffs of imports into the UK and, for a transitional period are similar to EU levels, but these may still pose problems for companies with long and complex supply chains.

- **'Non-tariff' barriers.** This includes areas such as product standards and safety regulations. The EU could, in theory, begin imposing checks on UK products at borders immediately after Brexit, even if the UK changes none of its rules. This would lead to significant delays.
- **Logistics disruption.** Delays at channel ports regarding the delivery of goods inwards and outwards are a particular risk for companies handling perishable goods. For example, food suppliers delivering to supermarkets and operating on the 'just in time' principle.

Also at risk are regulated clients requiring 'passporting rights' – typically financial services and the legal profession.

Cross-border agreements

However, EU and UK regulators have been working to build cross-border agreements and most institutions have had plans in place for some time, establishing a trading footprint where necessary.

Practical advice is difficult when the outcome remains unclear. Seeking to avoid doubling-up on customs duties is fine in theory but there may be sound commercial reasons for goods to flow into either the UK or E27 countries and out again that cannot be easily changed.

Client priorities for both sides include the review of incoterms for trading, and practical issues such as obtaining VAT and Economic Operators Registration and Identification (EORI) numbers. However, even minor contract changes to trading terms may significantly increase the risks for individual businesses, particularly in big fish/little fish scenarios.

We are also seeing clients consulting with their distribution and logistics partners who are often best placed to advise on the day-to-day issues affecting the movement of goods and supply chains. Companies are also revisiting their supply chains, exploring the possibility of avoiding certain pressure points, such as the Dover-Calais crossing.

Not all the problems can be solved but businesses will do best if they at least understand and quantify their risks. Businesses cannot rely on politicians but must place their future in their own hands.

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Handling harassment cases

Investigations into complaints of harassment are on the rise as people become increasingly willing to talk about them.

Harassment is defined as distress or alarm felt by a victim due to the action or inaction of an alleged perpetrator. This can be a particular incident or a behavioural trend over time.

Every harassment case will be influenced, not just by the facts, but by the perceptions and beliefs of the individuals involved. Broadly speaking, they can be classified into four major categories:

- Discrimination.
- Sexual harassment.
- Psychological or personal harassment by creating a hostile work environment or offending people's sentiments and beliefs.
- Other abusive behaviour and physical harassment.

If your business is involved in an harassment case, it is important to remember that the primary purpose of an investigation is to gather all the facts and evidence. This can involve interviewing the alleged perpetrator, the victim and any witnesses, and reviewing event-specific information, communications and other relevant evidence, including CCTV footage or photos.

Key considerations

There are several important factors to consider when developing an investigative approach to an inquiry. These include:

- **Empathy**. An empathetic approach helps investigators to understand a case better, but clearly this doesn't mean that they should agree with any statements made.
- **Focus.** Not every aspect of a case can usually be investigated in depth, so it's important to decide on the key aspects to focus on for detailed examination as the investigation progresses.
- **Gathering evidence at every stage**. Evidence is not always apparent, but can often be uncovered through simple, but relevant questions during the process, such as "On what basis are you saying something like this?"
- **Understanding both sides.** The alleged perpetrator and the victim should be allowed to share their version of the incident and their thoughts on it. A good understanding of all the relevant events and facts should mean the victim or alleged perpetrator will share more information with investigators before answering a specific question.

Other key factors in an investigation include understanding the history of the case to identify how the concerns arose or unfolded and differentiating between perceptions and facts substantiated and supported by evidence.

Investigators need a balanced understanding of a person's behaviour at the present time, the time of the incident and in general. Being aware of just one aspect of a case obviously may not reflect all its circumstances.

Furthermore, opinions or beliefs aren't static, they evolve depending on the environment in which people work or live.

Finally, it is important to recognise that both victims and alleged perpetrators could both be telling the truth from their own perspective, even if their accounts differ, simply because they perceive a particular event or circumstance differently.

In summary

Harassment cases require a patient, structured approach since they involve handling sentiments, emotions and perceptions.

This is a sensitive issue to deal with, and everyone involved should be given adequate opportunity to share their versions of the incident.

Finally, it usually pays to be empathetic and of course to ask pertinent questions to gather the facts.

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How can affluent families keep their wealth beyond three generations?

The old proverb "from shirtsleeves to shirtsleeves in three generations" reminds us that some families can go from being poor to wealthy, and then back to where they started quite quickly.

This concept of the three-generation wealth cycle is supported by research that shows approximately 70% of wealthy families lose their wealth by the second generation, and an incredible 90% by the third.

The study, carried out by U.S.-based family-wealth consultancy the Williams Group, also found that 60% of the time, the biggest factor is a communication breakdown among family members, and a lack of effective wealth planning accounts for a quarter of such cases.

Communication breakdowns often stem from basic issues such as the unwillingness to deal with sensitive topics such as death, incapacity and divorces, or give up control and involve the younger generation in the decision-making process.

Therefore, the first step to keeping wealth in the family is building communication channels at home through family discussions and meetings and proactively engaging with the heirs. This, together with sound financial education, should properly equip potential heirs with the skills, values and direction needed to handle a sudden and significant amount of wealth.

However, what the beneficiaries actually do with their new-found wealth obviously varies enormously from family to family. So, while it is possible to prepare the younger generation to some extent through good communication and some financial training, they may still surprise everyone in the end.

Wealth planning

A well thought-out wealth transfer plan can cover myriad issues including tax planning, wealth protection, estate planning and business succession planning.

The assets owned by a family can often span various jurisdictions. Therefore, the type of legal entity in which assets are held and in which jurisdictions they should be set up need to be carefully considered from the outset.

