

February 2008

What market slow-down?

Despite a precarious funding environment that, as widely reported, is not expected to improve in the near term, our view from the trenches is that the rapid evolution of new media and the technologies and infrastructure that support it have in no way slowed. Driven in part by growth of the Internet as a universal distribution and content platform, the evolution of hardware and software to facilitate information traffic, and the continuing financial and strategic interest in high-growth digital media and telecom projects even in a turbulent financial market environment, there appears to be an expanding division between “haves” and “have nots” in the form of new and traditional media respectively. Although there are winners and losers in each segment, our own observations can also be supported by more broadly publicized recent industry developments, including the following:

- *M&A/consolidation:* Several high profile announcements in new media point to increasing consolidation activity in the sector. The most substantial of these news items has been **Microsoft's** bid for **Yahoo!**, a potential deal that threatens to at last create a new media titan to rival **Google** on all cylinders; and more recently the bid by **Electronic Arts** for video-game publisher **Take-Two**, and the buyout of **Getty Images** by Hellman & Friedman. Of lesser profile, although highly indicative of the analog to digital migration that has been underway in the consumer marketplace, has been the announcement of **Amazon's** acquisition of **Audible**, the sector's largest retailer of digital audio-books and downloads. We note, by way of contrast, that the most visible M&A event in traditional media at this time, the **ClearChannel** going private transaction, remains uncertain and has even entered a complex litigation phase (never a good sign) to force certain components of the multi-pronged transaction to be completed.
- *Infrastructure expansion:* As reflected in the activity surrounding the current FCC spectrum auctions, with aggregate bidding having risen to approximately \$20 billion, as well as the lofty public valuations of wireless infrastructure platforms such as communications tower companies (e.g., **American Tower** and **Crown Castle** still trading close to all-time highs), a great deal of capital continues to make its way toward infrastructure that supports digital media and communication, including wireless broadband and other services (not necessarily limited to consumer offerings). We again note, in contrast, that the public market valuations of many traditional infrastructure companies, such as cable MSO's (e.g., **Comcast**, **Cablevision**) and wireline

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communications carriers (e.g., **AT&T, Level 3**), have performed very differently from the examples cited above. In many cases, these are now priced as much as 30-40% or more off their peaks.

- *Consumer audience share:* By way of example, although similar patterns can be found in numerous traditional media, we look at the radio sector. In the Fall of 2007, Arbitron reported that traditional radio listenership had declined to the lowest level since Arbitron began keeping statistics in Fall 1998. Radio usage dropped in every category except the 50-54 age group, and the steepest declines had continued to be among teenagers and young adults, as “their attention was increasingly diverted to other media.” Additionally, AccuStream iMedia Research recently reported that time spent listening to online music radio was up 26% in 2007, with the segment logging 4.85 billion listening hours. This undoubtedly included time spent listening to new digital music services such as **Pandora, LastFM, Rhapsody, and Slacker.**
- *Advertising receptivity:* Reflecting some of these audience trends, it does appear that advertisers are continuing to revise their spending habits, and that increasing sums are being directed toward the Internet and related new media at the expense of traditional media, such as radio and newspapers. According to TNS Media Intelligence, while 2008 will see an overall advertising expenditure increase of 4.2% over 2007, the Internet will post advertising growth of 14.4%, while radio will increase by a mere 0.7%, newspapers will diminish by 0.9%, and network television will increase by 2.7% (below the overall average, and in an election year!).

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From our perspective as an investment banking and advisory boutique focused on the satellite, media, and telecommunications industries, we are therefore not surprised to continue seeing our pipeline of activity and opportunities swell, even in the current deal environment that is by all accounts challenged.

Having for a long time emphasized new media, emerging technologies, and wireless infrastructure as our core areas of focus, we continue to encounter exciting new platforms in a variety of non-traditional media fields. In the “News From Near Earth” column in this newsletter, we provide an indicative sampling of our activity in the past twelve months. We look forward to reporting back in 2009 with an overview of the prior year’s new media and telecom successes.