Survival of the Broadest

A Case Study on Telia Company's Vertical Acquisition of Bonnier Broadcasting

Julia Borgström♠ and Rebecka Vredin Nordberg♦

Master's Thesis
Department of Finance
Stockholm School of Economics
May 2020

Abstract

This thesis investigates the main reasons for Telia Company's acquisition of Bonnier Broadcasting, announced on July 20, 2018, with which a telecom operator and TV distributor integrated upstream in the TV value chain by acquiring a broadcaster. We find that the transaction, in essence, was a defensive move, aiming to improve the companies' standings in the changing TV value chain and strengthen Telia Company's core, telecom network operations. As a case study, this thesis provides in-depth insights into a real-world corporate transaction that has confounded the investment community. Furthermore, it sheds light on vertical mergers and acquisitions which have not been as extensively studied as horizontal ones, and on what measures incumbent companies might take in order to avoid redundancy when an entire industry alters due to technological and competitive advancements and changing customer preferences.

Keywords: Broadcasting; Case Study; Telecom; TV Value Chain; Vertical Integration**.**
Tutor: Bo Becker, Cevian Professor of Finance, Department of Finance, Stockholm School of Economics.
Acknowledgements: We would like to thank our tutor, Bo Becker, for his support and guidance throughout the process of writing this thesis. We would also like to thank Casten Almqvist, Mathias Berg, Klas Danielsson, Andreas Ekström, Greger Larson, Henrik Mawby, Freenasp Mobedjina, Margareta Törnblad, and Jörgen Wetterberg, for making this thesis possible by participating in our interviews.

♠ 23642@student.hhs.se
♦ 21290@student.hhs.se

Table of Contents

1 Introduction 1
1.1 Purpose 1
1.2 Contribution 2
1.3 Outline 2
2 Literature Review 2
2.1 General Reasons to Engage in Vertical M&A 2
2.2 Reasons to Engage in Vertical M&A in the TV Segment 5
3 Methodology 8
3.1 Case Study Methodology 9
3.2 Data Collection 9
3.3 Research Quality 10
4 Case Background 11
4.1 Introduction 12
4.2 Two Traditional Business Models Under Pressure 13
4.3 Other Players Engaging in Vertical Integration in the TV Segment 16
4.4 Telia Company 18
4.5 Bonnier Broadcasting 22
5 The Case: Telia Company Acquires Bonnier Broadcasting 25
5.1 The Transaction 25
5.1.1 C More, Only 26
5.1.2 Joint Venture with Unequal Ownership 26
5.1.3 Joint Venture with Equal Ownership 27
5.1.4 The Cooling-Off Period and Ongoing Consolidation 27
5.1.5 Resumed Discussions—an Acquisition of Bonnier Broadcasting 28
5.2 TDC 30
5.3 The Announcement 33
5.4 Deal Rationale and Synergies 33
5.5 Market Reaction 35
5.5.1 Valuation 36
5.5.2 Telia Company's Financial Position 37
5.5.3 Deal Rationale 37
5.5.4 The Target 38
5.6 Epilogue 39

6 Discussion 41
6.1 Improve Standings in the Changing TV Value Chain 42
6.2 General Benefits of Being Vertically Integrated 44
6.3 Strengthen Telia Company's Core Operations 46
6.4 Managerial Preferences 49
6.5 Undervalued Target 50
7 Conclusion 51
8 References 53
8.1 Published References 53
8.2 Online References 55
8.3 Other References 60
9 Appendix 62
9.1 Telia Company's Market Positions and Market Shares 2012–2018 62
9.1.1 Subsidiaries 62
9.1.2 Associated Companies 63
9.2 Bonnier Broadcasting's Financial and Market Positions 64
9.2.1 Financial Overview 64
9.2.2 Share of Viewing by Channel Family in Sweden 64
9.2.3 Share of Viewing for AVOD in Sweden 65
9.2.4 Share of Viewing by Channel Family in Finland 65
9.3 Material from Telia Company's Bonnier Broadcasting Investor Presentation 66
9.4 Discounted Cash Flow Valuation of Bonnier Broadcasting 68
9.4.1 Valuation 68
9.4.2 WACC Calculation 70
9.4.3 Business Descriptions of Peer Companies 72

1 Introduction

During the last decade, an increasing number of actors in the TV value chain, traditionally made up by content producers, broadcasters, and TV distributors, have engaged in vertical integration. Oftentimes, telecom operators ("telcos"), which act as TV distributors as well as operate the telecom networks transmitting TV content to end users, have integrated upstream. The Swedish telco Telia Company's acquisition of the Swedish broadcaster Bonnier Broadcasting, announced on July 20, 2018, is one example of such a transaction. Despite the trend of vertical integration in the TV value chain, however, the transaction in question has been rather contested and criticized by the investment community, which does not seem to fully comprehend the deal rationale. Consequently, with a case study, this thesis seeks to answer the following research question:

What were the main reasons for Telia Company's acquisition of Bonnier Broadcasting?

Although we discuss enjoying general benefits of being vertically integrated, managerial preferences, and Bonnier Broadcasting being undervalued, as being deal rationales, we conclude that the primary reasons for the transaction in question were to improve the companies' standings in the changing TV value chain and to strengthen Telia Company's core operations. As for the former, due to a changing technological and competitive environment as well as changing customer preferences, the broadcasting and TV distribution stages of the TV value chain, in which Bonnier Broadcasting and Telia Company operated (and do operate at the time of writing this thesis), risked becoming redundant. Our findings suggest that the vertical integration was an attempt to make the companies more viable in the TV segment, and that this was the ultimate value driver of Bonnier Broadcasting. As for the latter, our findings suggest that, for Telia Company, improving its standing in the changing TV value chain in reality was a means to strengthen its core, telecom network business, since bolstering its TV business was expected to offer differentiation in relation to other telcos, and reduce broadband churn. Thus, in essence, the vertical integration was defensive and strived to strengthen the core operations of both companies.

1.1 Purpose

This thesis serves three purposes. The first and foremost purpose is to uncover the main reasons for Telia Company's acquisition of Bonnier Broadcasting. The second purpose is to learn more about the recent wave of vertical integration in the TV value chain. Lastly, the third purpose is to provide the Department of Finance at the Stockholm School of Economics with material that can be used as a basis to develop a case study for teaching purposes.

1.2 Contribution

Probably because vertical mergers and acquisitions ("M&A") are less common than horizontal ones (OECD, 2019b), they have been the subject of interest in academic and empirical studies less often and less extensively than their horizontal counterparts. Consequently, this thesis contributes to the literature by focusing on vertical integration, examining how empirical reasons for such a transaction relate to the theory that is available. What is more, this thesis brings attention to how an entire industry changes and what measures traditional value chain participants take in order to avoid becoming redundant—a development we might see happening to other industries and value chains going forward, as the technological and competitive environment as well as customer preferences are changing ever so rapidly. Finally, this thesis contributes to the literature by providing an in-depth insight into the reasoning behind a real-world corporate transaction, which the investment community has found difficult to understand. The paper chronicles the multifaceted and dynamic process of a large company considering strategic alternatives and, finally, undertaking a vertical acquisition.

1.3 Outline

The rest of this thesis is structured as follows. Section 2 summarizes the literature on general reasons to engage in vertical M&A and reasons to engage in vertical M&A in the TV segment, respectively. Section 3 describes the methodology carried out to answer the research question of this thesis, the data collection process, and the measures undertaken to ensure research quality. Section 4 provides relevant background information on Telia Company and Bonnier Broadcasting and the businesses in which they operated at the time of the acquisition. Section 5 records the acquisition of Bonnier Broadcasting by Telia Company. Section 6 discusses, what seems to have been, the main reasons for the acquisition, and assesses how the stated reasons relate to the literature. Lastly, Section 7 concludes this thesis.

2 Literature Review

This section summarizes previous academic findings on general reasons to engage in vertical M&A and reasons to engage in vertical M&A in the TV segment, respectively.

2.1 General Reasons to Engage in Vertical M&A

If not because of empire building or managerial hubris (see explanations below), managers engage in M&A to maximize shareholder value; believing that the joint value of the two combining companies

is greater if they operate as one entity than if they operate as two separate entities. Corporate transactions have, to some extent, occurred for as long as companies have existed. The history of M&A is, however, typically said to begin at the end of the 19th century when the first of, so far, seven so-called "merger waves" was initiated (Belyh, 2016). Merger waves are periods of intense corporate transactions. Harford (2005) finds that merger waves occur during times of ample liquidity and low cost of capital, and that they are caused by the clustering of industry shocks which makes M&A more profitable. Shleifer & Vishny (2003) argue that merger waves occur during stock market booms and are the consequence of overvaluation of acquirer share prices relative to target share prices.

