

Executive Summary of a Field of Study on Private Equity Investment in the Content Industry in Europe

This study was commissioned by the MEDIA Programme of the European Commission and ran between October and December 2007. It provides up-to-date information about the level of involvement of private equity actors in the European content industry (games, mobile content, Internet content and services, music, film, TV, new platforms...). The methodology used consisted in desktop research as well as interviews of European private equity investors.

Type of private equity (PE) active in the European content industry

Over the last years, the content industry has considerably grown, for instance, games increased by 288% in value between 2000 and 2007. There are 4 main sources of equity finance in this field.

Venture Capital funds are private companies investing one to several tens of million through PE stakes in SMEs of great potential. Few of them have experience in content financing, given the *small* amounts required by the content companies, the lack of tangible assets, and the fact that the content industry in Europe is still in early stage of development and looks mainly for seed and start-up investments ...

Specialised Funds focus on one specific segment (ex game funds operate investments focussed on game development). They invest in different stages of the value chain.

Tax Based Funds correspond to tax incentive schemes or accepted accounting principles of some European countries to support the content industry (ex: Sofica in France or the more specialised EIS in GB)

High net worth individuals' and business angels' investments in content companies are common, but are rarely made within structured networks.

Case studies: Ingenious Media Plc, 3i and Fund4Games

Ingenious Media Plc is the most important European fund to invest in music projects. The amount of its investments varies from 2 to 25 million euros. The deals are typically project based (for example, the production and/or launch of the album of a well know artist) and structured within a joint venture with the company from which the project is originating. The labels it has funded through joint ventures include Cooking Vinyl, High level recording, IE music, GR8 pop, Kuba music...

BMP is a Venture Capital and private equity company investing on its behalf and for clients. It focuses on innovative high-growth companies and the investments take place both at the early stage (seed and start up) and expansion stage. A clear exit strategy from the beginning and a strong management team are some of the strategic ingredients of its success

Fund4Games is an innovative company providing project management and finance in the managing industry. Its acts as an intermediary between the developer and the publisher; it ensures the project keeps on track and once the game is developed, the fund sells the finished product to the publisher on the

base of a revenue sharing deal. The benefits for the industry stakeholders are a reduced risk for the publisher and a strengthening of the developer during the development process. Its successful investments include World Championship Rugby (£2m) and Redline Racing (£2m).

3i is also worth evoking. This global venture capital and private equity, operates in the media, technology, business services, healthcare, among other fields. Every year, it invests over €2.7b, under different shapes: VC, growth Capital, buy outs... Ministry of Sound, 1-2-3.tv and Price Minister are some companies of its portfolio. Over the last years, 3i's strategy has evolved towards fewer but bigger deals.

Key findings

On the basis of the interviews of VCs and investment funds, it appeared that Investment in the content industry or in content-related service companies is viewed as a niche market among PE investors and only a few PE players have focussed on this area.¹ Often, Private equity players active in the content industry strategically implement specialisation and have a manager experienced in the industry, to optimize their actions.

The advantages of the content sector are numerous: identified market, a track record (at least from the founding partners), relatively low initial investment amount, ability to generate revenue within a relative short period of time... Yet, the European content industry needs to consolidate, in terms of the availability of executives capable to bring a business at global scale, homogenization of the content rights system, training of the players...

Despite the considerable growth the content industry has shown in the last years and its high potentiality, it is vastly undercapitalised, which foretells good opportunities for investors. Europe's capacity to meet this challenge will greatly influence the success of its companies in the context of a fast changing and converging media and entertainment sector.

This analysis is at the root of the concept of **Media Deals** which is currently developing a pan-European investment network focused on media. The aim is to offer:

- training to entrepreneurs and investors;
- deal flow of projects and companies looking for investment;
- information on private investment in media;
- research services to develop understanding of financial issues related to the content industry.

In June 27th, 2008, Media Deals is organizing a seminar in Brussels, gathering Business Angels. The theme will be "**Investment opportunities in the media industry in Europe**" and it will include the intervention of Aviva Silver, Director of the Media Programme of the European Commission.

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Or have a look at our website: **www.media-deals.org**

¹ Among which 3i, Accel partners, BMP Media Investors, Motion Investment Group ...