From a tax angle, consideration should be given to:

- The family's 'corporate' structure – optimal structures may enjoy lower withholding taxes at source.
- The tax regime of the jurisdiction – certain income or subsequent repatriation of profits to an ultimate holding company may enjoy more favourable tax treatments.
- The regulations of relevant jurisdictions – some will have a more investor-friendly regulatory framework than others.

Families should also consider whether the holding structure is optimal for transferring assets to the next generation. For example, are there any estate and/or gift 'leakages' or public disclosure requirements that may create unnecessary attention?

Family members also need to think about whether the right legal mechanisms are in place to protect their wealth from depletion by divorce, debt, ongoing or pending litigation and, last but not least, what might be described as 'unwise' spending. After all, research shows it takes the average inheritor just 19 days to buy a new car – a sobering thought indeed.

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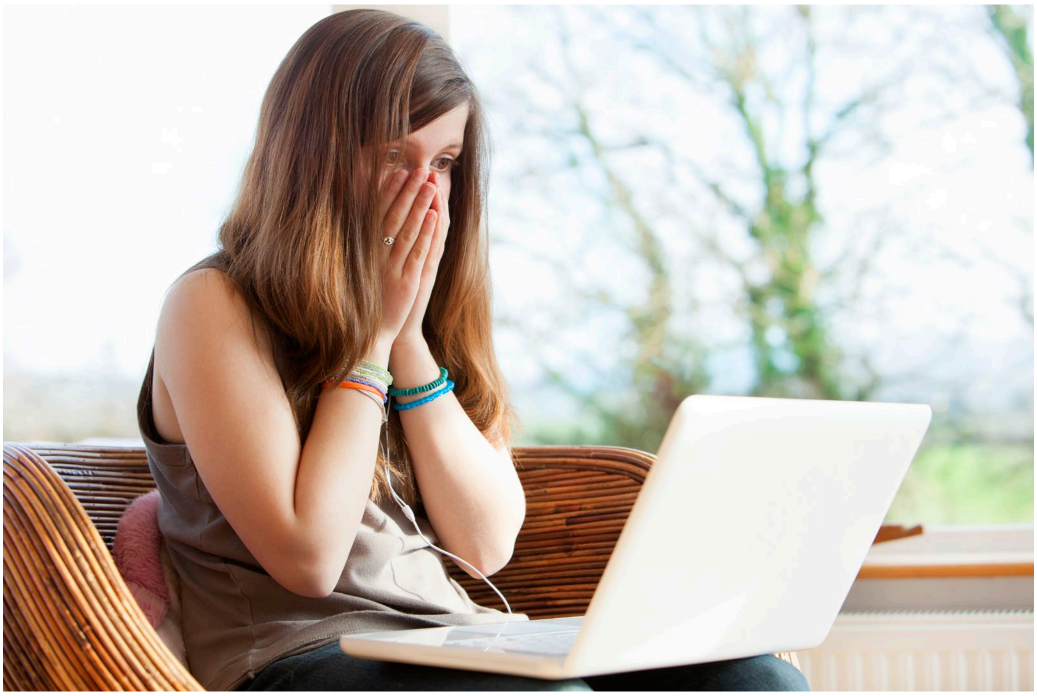
The cyber security threat from within



In today's security landscape, businesses need to focus not only on external cyber attacks but internal vulnerabilities that can lead to physical and digital information threats.

Every year almost 1% of global GDP – as much as U.S.$600 bn – is lost to cybercrime according to McAfee and the Center for Strategic and International Studies.

Monetisation of stolen data is now easier because of the use of digital currencies and increased sophistication of cybercrime black markets.

So, it is more important than ever to run businesses securely with threats becoming more complex and cyber attackers more persistent. SMEs are increasingly becoming cybercrime targets, although banking remains the sector most at risk.

Most threats involve attacks from multiple sources. These include targeted phishing attacks against employees, advanced persistent threats (stealthy attacks on networks), ransomware that demands a fee to unlock a locked computer, hard to detect malware, denial-of-service attacks and increased mobile usage by employees. Additionally, viruses, trojans act as back doors to hackers.

The threat within

However, a major security vulnerability for any company comes from within: its employees. Greater focus is needed on insider threats caused by employee negligence or malfeasance – including lost laptops and disclosure of information – or deliberate actions of rogue employees.

Hackers use increasingly sophisticated AI-generated 'phishing' emails to trick employees into handing over passwords and other sensitive data to break into a company's network.

Shadow IT – the unsanctioned use by employees of software as a service (SaaS) applications like Google Apps, Dropbox, Salesforce, Cisco WebEx, Concur, GoToMeeting and other cloud services – is a very serious and growing threat to IT compliance and cyber security.

Additionally, employees may set up their own cloud servers to process and store an organisation's data, leading to potential compliance violations and data breaches.

Fighting back

Cryptojacking or cryptomining malware is used to hijack software and hardware for data mining purposes. It contaminates internet-connected computers and hardware, mobile devices and servers via various invasive methods including 'drive-by' scripts on websites.

This can be combated using 'endpoint detection and response' and 'managed detection and response' tools, that are expected to see increasing advances and usage over the next couple of years.

Furthermore, machine learning and business intelligence technology will play a critical role in gathering intelligence to make decisions and execute changes to minimise an organisation's cyber-risk.

Cyber breaches are significant business risks because of the impact they have on an organisation's reputation and profitability.

It is therefore essential that businesses integrate IT security into every leadership and business decision to keep pace as cyber threats evolve.

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