The First Merger Wave, in 1893–1904, was characterized by horizontal M&A, i.e. the consolidation of companies operating at the same stage of the value chain of a common good or service. As a consequence of the monopolies generated during the First Merger Wave, the U.S. government enacted laws with the purpose to prohibit anticompetitive behavior, which thwarted companies' horizontal M&A activity. Instead, companies seeking to consolidate and grow inorganically had to find other ways—so, the Second Merger Wave, characterized by vertical M&A, was initiated. Vertical M&A involves the consolidation of companies operating at different stages of the value chain of a common good or service. A company expanding its operations toward the end user (resources) is said to expand downstream (upstream). The Second Merger Wave lasted from the end of World War I to the Wall Street Crash and the start of the Great Depression, i.e. 1919–1929. (Belyh, 2016)

While agencies usually do not keep any public statistics on the number of, respectively, horizontal and vertical M&A transactions taking place, a general observation is that the majority of the transactions taking place today are horizontal, and that purely vertical transactions are rare (OECD, 2019b). The literature describes several reasons for why companies might engage in vertical M&A. Specifically, the reasons can be divided into five main categories: price efficiencies; production efficiencies; asymmetric information and incomplete contracts; market power; and managerial preferences.

Starting with price efficiencies, research usually highlights two such motives for vertical M&A. First, when the upstream and downstream actor both have market power, they both set a price on their product or service which is greater than their marginal cost (Spengler, 1950). This is called "*double marginalization*". Consequently, vertical integration makes it possible for the consolidating companies to eliminate double marginalization, allowing them to lower their combined costs and downstream price, in which case the demand for their product or service, as well as their market share, ought to increase. Spengler (1950) was first to illustrate the elimination of double

marginalization in vertical integration, but other academics such as Salinger (1988) and Verouden (2008) have complemented his research. Second, Salop & Culley (2016) point to the fact that downstream vertical M&A can facilitate *price discrimination* as the integration might enable for the acquirer to obtain information about what different types of end customers value.

Turning to production efficiencies, *economies of scope* is perhaps the most common one (OECD, 2019a). Bishop et al. (2005) and Farsi et al. (2008) all claim that vertical integration leads to a lower average production cost due to e.g. the sharing of assets such as PP&E and human capital, or the sharing or removal of (redundant) processes such as packaging and transportation. Second, Carlton (1977) and Hart et al. (1990) explain how *price uncertainty* might be a rationale for vertical M&A. Indeed, by eliminating the uncertainty of what price to get from its customers (downstream) or to pay its suppliers (upstream), a company can experience production efficiencies and incur cost savings. Third and relatedly, by eliminating the uncertainty in *finding an outlet for* (downstream) *or input to* (upstream) *a company's products or services*, vertical integration can make sense (Chandler, 1969; Williamson, 1971; Porter, 1980). Fourth, in their 2005 paper, Bishop et al. argue that vertical integration can help downstream actors overcome the problem of *input substitution*, i.e. of having to substitute a more efficient input with a less efficient one, because the upstream actor applies too high a markup. Ultimately, Bishop et al. (2005) introduce yet another rationale for vertical M&A based on production efficiencies, namely that it may lead to *higher-quality output* and *increased and faster innovation* due to better information flow and coordination. The authors mention that other reasons for innovation to increase are that a vertically integrated company gets to enjoy a longer time-to-market advantage as well as reap a larger part of the returns from innovation, which are normally shared between all parties in the value chain.

As for asymmetric information and incomplete contracts, Coase (1937) claims that the main objective of vertical integration is to replace market exchanges with internal exchanges. By doing so, *transaction costs* may be reduced. For example, in a vertically integrated firm, the costs of and risks in finding a distributor (downstream) or supplier (upstream), as well as drawing up, negotiating, administrating, and monitoring a contract with them, are eliminated (Bishop et al., 2005; Wong-Erwin, 2019). Moreover, several academics, notably Williamson (1971, 1979), highlight the fact that vertical integration can mitigate the *hold-up problem* and, thus, underinvestment. The hold-up problem occurs when a relationship-specific investment, for which not all specifications can be made before contract signing and which has a low value to external parties, is deferred by one or both contractual parties, because they fear the other party will misuse its strong bargaining position once the investment is undertaken.

Moving on to market power, a vertically integrated firm can *raise horizontal rivals' costs* (Ordover et al., 1990) and *foreclose competitors* (Chen & Riordan, 2007). Furthermore, by getting hold of *sensitive data on horizontal rivals*, vertical M&A can benefit the consolidated company and harm its competitors (OECD, 2019a). Bain (1956) and Porter (1980) raise another reason for vertically integrating, namely that it *raises industry entry barriers* as new competitors would have to enter both stages of the value chain. Moreover, in his 2018 paper, Gaudin explains how a company can strengthen its *bargaining power* by eradicating its dependency on powerful participants in the value chain. On the same note, *acquiring proprietary rights* such as patents may justify vertical M&A activity (Frésard et al., 2013). Ultimately, for a company operating under stringent regulation, integrating vertically might be a means to *evade market regulation* and increase the company's market power in the less stringently regulated market (OECD, 2019a).

The last set of reasons to engage in vertical M&A has to do with the manager of the acquiring company. Whereas vertical integration might create value due to *managerial talent synergies*, e.g. that the manager of the acquiring company has superior knowledge of the businesses in which the firms operate (Bishop et al., 2005), it might also destroy value if undertaken for the wrong reasons. Particularly, the transaction might be value destroying if undertaken due to *empire building* or *managerial hubris*—terms that, respectively, Jensen (1986) and Roll (1986) coined. Empire building is the act of a manager undertaking M&A for self-serving reasons when the deal, in fact, is suboptimal for the acquiring company; managerial hubris is the act of overpaying for a target company because the manager of the acquiring company overestimates their ability to extract value from the corporate transaction.

Empirically, vertical M&A is usually undertaken for efficiency-enhancing reasons such as eliminating double marginalization, improving vertical coordination, and enjoying economies of scope (OECD, 2019a). Not only do these effects commonly increase customer welfare, they also commonly do not impede competition the same way the effects of horizontal M&A do (European Commission, 2008). In line with these facts, vertical M&A accounts for less than 10% of all antitrust interventions (OECD, 2019a). Only rarely is vertical M&A deemed to harm competition. When it is deemed to do so, common reasons are that the integrating companies are believed to raise rivals' costs or foreclose competitors.

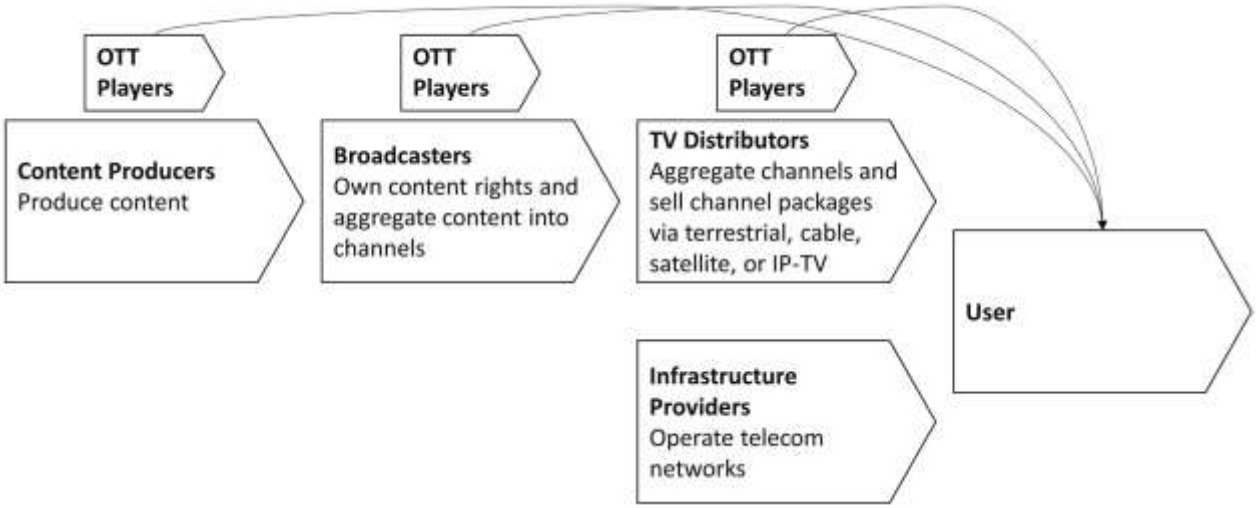
2.2 Reasons to Engage in Vertical M&A in the TV Segment

The last decade has seen a surge in M&A activity in general, and vertical M&A in particular, in the telecom sector (OECD, 2019a). To a large extent, this surge has been driven by digitalization in the

television ("TV") segment of the sector; namely by the advent of over-the-top ("OTT") services, i.e. streaming services where media content is distributed directly to end customers over the Internet, bypassing any broadcaster and/or TV distributor (Evens & Donders, 2015; Tyagi, 2018). The new technology has changed the competitive landscape and the traditional TV value chain.

Figure 1: Nordic TV Value Chain

This figure illustrates the traditional Nordic TV value chain including the positions of new OTT players.



