

# Liberty Media Won the Formula One's Acquisition Race

Liberty Media Group (LMCA, LMCB, LMCK) - market cap as of 28/09/2016: \$9.61bn

## Introduction

On September 7, Liberty Media Corporation, a US-based mass media company, announced a two-step acquisition of Formula One in a deal that values the company at \$8bn, and its equity at \$4.4bn. Liberty Media Corporation will perform the acquisition through a subsidiary, Liberty Media Group, which will be renamed as Formula 1 Group once the transaction will be finalized. After the first closing Liberty Media Group will own 18.7% of Delta Topco - the parent company of Formula 1 - and by Q1-2017 it will increase its stake to 100% if the deal will receive the necessary approvals. The transaction is structured through a mix of cash, newly issued Liberty Media Group tracking stocks, and exchangeable debt instruments issued by Delta Topco.

## About Formula One Group

The Formula One Group is a group of companies, ultimately owned by Jersey-based parent company Delta Topco Ltd., responsible for the promotion of the FIA Formula One World Championship. The commercial rights of Formula One are controlled by Formula One World Championship Limited (FOWC), which negotiates the contracts for holding the Grand Prix, television contracts, and licensing fees. Moreover, Formula One Management Ltd. (FOM) is the most important operating company of the group and it controls the contracts, distribution, and commercial management of the Formula One circuit. The sport has been suffering in recent years due to decreasing ratings. Nonetheless, significant profits were generated for its owners, in particular CVC, who bought a majority stake in the company for \$1.7bn in 2006. Last year F1 generated a turnover of €1.8bn.

## About Liberty Media Corporation

Liberty Media Corporation is a Colorado-based mass media company with operations in the media and entertainment industry, either directly or through its subsidiaries, and revenues of \$4.8bn as of the end of 2015. Its main businesses include the subsidiaries:

- Sirius XM Holdings Inc., an entertainment US-based company operating on a subscription fee basis;
- Braves Holdings, a US-based company who is the indirect owner and operator of Atlanta Braves, a Major League Baseball team; and
- Liberty Media Group, which is the entity which will acquire the holding company of Formula 1. The Liberty Media Group also has a relevant stake (34%) in Live Nation Entertainment, the largest live entertainment company in the world, and other minority investments, including Time Warner and Viacom (both <1%).

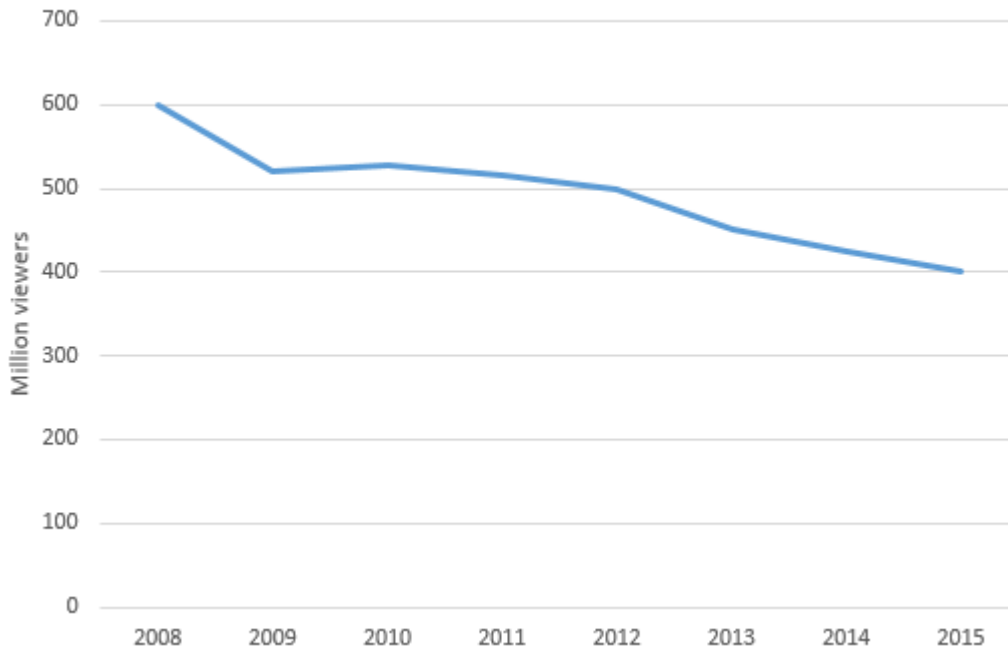
Liberty Media Corporation has already been expanding to other markets, and its deal history include the \$1.1bn acquisition of Eurosport in 2015, a company that airs a myriad of sport events. In 2015, Liberty Media Corporation reported revenues of \$4.8bn (a 7.7% increase over 2014), an operating income of \$954m (a 13.4% increase over 2014), and a net income figure of \$64m (a 64% decrease over 2014).

## Deal Rationale

On one hand Liberty Media Corp. is very active in the entertainment business and it has a remarkable expertise in the distribution of digital contents, live events and digital monetization. On the other hand, Formula 1 is a low risk business, which generates steady cash flows thanks to its broad and loyal fan base. Formula 1 has been heavily criticised during past years for its complex rules and dull races. Nonetheless, every season more than 400 million people worldwide continue to watch these competitions.