Source: Mathias Berg (interview November 20, 2019); case writers.

Figure 1 illustrates the traditional Nordic TV value chain, including the positions of OTT players. The value chain participants and their respective activities can differ geographically (Berg, 11.20.2019). Traditionally, content producers sell content rights to broadcasters, and content producers have a relatively low bargaining power in relation to broadcasters. Broadcasters make channels out of their catalogue of content rights. Traditional broadcasting revenues stem from advertising and the selling of channel distribution rights to TV distributors. Sometimes, broadcasters operate their own pay-TV (TV broadcasting financed by the end customer and not by advertisements) business, in which case they earn subscription revenues. Nevertheless, TV distributors aggregate channels and sell them to end users in the form of channel packages, distributed via terrestrial, cable, satellite, or IP-TV. Originally, the content was only offered through linear distribution, with the consumer having to watch each TV show as it was aired, but since the late 1900s video on demand ("VOD") solutions are offered, too (Arthur D. Little & Exane BNP Paribas, 2015). The TV distribution stage of the value chain is commonly inhabited by telcos. Apart from aggregating channels as TV distributors, telcos also act as infrastructure providers, operating the telecom networks transmitting the content to end users. Since the TV segment is merely one of many segments of the telecom sector,

and since telcos' infrastructure is used in other segments, as well, telcos' role as infrastructure providers represents another, parallel value chain.

OTT players reach consumers directly but can operate at any stage of the TV value chain, thus bypassing any intermediate stage of the traditional model. They generate revenues from advertising and from end users streaming single content (such as a TV show), the content of a channel, or the content of an entire channel package on demand on the OTT platform (Arthur D. Little & Exane BNP Paribas, 2015). While numerous pure OTT players have entered the market, traditional players in all stages of the TV value chain have established their own OTT platforms, too. In fact, with OTT services becoming more popular, the traditional broadcasting and TV distribution stages of the TV value chain risk becoming redundant as the additional value created by their respective aggregation activities is being questioned. What is more, for telcos, the emergence of OTT platforms has led to intensified competition not only in their TV business but also in their infrastructure business, since the demand for bandwidth has increased (Evens & Donders, 2015). Against this backdrop, recently an increasing number of actors in the TV value chain have sought new revenue streams and engaged in vertical integration.

While the research on the general reasons to engage in vertical M&A applies to the TV segment of the telecom sector, as well, some research focuses specifically on the segment in question. For example, Hovenkamp & Sukhatme (2018) argue that eliminating *double marginalization*, i.e. improving price efficiency, is one of the main reasons for the recent wave of vertical integration in the TV value chain. Nevertheless, most research on vertical M&A in the TV segment is on production efficiencies and market power. Starting with production efficiencies, a vertically integrated company in the TV value chain usually benefits from *economies of scope* (OECD, 2019a). For instance, the company can benefit from the sharing of data assets which have a high fixed cost of production but a low or zero cost of replication. As for *faster innovation*, in her 1998 paper, Chan-Olmsted claims that a vertically integrated company in the TV segment enjoys accelerated implementation of new technologies. Lastly, Evens & Donders (2015) assert that *better communication and coordination* leads to production efficiencies when such companies integrate vertically.

Turning to market power, actors in the wider TMT (technology, media, and telecom) sector usually gain such power by *raising industry entry barriers*, *evading market regulation*, and strengthening their *bargaining power* in the value chain, when integrating vertically (OECD, 2019a). What is more, *taking control of key positions in the value chain* commonly justifies vertical M&A activity in the TV value chain (Arthur D. Little & Exane BNP Paribas, 2015). As for *acquiring proprietary rights*, integrating vertically can allow for companies to acquire facilities, such as know-

how, market access, and platforms, instead of developing them in-house (Arthur D. Little & Exane BNP Paribas, 2015). Lastly, Evens & Donders (2015) explain that when competition in the downstream TV value chain and the telecom network operating business both are getting fiercer, integrating upstream might benefit telcos via the *foreclosure* of horizontal competitors and via *differentiation*. As for the latter, by integrating with a broadcaster, for example, a telco can acquire e.g. popular sports rights, and gain a competitive advantage vis-à-vis other telcos.

In their 2015 paper, Evens & Donders also claim that the vertical integration of content rights owners and telcos produces "global powerhouses that control the entire TV value chain and therefore enjoy significant market power." On the other hand, a 2015 Arthur D. Little & Exane BNP Paribas report raises the notion that owning content rights is challenging for telcos because content investments are big, rising, and need to be amortized over sufficient scale, and that a telco's own customer base is not large enough for this. In other words, acquiring content rights and transmitting their content exclusively to a telco's own customer base proves a challenging business strategy. While content rights owners might benefit from consolidating with telcos by enjoying *economies of scale*, getting a *financing partner*, improving the *control over the quality of content delivery*, and *getting closer to the end customer*, the corporate transaction might, hence, be riskier for telcos. Indeed, the report states that, instead of consolidating with content rights owners, telcos, especially smaller players, should aim to partner with them. This way, telcos would share the risk and reward of the new technology whilst proprietarily owning the networks—key assets when the demand for data transmission is increasing.

In 2017, the telecom sector accounted for 5% of all antitrust interventions worldwide, despite accounting for 1% of all M&A activity. A possible explanation for this discrepancy could be that the telecom sector is characterized by consolidation and strict market regulation. Whereas consolidation makes horizontal M&A transactions especially difficult to undertake, strict market regulation also thwarts vertical M&A transactions. While, as mentioned in the last paragraph of Section 2.1, vertical transactions are generally deemed procompetitive or neutral, they sometimes have anticompetitive effects. In fact, in the telecom sector, concerns that the combined company will engage in foreclosure activities, obtain increased bargaining power, raise industry entry barriers, and evade market regulation are customary with the authorities. (OECD, 2019a)

3 Methodology

This section describes the methodology carried out to answer our research question, the data collection process, and the measures undertaken to ensure research quality.

3.1 Case Study Methodology

In order to investigate the main reasons for Telia Company's acquisition of Bonnier Broadcasting, we have chosen to carry out a case study. Several academics, such as Eisenhardt (1989) and Dubois & Gadde (2002), favor the case study methodology when the ambition is to get an in-depth insight into complex, dynamic, real-world events, just like the event being considered. Miller (1977) agrees with the just-mentioned academics, as he describes the benefits of case studies: *"Given the complexities of the real-world setting, actual decision procedures are inevitably heuristic, judgmental, imitative and groping even where […] they wear the superficial trappings of hard-nosed maximization. On this score, has there ever been any doubt that the Harvard cases […] give a far more accurate picture of the way things really look and get done out on the firing line than any maximizing 'model of the firm' that any economist ever drew?"*

With a case study, we aspire to gain a comprehensive understanding of the acquisition in question.

3.2 Data Collection

Interviews are our main, primary source of data. Table 1 lists the interviews we have conducted. With the ambition to gain a truthful yet multifaceted representation of Telia Company's acquisition of Bonnier Broadcasting, we have conducted interviews with both dependent and independent stakeholders. In this particular case, stakeholders in a position to influence decision making regarding the acquisition, at the time of the acquisition, are deemed dependent.

All interviews were carried out face-to-face in Stockholm, Sweden, and lasted about an hour. They followed a semi-structured approach, meaning that they did not strictly follow the formulated list of questions we had prepared (Merriam, 1994). Instead, the interviewees were encouraged to talk freely about their views apropos the transaction, which made possible the revelation of new perspectives that had not been thought of during the interview preparation phase. The interviews were recorded and, to ensure that any and all explicit and implicit statements were noted accordingly, they were transcribed within a few days.

In addition to the interviews, we have used primary sources of data in the form of company filings, presentations, and press releases, and industry reports, in order to carry out our case study. These primary sources of data have been supplemented with secondary sources of data in the form of research reports and trade press articles. For the discounted cash flow ("DCF") valuation of Bonnier Broadcasting, we have used data from research reports, the Eikon Refinitiv database, and governmental and finance scholars' websites (see Appendix 9.4).

Table 1: Interviews

This table states the name, title, company affiliation, and dependence of each interviewee. Dependent interviewees were in a position to influence decision making regarding Telia Company's acquisition of Bonnier Broadcasting, at the time of the transaction.

Interviewee(s)	Title(s) and Company at Time of Transaction	Title(s) and Company in April, 2020	Dependence
Casten Almqvist	CEO, Bonnier Broadcasting	CEO, TV4 Media(1), SVP and Head of TV & Media, Telia Company, Member of Group Executive Management, Telia Company	Dependent
Mathias Berg	COO, Bonnier Broadcasting	Deputy CEO and Head of Advertising, TV4 Media(1)(2)	Dependent
Andreas Ekström	Head of Group M&A, Telia Company	Head of Group M&A, Telia Company	Dependent
Greger Larson	Partner, Stella EOC	Partner, Stella EOC	Dependent(3)
Henrik Mawby, Jörgen Wetterberg, Klas Danielsson	Senior Equity Research Analyst, Nordea; Sales Director, Ericsson; n/a	Senior Equity Research Analyst, Nordea; Senior Equity Research Analyst, Nordea; Part-Time Equity Research Analyst, Nordea	Independent
Freenasp Mobedjina	Head of Strategy & Transformation, Sweden, Telia Company	Head of Group Strategy, Telia Company	Dependent
Margareta Törnblad	Head of Telia TV, Telia Company	Head of Product Area Media & Entertainment, Telia Company	Dependent

(1) Previously Bonnier Broadcasting; now part of TV & Media business area, Telia Company
(2) New position as of May 1, 2020
(3) Stella EOC was one of Telia Company's advisors

Source: Case writers.

3.3 Research Quality

Whereas, as stated in Section 3.1, the case study methodology is supported by several academics, critics of the methodology argue that case studies are too specific and, hence, that any conclusions drawn from them cannot be generalized (Yin, 2003). To get around this challenge, Yin (2014) introduces four principles that can be used to gauge the quality of a case study, namely construct validity, internal validity, external validity, and reliability, respectively. Each of these four principles, and the measures we have undertaken for our case study to fulfill their criteria, are described below.

Construct validity has to do with the case study actually measuring what it claims to be measuring (Yin, 2014). Critics of the methodology in question claim that since case study writers can collect data in a subjective manner, construct validity is not fulfilled. To resolve this matter, Yin proposes case study writers could use multiple sources of data, and/or maintain a "chain of evidence" so that readers easily can draw the same conclusions from the case study as the writers do. In accordance with Yin's propositions, we have made sure to use multiple sources of primary and

secondary data from both dependent and independent stakeholders (see Section 3.2), and to clearly reference all sources of information throughout the case study.

Internal validity concerns causal relationships and is only relevant with explanatory case studies; not exploratory or descriptive ones (Yin, 2014). Yin argues that, to assure internal validity and justify a stated causal relationship, case study writers could, again, use multiple sources of data, and/or compare different patterns of data and make sure they match. The latter procedure is called "pattern matching". Apart from using multiple sources of data, we have undertaken pattern matching with the data, to ensure that any implicated causal relationship is supported by several sources. Moreover, all interviewees have read the finalized case study and verified that the presentation is accurate and complete.

External validity relates to whether the conclusions drawn from a case study can be generalized (Yin, 2014). Since case studies, by their nature, are case specific, Silverman (2000) states that they cannot be generalized. Yin (2014), on the other hand, raises the notion that case studies still can uphold external validity, by being generalizable to other case studies and to the theories on which they are based. In line with this notion, we discuss how the findings of our case study relate to previous academic findings in Section 6 of this thesis.

Lastly, *reliability* measures whether the undertaken processes of the case study, including the data collection process, can be replicated with the same results (Yin, 2014). On the one hand, the fact that semi-structured interviews make up our main source of data complicates for someone else to replicate our study with the same results. On the other hand, we have stored the original interview recordings and the transcribed interviews, to offset this weakness. In fact, just like Yin suggests, we have set up a case study database in which we have stored all relevant and necessary data for anyone to replicate our case study.

All in all, with the above-mentioned measures we have carried out, we believe that the research quality of our case study is sufficiently high to allow for the conclusions drawn to be applied to other situations than Telia Company's acquisition of Bonnier Broadcasting.

4 Case Background

This section presents information on the businesses in which Telia Company and Bonnier Broadcasting operated at the time of the acquisition, on other players engaging in vertical integration in the TV segment, and on Telia Company and Bonnier Broadcasting themselves.

4.1 Introduction

On June 16, 2013, it was announced that Johan Dennelind, previously CEO of Vodacom International in South Africa, would become the new CEO of TeliaSonera (later "Telia Company"; "Telia") (Telia Company, 2013b). Telia was a telco primarily operating in the Nordic and Baltic countries, with some business activities in Eurasian markets such as Uzbekistan and Tajikistan (see Appendix 9.1 for Telia's market positions and market shares). According to rumors, it had been difficult for the Telia board to find a suitable CEO candidate after the resignation of Lars Nyberg in February the same year (Svenska Dagbladet, 2013). At the time being, Telia was in crisis mode due to media allegations and, later, investigations by the DOJ (U.S. Department of Justice), the SEC (U.S. Securities and Exchange Commission), and Dutch prosecutors, regarding bribery in connection with its business activities in Uzbekistan (Holmberg & Romberg, 2018).

In spring 2014, Dennelind commenced a strategy project, aiming to identify the future direction of Telia (Mobedjina, 11.21.2019). After more than half a decade of each business unit developing its own strategy under Nyberg's leadership, a corporate-level strategy was needed. What is more, with Nyberg, Telia had focused on being a pure telco with the best network, the lowest costs, and the best customer service, but Dennelind aspired something else, something new (Ekström, 11.12.2019). With technology and customer preferences changing, and competition getting fiercer, Telia risked becoming merely a "bit pipe" and, thus, needed new revenue streams and differentiation in order to lower broadband churn (see Section 4.2).

On the new CEO's first capital markets day, on September 30, 2014, Dennelind presented his new strategy which would make Telia become "a new generation telco" (Ekström, 11.12.2019). The strategy was standing on three pillars: connectivity, convergence, and competitive operations (Mobedjina, 11.21.2019). As for the former and latter pillars, the company later invested heavily in its fiber business and laid off a significant part of its workforce, respectively. As for the middle pillar, the company was to focus on a triple-play offering, converging not only its fixed and mobile telephony and broadband offerings, but also its TV offering. The triple-play offering was said to reduce churn by 50% (Telia Company, 2014b). In order to successfully honor the convergence pillar, however, Telia's TV operations needed to become more viable (Mobedjina, 11.21.2019). The traditional TV value chain was changing and the TV distribution stage of the value chain, in which Telia was operating, risked becoming redundant.

At Bonnier, a family-owned media conglomerate comprising publishing and broadcasting, a new CEO was also about to enter in 2013, during autumn. Tomas Franzén, at the time CEO of Com Hem, one of the largest TV distributors in Sweden, was nominated for the role. Among other holdings,

Bonnier was the owner of TV4 (the largest commercial TV channel in Sweden), C More (pay TV), and MTV Finland (the largest commercial TV channel in Finland). (Bonnier, 2013)

Bonnier, too, experienced the consequences of the changing customer preferences and TV value chain. TV4 needed to modernize and one aspired to move revenue streams from linear viewing to digital platforms (Almqvist, 10.29.2019). Simultaneously, C More and MTV were having severe challenges. C More was losing important content rights and was stuck with a way too large cost base in relation to the demand of the product. MTV, in turn, was experiencing declining advertising revenues due to a struggling Finnish economy (Berg, 11.20.2019). In general, with increasing content rights costs and decreasing linear viewing, broadcasters like Bonnier struggled with financing and scale. With the new customer preferences, not only the TV distribution stage of the traditional TV value chain, but also the broadcasting stage, risked becoming redundant.

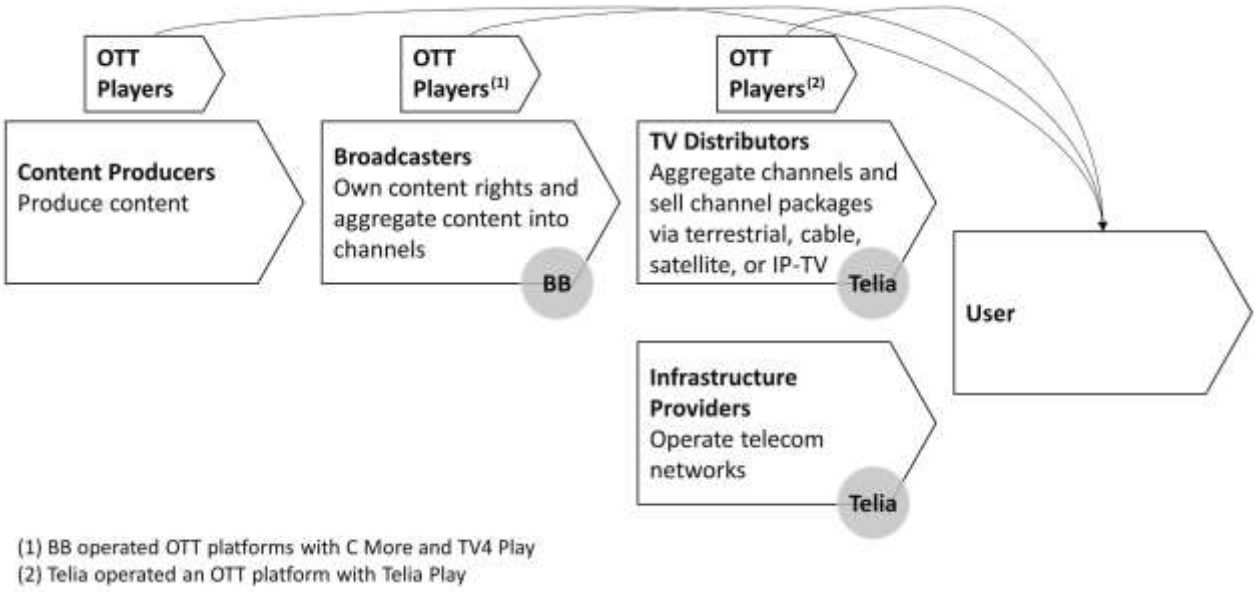
So, in 2014, one year after their respective CEO appointments, Dennelind and Franzén both found themselves running a company in need of change; Dennelind on a mission to find differentiation and realize the "new generation telco" concept, and Franzén with a need for financing and scale in order to modernize TV4 and solve the C More and MTV issues. Behind the scenes, the two CEOs started to discuss the potential of some sort of corporate transaction during the same year (Holmqvist, 2018). The discussion soon came to involve also the boards of directors of the two companies, run by Marie Ehrling at Telia and Karl Johan Bonnier at Bonnier, who knew each other from their time studying together at the Stockholm School of Economics (Ekström, 11.12.2019). At this time, in 2014, little did the involved parties know that the road ahead would be lined with many pitfalls and that it would take almost five years until transaction closing. In fact, at closing, only two of the four CEOs and chairs would still be on board.