The number of viewers experienced a steady decline over past years, also because in many countries F1 races are only broadcasted on pay TV. This cut out a portion of fan base, but at the same time, it substantially contributed to the broadcasting revenues' growth.

## Global F1 Viewing Figures



Source: Liberty Media Press Release

Liberty Media aims at recovering a portion of the 200 million fans that have been lost over the past 7 years by increasing the popularity of this sport in the US. However, this might prove difficult as there are already several established motorsport competitions which are quite successful in this market (Nascar or IndyCar for example). Moreover, the culture of motorsport in the US is far different from the European one: in the US car races are considered like a show in which rules are very simple and, for example, accidents are an integral part of the spectacle. In Europe (and in F1) the focus is more on the use of the cutting-edge technology and this cultural difference is the main reason to assume that it will be difficult to reach a worldwide consolidation of this circuit over next years.

Interestingly, in March 2015, Liberty Global - a company related to Liberty Media's CEO John Malone - acquired Formula E Holding. Formula E is an innovative car championship which hosts electric single-seaters cars' competitions. It is possible that John Malone projects a future integration of the two series, but nothing has been officially stated at the moment.

Obviously, the deal can be profitable only if Liberty Media does not overpay for the acquisition. The implied EV/EBITDA multiple paid by Liberty Media is 16.8x. It is not easy to find comparable transactions, however in 2015 Wanda Group acquired Infront Sports and Media, which manages the broadcasting, advertising and sponsorship of many sport events in Europe and the implied EV/EBITDA multiple was 11.9x, far lower than price paid by Liberty Media.

### Deal Structure

The transaction will be executed in two separate phases. The first one, on September 7, 2016, has seen Liberty Media Group acquiring 18.7% of Delta Topco for \$746m cash.

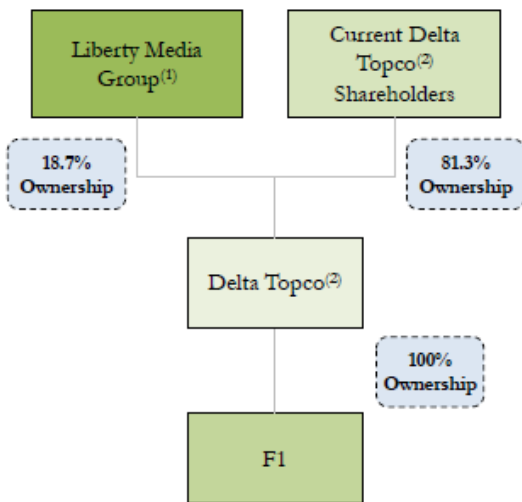
The second closing, which is expected in Q1-17, calls for Liberty Media Group to increase ownership to 100% of F1 (Liberty is going to buy all outstanding shares of Delta Topco, the holding company for F1). This second closing will require (i) anti-trust approval, (ii) Liberty Media Corporation shareholder vote and (iii) certain third party consent, including approval of FIA (F1 governing body).

In this phase, the remaining shareholders of Delta Topco will receive the remaining \$3.7bn through:

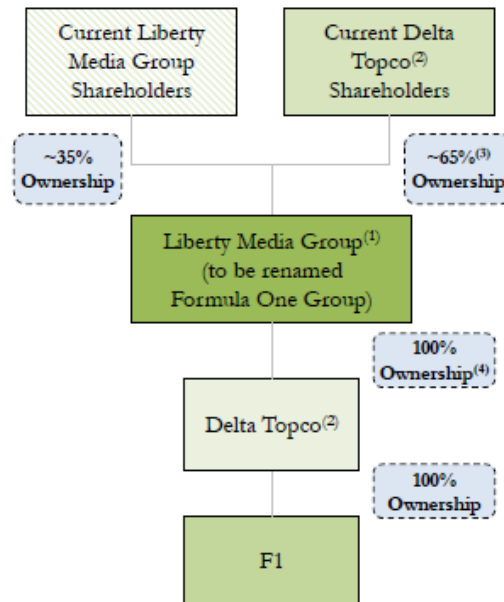
- 1) Additional \$354m cash, coming from Liberty Media Group balance sheet
- 2) Newly issued Liberty Media Group shares for \$2.9bn
- 3) Subordinated notes issued by Delta Topco and exchangeable into Liberty Media Group shares

After completion, Formula One's holding company, Delta Topco, will be fully owned by Liberty Media Group (until then, CVC will continue to be the controlling shareholder) which will be renamed Formula One Group. The consortium led by CVC will own 65% of the newly created Formula One Group and will have board representation at F1. Moreover, a CVC representative will join the Liberty Media Board of Directors. Chase Carey (Vice Chairman of the 21st Century Fox media conglomerate) has been appointed new Chairman of Formula One, while Bernie Ecclestone, the current CEO, will remain in position. Formula One will still be based in London.

**Post First Closing**



**Post Second Closing**



**Market reaction**

Source: Liberty Media Press Release

Even if transaction multiples seem to highlight that Liberty Media paid a hefty price for F1, the market seemed to favour the deal. After the announcement, the stock price of Liberty Media K (LMCK) shares soared 25%, highlighting that the deal is expected to create value for the company.



Source: Yahoo Finance

**Financial advisers**

Morgan Stanley served as financial adviser to Liberty Media while Delta Topco's financial adviser was Goldman Sachs Group Inc.