4.2 Two Traditional Business Models Under Pressure

During the last decade, the traditional TV value chain had been challenged by new players, after having been unchallenged for a relatively long period of time (Figure 2 illustrates the Nordic TV value chain and Telia's and Bonnier Broadcasting's respective positions in it). *"The value chain from the early '90s to the early '00s was quite static; there were content producers, there were broadcasters like us [at Bonnier] who made channels out of the content, and there were distributors who packaged it and sold it. It was a very healthy value chain in the respect that there was steady growth, and pay TV became a commonplace service."* (Berg, 11.20.2019)

Figure 2: Telia Company's and Bonnier Broadcasting's Respective Positions in the Nordic TV Value Chain

This figure illustrates the traditional Nordic TV value chain including the positions of new OTT players as well as Telia Company ("Telia") and Bonnier Broadcasting ("BB").



Source: Mathias Berg (interview November 20, 2019); case writers.

As the first decade of the 2000s came to an end, TV consumption began to change dramatically. In general, people consumed more media than ever before—in new ways. There was vast growth in the use of smartphones and other digital devices such as tablets, with the launch of the first iPad in 2010. Linear viewing was declining whilst European VOD consumer spending was increasing by a CAGR of 71% in 2009–2013. As a consequence, the number of European TV channels was falling. (Arthur D. Little & Exane BNP Paribas, 2015)

Historically, it had been expensive to produce as well as distribute content. Moreover, the capacity of the telecom networks had allowed for only linear viewing. As network capacity grew, however, things changed, and the need for broadcasters and TV distributors in the value chain was questioned; content could be distributed directly to the end user via the infrastructure providers' networks. Indeed, with the arrival of VOD and OTT media services, the last two stages of the traditional TV value chain risked becoming redundant. This trend was similar to that in the music industry where artists and music producers reached end users immediately, bypassing any intermediate stage of the traditional value chain, such as CD distributors and retailers. (Mobedjina, 11.21.2019)

OTT services were distributed on demand and could be offered as AVOD (advertising VOD), TVOD (transaction VOD), or SVOD (subscription VOD) (Arthur D. Little & Exane BNP Paribas, 2015). In Sweden and Europe, streaming services became especially popular with the launch of Netflix, an OTT SVOD service, in 2012. Two years later, the company reached 26% of the Swedish households. Streaming services were expected to increase in popularity whereas linear TV viewing was expected to continue to fall. OTT platforms offered original as well as license-based content, a user experience at the technical forefront, a recommendation engine, smart reselling, attractive pricing, and less as well as more relevant advertising. Hence, OTT players challenged traditional players not only with a massive amount of appealing content but also with a lower cost base and lower prices. "*OTT is just like cable, but at half the price, and thus a much better proposition for the customer!"* (Larson, 11.12.2019). On the other hand, live sports warranted a higher price from customers and was holding back some of the price pressure for traditional broadcasters and TV providers. Consequently, prices for sports rights were escalating. With increasing content costs and decreasing linear viewing, the cost per eyeball was increasing. Hence, content rights owners felt the need to distribute their content on many platforms in order to capture economies of scale.

So, with the traditional TV value chain changing, broadcasters and telcos both faced a challenge claiming their rights to exist in the TV segment. While technically possible, however, it did not seem commercially viable for every content producer, large and small, to operate a direct-to-consumer business, making broadcasters and TV distributors completely redundant. "*The competence to identify what people want to watch, package and manage it in a way that attracts people, and offer it to customers, we believe that this will be in demand."* (Mobedjina, 11.21.2019). Instead, they needed to alter their business models.

Telcos' main struggle was the need for new revenue streams and differentiation (Almqvist, 10.29.2019). They found themselves in a rather peculiar situation where their TV distribution business suffered from the content distribution of OTT platforms, while their network operating business partly benefited from the increased bandwidth usage of the same. Telcos "partly benefited" from the increased bandwidth usage of OTT platforms because whereas the demand for their networks increased, so did the competition with other infrastructure providers. Hence, telcos had to figure out how to make up for the falling TV distribution revenues and how not to become merely a commodity service provider, a bit pipe, subject to continuous price pressure. Somehow, they needed to find a competitive advantage vis-à-vis other telcos. One way to go could be to leverage and monetize their key assets—the networks and the customer base—and offer value-adding services such as bank

activities, marketing, and customer contact, on top of the connectivity offering (Arthur D. Little & Exane BNP Paribas, 2015).

Broadcasters, on the other hand, struggled with the need for financing and scale (Arthur D. Little & Exane BNP Paribas, 2015). Indeed, they had what telcos did not—uniqueness. The unique content rights had a price, though. With content costs increasing, linear viewing declining, and novel competition from global players such as Netflix, broadcasters were impelled to make fewer, but more expensive, content investments (Berg, 11.20.2019). Moreover, in order for linear viewing and, consequently, revenues not to decrease further, broadcasters felt the need to make "safe" investments in e.g. already well-known series, rather than investing in something pioneering and riskier (Larson, 11.12.2019). Sure, broadcasters could invest in more live sports content or develop an OTT platform of their own as a means to offset the drop in linear viewing, but they still needed financing and scale in order to be viable.

4.3 Other Players Engaging in Vertical Integration in the TV Segment

Not only Telia and Bonnier, but players all over the globe, experienced the consequences of the changing TV value chain. In fact, during the last decade, there had been several examples of vertical integration in the TV segment. Due to bigger size and a better cash position, telcos had commonly been the acquiring party in such transactions (Arthur D. Little & Exane BNP Paribas, 2015). Recently, telcos had integrated backward by either acquiring content production, acquiring content rights, or engaging in M&A with a company already owning content rights, such as a broadcaster.

First, acquiring content production made a telco expand its operations all the way back to the first stage of the TV value chain. For example, in 2000, the Spanish telco Telefónica purchased the global content producer Endemol for USD 5.3 billion, only to divest it seven years later at around half the price paid in 2000 (Financial Times, 2007). Besides overpayment and/or mismanagement, the reason for the severe valuation decrease might have been bad timing; perhaps the market and the networks had not been ready for vertical integration in the first decade of the 2000s (Åberg & Österberg, 2018). Telefónica, on its part, stated it wanted to sell non-core assets and focus on its core telecom business (Sinclair, 2007). With the money from the divestment, as well as other money, the company went on an international acquisition spree, focusing on horizontal rather than vertical transactions.

Second, some telcos acquired content rights, but very few actors had a proven positive payback with this strategy (Åberg & Österberg, 2018). Indeed, the acquiring telcos often had to open up the purchased content rights for resale to competitors, albeit they had intended to use them

exclusively, either because of regulatory intervention or because the telcos' existing customer base was not sufficiently large to justify the hefty rights investments. One example of a telco that pursued the strategy in question was Norwegian Telenor that launched Comoyo, meant to be the company's own OTT platform, in 2011 (Clover, 2013). The initiative failed, however, and Telenor announced it was to close down the project at the beta stage in 2013. The reasons were claimed to be increased global competition and higher content costs (Sellebråten, 2013). Another example of a telco acquiring content rights was British Telecom ("BT") that invested heavily in sports rights (Larson, 11.12.2019). BT aggregated the sports rights under the "BT Sport" brand in 2013, and distributed the content for free to its broadband customers. Whether this strategy had been beneficial or not for BT was debated. Some argued that, while BT Sport might not be valuable standalone, it was valuable to BT because it reduced broadband churn and attracted new broadband customers. BT publicly stated its content strategy had turned out as hoped, but at the same time the company had stopped disclosing TV numbers externally (Mawby et al., 11.27.2019).

Third and last, there were examples of telcos engaging in M&A with companies already owning content rights, such as broadcasters. With this strategy, telcos could procure a large content library very fast (Larson, 11.12.2019). Furthermore, just like with the second strategy, this third strategy would leave the content production to third parties, and let the telco focus on content and channel aggregation and its network operating business. In October 2016, it was announced that the American telco AT&T was to acquire Time Warner, an American company with an extensive content library (Time Warner also produced some of its content in-house, though) (AT&T, 2016). The deal, with a total value of USD 108.7 billion, was said to combine "the world's best premium content with the networks to deliver it to every screen, however customers want it." The run-rate cost synergies were expected to amount to USD 1.0 billion per year, within three years of deal closing, primarily driven by corporate and procurement expenditures. In addition, AT&T expected an unquantified amount of revenue synergies.

The strategy to integrate vertically could fail for miscellaneous reasons. For example, there could be an overestimation of the potential synergies, poor leadership, or an inferior strategic fit between the combining entities. Additionally, acquiring telcos seemed to fail to acknowledge the importance of culture and retaining key human capital: "*I don't think you should underestimate the fact that all industries have their own codes and skills […]. I think many telcos that have entered the TV [production] business have put their telco eyes on it. You can't do that. I think it might be easier to do the opposite—for a content player to become a distributor. The content world has a lot of prima donnas. The challenge is to retain talent because it's a people's business."* (Larson, 11.12.2019).

Of course, engaging in M&A was only one way for telcos to influence the upstream stages of the TV value chain; another way was to partner with upstream players. Both options had their pros and cons. As for engaging in M&A, if the current development was to continue, with linear viewing falling and OTT services increasing, the demand for broadband capacity would increase and new infrastructure providers enter the market, pushing down broadband prices even more (Larson, 11.12.2019). With customers still willing to pay for content, owning a larger part of the TV value chain would be attractive. On the other hand, this strategy required a lot of capital, was permanent, and involved significant post-deal integration. As for the partnership option, telcos could enter into distribution agreements, commercial partnerships, and joint development offers with content players—traditional and/or OTT ones. This would entail less exposure to the TV market development (Arthur D. Little & Exane BNP Paribas, 2015). On the other hand, by allowing a content player to market its services directly to a telco's customers, without the telco owning the content player, the telco would effectively create value for another player in the value chain (Mobedjina, 11.21.2019). At the end of a successful partnership, the content player would have increased its penetration, and the content player's dependence on the telco would have decreased while that of the telco on the content player would have increased. In conclusion, while both options—M&A or partnership—possibly could offer telcos new revenue streams and differentiation, the way to go was not straightforward.

4.4 Telia Company

In 2002, when Swedish Telia, with roots dating back to 1853, merged with Finnish Sonera, with roots dating back to 1917, the combined Telia was a legacy Nordic and Baltic telecom infrastructure provider (TV-Nyheterna, 2012). Telia entered the TV industry three years later, in 2005, when it launched its IP-TV offering in Sweden, as a complement to its fixed telephony, mobile telephony, and broadband offerings. Initially, entering the TV industry was a means to reduce broadband customer churn, and set-top boxes were distributed to all such customers for free (Törnblad, 11.21.2019). The bundling proved very successful and the company quickly won market shares. Telia later entered the TV industry in other Nordic and Baltic countries where it had broadband offerings and, over time, the TV business became profitable standalone.

Telia launched an OTT platform, Play+ (later "Telia Play"), in Sweden in 2012. At first, Play+ was mostly a mirroring of the linear TV channels, although it comprised a TVOD "movie store", as well. As the OTT platform was modernized, eventually it also comprised a SVOD content library. For a long time, Telia's OTT offering was only available to Telia customers with an IP-TV channel package. In time, however, all Telia customers could procure the service, but since the overall aim of the TV

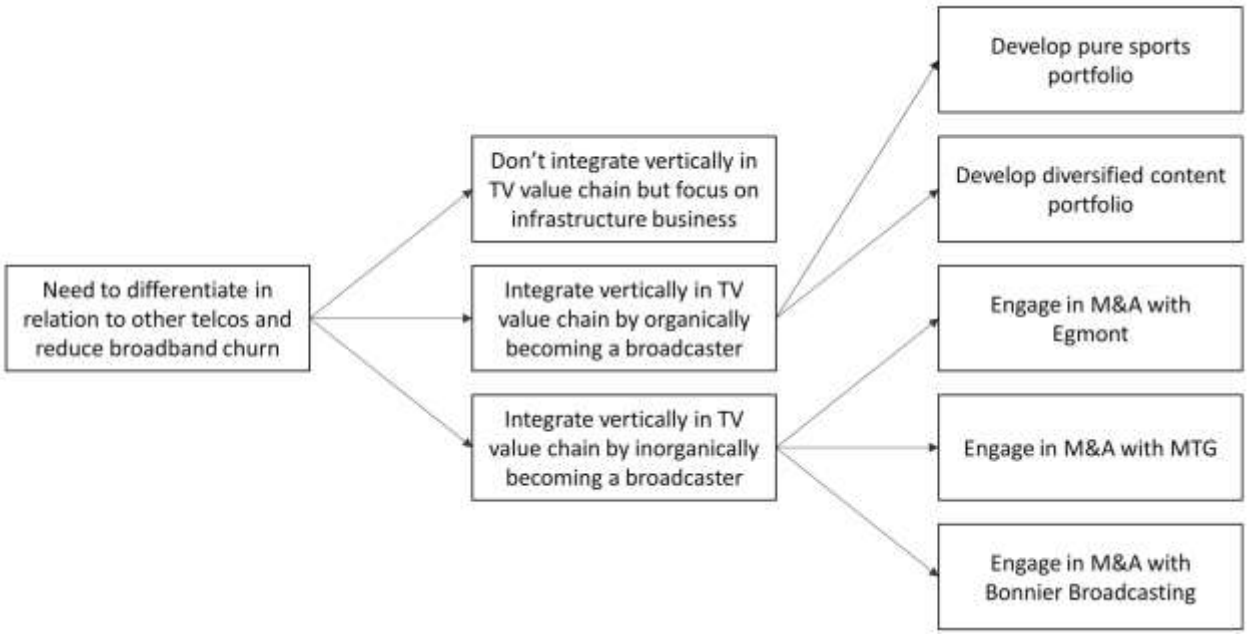
offering was to strengthen the company's core business, non-Telia customers were excluded. (Törnblad, 11.21.2019)

At year-end 2013, Telia had more than 1.4 million TV customers in Sweden, Finland, Denmark, Lithuania, Estonia, and Latvia (Telia Company, 2013a). It had about 600,000 TV customers in Sweden, its biggest market. Nonetheless, customer preferences and the TV value chain were changing, and global competition for customer viewing was getting fiercer. The traditional TV distributor's days as a value-adding aggregator were over and its services risked becoming redundant (Mobedjina, 11.21.2019). Simultaneously, while the changed customer behavior benefitted Telia's infrastructure business in that the demand for data transmission increased (for example, the demand for mobile data traffic had increased by a CAGR of 80% between Q1 2011 and Q1 2014 (Telia Company, 2014b)), the core telco business suffered from intensified competition and a lack of differentiation, which increased broadband churn. Just like in the electricity industry, where a service provider without any uniqueness was marginalized over time, Telia needed to differentiate in order not to become merely a bit pipe. Against this backdrop, Dennelind initiated and rolled out his "new generation telco" strategy in 2014, one year after his appointment as CEO (Ekström, 11.12.2019). The strategy was standing on three pillars: connectivity, convergence, and competitive operations.

In line with the connectivity and competitive-operations pillars, Telia invested heavily in its fiber business and laid off a significant part of its workforce, respectively (Mobedjina, 11.21.2019). As for the convergence pillar, Dennelind recognized the need of a competitive triple-play offering (Ekström, 11.12.2019). The triple-play offering was said to reduce churn by 50% (Telia Company, 2014b). However, to successfully honor the pillar in question, Telia's TV operations needed to become more viable. The company aimed to package content differently, compared to the traditional model, in order to become a more interesting option for customers (Mobedjina, 11.21.2019). It tried improving the OTT platform in close collaboration with the customers, but it posed a challenge to renegotiate the IP-TV content contracts so that the same content could be offered on the OTT platform, as well (Törnblad, 11.21.2019). Hence, it was difficult to completely satisfy the customers' needs. Indeed, the traditional TV distributor did not enjoy the flexibility to package content without any restraints (Mobedjina, 11.21.2019). What now? In spring 2015, management saw three alternatives going forward: not vertically integrating in the TV value chain; vertically integrating by organically becoming a broadcaster; and vertically integrating by inorganically becoming a broadcaster (see Figure 3).

Figure 3: Telia Company's Strategic Alternatives in Spring 2015

This figure illustrates the strategic alternatives Telia Company was considering in spring 2015, as the company aspired to differentiate in relation to other telcos and reduce broadband churn.



Source: Freenasp Mobedjina (interview November 21, 2019); case writers.

The first alternative involved focusing on the infrastructure business and just hoping that other anti-broadband-churn possibilities and opportunities for differentiation would arise within the next decade (Mobedjina, 11.21.2019). This would probably work for a while, due to a strong foothold and high customer satisfaction, but it was not a viable long-term strategy (Törnblad, 11.21.2019). Consequently, Telia abandoned this alternative.

The second alternative was to organically build a content portfolio from scratch by hiring people with the competence to acquire content rights (Mobedjina, 11.21.2019). This would differentiate Telia in relation to other Nordic telcos, and allow for the company to package content as it wished. Of course, there was the option to go "the BT way", and solely focus on acquiring sports rights. In fact, in 2015, it was rumored Telia took part in the auction for the Nordic Premier League rights that MTG later managed to acquire (Holmqvist, 2018), and in 2017 Telia Finland announced the agreement to become the new media partner for the Finnish ice hockey league, the Liiga (Telia Company, 2017b). This route was abandoned, however, as there was a belief that it would not create a unique customer experience, and that a pure sports portfolio would not be attractive enough standalone (Mobedjina, 11.21.2019). Furthermore, sports rights prices were escalating. Consequently, Telia sought a diversified content portfolio. But could such a portfolio be developed in-house? "*We could have taken two floors in our building and hired people with the ability to sign content*

rights, but how long would that have taken? And in our environment, with our culture, would it even have been possible? Probably not." (Mobedjina, 11.21.2019). Fostering new competence in-house, this alternative would take quite some time to be realized. Moreover, given Telia's telco history and culture, would a content portfolio developed in-house remain viable in times of corporate-level cost cutting, when both the content rights business and the infrastructure business relied on making long-term investments? All things considered, the management team was convinced the organic way was not the right way forward.

This left Telia with the third alternative, to engage in M&A with a player with the desired competence and content rights. While enjoying the benefits of the second alternative, this alternative would make the company reach its desired goals faster (Törnblad, 11.21.2019). Indeed, this alternative would enable Telia to acquire competence as well as a broad content offering quickly. In addition, the desire to engage in M&A rather than partnering with a company was fueled by the regret Telia felt over not investing or claiming warrants in Spotify in connection with the signing of an exclusive partnership between Telia and Spotify in 2009, only three years after Spotify was founded (Telia later invested USD 115 million in Spotify in 2015, however) (Mobedjina, 11.21.2019). Telia's view was that the partnership had benefited Spotify greatly, allowing the streaming company to grow fast with the help of Telia's customer base, but without rendering a proportional amount of value for Telia. By getting a stake in a promising content rights player, Telia would make sure not to miss out on such a value journey again.

With alternative three, engaging in M&A with a diversified content rights owner, chosen, the next step was to choose what player to target (Mobedjina, 11.21.2019). In 2015, there were three relevant prospects: Egmont, MTG (later "Nordic Entertainment Group"), and Bonnier Broadcasting ("BB"). The former prospect focused on the Danish and Norwegian markets. Since Telia focused on the Swedish and Finnish markets, it was deemed a bad fit. MTG, including the TV distributor Viasat and the VOD and OTT service Viaplay, was public and, hence, easy to put a value on—probably around SEK 17–18 billion, which was considered a lot. Furthermore, its portfolio was not coherent, including content from geographies Telia did not want to be associated with after the Eurasia crisis, as well as e-sports, which was difficult to appraise. In addition, MTG already was a vertically integrated player with satellite distribution and broadband offerings and, thus, undertaking an M&A transaction with it would probably generate a complicated remedy discussion with antitrust authorities. Finally, the cultural differences between Telia and MTG were reckoned to be rather significant. Taking everything into account, MTG did not seem to be the best option. Last but not least, there was BB. On the plus side, the company focused on the Swedish and Finnish markets, it was not vertically integrated, and

there seemed to be a cultural fit. In Sweden, the respective taglines of Telia and BB were "The people's network" (Sw.: "Folknätet") and "We gather Sweden" (Sw.: "Vi samlar Sverige"), and it was argued they were a good match (Ekström 12.11.2019). Furthermore, BB's TV4 was the largest commercial TV channel in Sweden (Mobedjina, 11.21.2019). On the other hand, while MTG's Viaplay was a huge success, BB's C More was a lot less attractive. Nevertheless, with Egmont and MTG ruled out, and with BB being a passable target, Telia had a plan.

4.5 Bonnier Broadcasting

Bonnier's history began in 1804, when Gerhard Bonnier opened up a little bookstore in Copenhagen, Denmark. Gerhard's son, Albert Bonnier, later moved to Stockholm, Sweden, where he started a book publishing company in 1837. Besides book publishing, the company eventually engaged in the newspaper, magazine, and comic book businesses. With the acquisition of Svensk Filmindustri, a Swedish film production company and movie theatre chain, in 1983, Bonnier became a full-fledged media conglomerate. (Bonnier, 2019)

In 2007, Bonnier became the sole owner of TV4 and MTV Finland (Bonnier, 2019; Bonnier Broadcasting, 2019b). Both companies were free-to-air ("FTA"; broadcasting without the requirement of a subscription or other fee paid by the viewer, i.e. the opposite of pay TV) players and the largest commercial TV channels in Sweden and Finland, respectively. One year later, Bonnier acquired C More Entertainment ("C More"), including the pay-TV provider Canal+ (Askåker, 2008).

In 2010, the TV industry started to change as consumers moved away from linear viewing to streaming on OTT platforms (Berg, 11.20.2019). Simultaneously, C More, with a rather messy content portfolio of predominantly American movies and series and expensive sports rights, lost the Premier League rights to MTG (Almqvist, 10.29.2019). It tried to compensate for the loss by acquiring other, less popular but costly, sports rights, such as the Italian Serie A rights. Partly because it needed help with the financing of sports rights and other content, Bonnier sold a 35% stake in C More to Telenor for SEK 787 million in cash the same year (Bonnier Broadcasting, 2019a). Sports rights owned by Telenor were transferred to C More. The joint venture did not turn out as fruitful as hoped, however. The company was in the red, and a divestment process in 2013 failed. Due to conflicting interests regarding how much focus should be put on the joint venture versus the respective core businesses, any anticipated synergies failed to be realized (Almqvist, 10.29.2019). The parties came to the conclusion that C More needed a sole owner, and in June 2014 Telenor sold back its 35% stake to Bonnier (Bonnier, 2014).

A structural change was needed in order to get C More back on its feet and stop the bleeding (Almqvist, 10.29.2019). Annual losses amounted to about SEK 0.5 billion (Berg, 11.20.2019). C More needed to fundamentally modernize and streamline its content portfolio. First, in collaboration with TV4, one started offering TV4's content, but without any advertising, on C More's SVOD platform (at an alternative cost because of the lost advertising revenues). C More's content portfolio was not deemed to be competitive enough standalone. While the collaboration proved successful and continued, the restructuring process later also involved such things as local drama production. Over time, C More's portfolio evolved to concentrate on local and family-focused offerings.

Not only C More, but also MTV Finland and TV4, were experiencing challenges in 2014. The Finnish economy was struggling and, especially in Sweden, linear viewing was decreasing (Berg, 11.20.2019). With the PUT (people using television) trending downward, advertising revenues were affected negatively. Between 2010 and 2014, the average time watching linear TV had decreased from 166 to 153 minutes per day in Sweden, corresponding to a CAGR of -2.0% (MMS, 2018). Moreover, the negative trend was expected to continue (indeed, between 2014 and 2018 the equivalent CAGR was -3.4%). In addition, TV4 had failed to be up to speed with the OTT development, and was lagging Swedish competitors such as MTG as well as global ones such as Netflix (Larson, 11.12.2019). The company admitted it made "epic" mistakes when developing its AVOD OTT platform, TV4 Play, a couple of years earlier: "*We thought it was all about fancy features, but it's not about that, it's about assurance [in the platform]. Once you've got that, you can focus on fancy features. That's where we are now. Netflix is in a completely different league […]. The fundamental challenge is that our competitors are giants and put in enormous amounts of resources."* (Almqvist, 10.29.2019). In 2014, Casten Almqvist, TV4's CEO since 2012, and his team established a new strategy for the channel: "From viewer to user" (Sw.: "Från tittare till användare") (Almqvist, 10.29.2019). The objective was to shift from a one-dimensional to a holistic perspective in transmitting content to viewers. One wanted to grow TV4's digital operations and move revenue streams from linear viewing to digital platforms.

In September 2016, Bonnier merged its TV4, C More, and MTV businesses into one separate unit, BB (Bonnier, 2016). Several group-common functions were taken together, and Almqvist was made head of the newly formed unit. When the group scaled up its transformation efforts, 90 employees were made redundant (Åberg & Österberg, 2018).

Almqvist's "From viewer to user" strategy, developed for TV4, continued with BB. Operating the different businesses under the same roof was deemed favorable, especially since streaming consumption was expected to exceed linear TV consumption, in minutes, within the next five years (Berg, 11.20.2019). The approach was to use the same content on several platforms, in order to

maximize value and enjoy economies of scale. Moreover, one wanted to "blur the lines" between AVOD and SVOD, and convert TV4 Play users into paying C More users. For BB as a whole, whether consumers viewed content linearly or online did not really matter; what was important was that the total number of viewing hours did not decrease. At the same time, in 2016, mandatory login for customers was implemented on the TV4 Play platform as a means to enhance the online targeted advertising. TV4 also reassessed its content investment scheme. The internal tagline, "From big to bigger", signified the fact that the size of the content investments needed to step up in order to match the competition. At the same time, the company recognized it should try not to procure content directly comparable with that of the major, global competitors, whose budgets were in a completely different league (Almqvist, 10.29.2019).

As 2017 came to an end, Almqvist and his team had managed to improve BB's overall operations somewhat (see Appendix 9.2). At least, TV4 was doing well, being profitable as well as increasing its reach. The channel was the second largest one overall, and the largest commercial one, in Sweden, with a 32% share of viewing. This share had increased from 29% in 2014. TV4 was doing a lot better than its commercial peers on the online AVOD arena, too, where TV4 Play enjoyed a 53% share of viewing, compared to MTG's and Discovery's 18% and 14%, respectively. C More was progressing, as well. In 2017, the number of subscribers doubled, and the company was the fastest-growing SVOD player in Sweden. Nevertheless, the SVOD platform was still lagging competitors such as Netflix and MTG's Viaplay in terms of daily reach (at least five minutes of non-stop viewing), and it reported EBIT losses. On the Finnish market, MTV was the second largest channel overall, and the largest commercial channel, just like TV4 in Sweden. Contrary to TV4, however, MTV had been losing market share. Down from its peak of 37% in 2005, MTV enjoyed a 25% share of viewing in 2017. What is more, MTV was operating at a loss. On the other hand, the company was doing better in the online space. In 2017, C More had been added to MTV's AVOD service, MTV Katsomo, and at the end of the year the platform was the biggest AVOD service in Finland. (Åberg & Österberg, 2018)

Whereas the change journey had been brutal, it was not over for BB. The changes the TV industry had underwent the last three years had been greater than those of the 27 years before that, but Almqvist was certain that the only constant in the industry was change (Almqvist, 2019a). He predicted that, in the future, there would be less pre-packaging, offerings would increasingly be on the users' terms, and more people would be willing to pay for content. Motion picture had a future. Still, Almqvist and his team felt as if they were at a dead end: "*We acknowledge that the speed that's required, the growth that's required, and the power that's required, that's something we're lacking. We don't have it within our organization, and our owners don't have it—they would be the first to admit*

that. You need to dare to invest, and be able to invest, in content rights and technology. What we see, going forward, is that even though we are making a lot of money as a company—well, C More [and MTV Finland are] not making any money; [they are] losing money—the future is tied to the ability to reach a lot of people, to distribution." (Almqvist, 10.29.2019)

To Bonnier, the broadcasting unit was a fine asset. With a thin balance sheet, however, the parent company did not have the resources to assist the unit to successfully compete for the users' attention. BB risked having to turn down attractive content right acquisition opportunities as well as necessary investments in the OTT platform, making it difficult to be on par with competitors. To avoid value destruction of the company, seeking an acquirer of the broadcasting unit seemed like a viable, defensive move. From the start, BB had been an autonomous unit of the media conglomerate, so being separated from Bonnier should not be too damaging. Indeed, with customer preferences and the TV value chain changing, would another type of owner be more suitable? (Almqvist, 10.29.2019)

5 The Case: Telia Company Acquires Bonnier Broadcasting

This section chronicles the acquisition of Bonnier Broadcasting by Telia Company.

5.1 The Transaction

The very first meeting between the operational teams of Telia and Bonnier took place in January 2015, about one and a half years after Dennelind and Franzén were appointed CEOs. What followed would later be described as an exceptionally slow "infinity process" by the involved parties. Among the six people participating at the initial meeting, only Freenasp Mobedjina, Swedish Head of Strategy & Transformation at Telia, and Mathias Berg, Director of Channels at TV4 (later COO at BB), would still be on board at closing, almost five years later. (Berg, 11.20.2019)

On the back of Telia's need for new revenue streams and differentiation and BB's need for financing and scale, when customer preferences were changing, the initial dialogue centered around how the two companies, together, could create value for the consumer (Berg, 11.20.2019). There was an agreement that, currently, there was a lot of content differentiation in the market but no service that satisfied all of the consumer's linear viewing as well as streaming needs. The solution was not necessarily a service comprising as much content as possible, but rather a user-friendly service comprising all of the *desired* linear and streaming content. Consumers yearned a new level of content aggregation, and content was deemed to be key to future differentiation and success. With the common goal to satisfy consumers' new preferences, BB and Telia found they made a complementary duo, with the former company's ability to pinpoint attractive content and the latter company's

efficient distribution and end-user dialogue (Mobedjina, 11.21.2019). In addition, Telia's strong cash position would enable investments in content as well as the technology to distribute content (Berg, 11.20.2019).

With a shared vision and idea of how both parties could benefit from each other, the next step was to decide on a transaction structure. Along the road, a wide array of structures, ranging from partnership and co-ownership to sole ownership, would be discussed. (Ekström, 11.12.2019)

5.1.1 C More, Only

The first six months were spent discussing a transaction structure that was abandoned before the M&A teams joined in. With the M&A teams involved, the first "real" project was initiated. (Mobedjina, 11.21.2019)

At first, a transaction involving solely the financially weak C More was deliberated. It was reasoned, however, that if Telia were to own (a part of) C More, the pay-TV operator would have to keep the rest of the BB businesses at arm's length, and so one would no longer be able to freely use the same content for FTA TV as for pay TV. Hence, the collaboration in which TV4's content was offered without advertising on C More would no longer be possible. Being able to freely use the same content on multiple platforms was deemed too valuable for the pay-TV operator and, for this reason, a transaction involving solely C More was off the table. (Mobedjina, 11.21.2019)

5.1.2 Joint Venture with Unequal Ownership

Telia made it clear it wanted to broaden the scope and include all of BB. Whereas Bonnier was not prepared to sell, it could agree on a joint venture ("JV") structure in which it would be the majority owner since this, at least to some extent, would alleviate the financing issues. It was decided that Telia would contribute with its TV business to the shared entity. (Mobedjina 21.11.2019)

Typical JV partnership concerns arose: what if there would be disparities or conflicts between the goals of the two co-owners? Moreover, what would the long-term objective of Telia's minority position (a rather small minority position given the respective values of the businesses the two companies were to contribute to the JV) be? The telco's ability to exert influence over the JV would be relatively limited—as would its exit opportunities. Consequently, Telia risked being stuck in an investment with no operational control. Of course, there was the alternative of Bonnier being the sole owner of the combined business, and that the combined business would partner with Telia, but Bonnier's financial position was not strong enough. So, the discussions failed again. (Mobedjina, 11.21.2019)

5.1.3 Joint Venture with Equal Ownership

As an alternative to the JV with unequal ownership, i.e. ownership in proportion to business value contribution, Telia and Bonnier could form a 50/50 ownership JV to which Telia contributed cash. It was deemed this was the only way a JV structure would work. Nevertheless, concerns arose: how should the governance structure be set up? How much cash was Telia to put up? How would the parties be able to assure that no one party misused the JV out of self-interest? Bonnier's main focus would be on the JV. Telia, on the other hand, wanted the JV business to foremost benefit its core operations, making sure it reduced broadband churn. By the end of 2016, after almost two years of discussions, the parties came to the conclusion that, just like the previously suggested transaction structures, this transaction structure was not suitable. A "cooling-off period" followed. (Mobedjina, 11.21.2019)

5.1.4 The Cooling-Off Period and Ongoing Consolidation

During 2016, some major consolidation events had taken place in the Nordic telecom sector and TV segment. On June 8, Com Hem, one of the largest TV distributors in Sweden, had announced its agreement to acquire the pay-TV operator Boxer Sweden (Teracom, 2016). About two weeks later, the Swedish telco Tele2 had announced its acquisition of the leading Danish telco TDC's Swedish operations, to strengthen its B2B offering (Tele2, 2016). What is more, after the summer, there had been speculations whether Com Hem and TDC Denmark might be acquired by a financial sponsor, making a lucrative business case out of combining the TV distribution businesses of the two companies (Mergermarket, 2016).

In April 2017, amidst Telia and Bonnier's cooling-off period, the consolidation continued as the investment company Kinnevik, at the time a 20% owner of MTG, announced it had acquired an 18.5% stake in Com Hem (Kinnevik, 2017). Two months later, a Mergermarket article concluded that the Nordic TV market was too congested with the main broadcasters BB, MTG, Egmont, Discovery, and Sanoma, and the main telcos/TV distributors Telia, Telenor, Com Hem, and TDC (Mergermarket, 2017a). Increased M&A activity was to be expected.

During the cooling-off period in spring 2017, Telia bought the rights to the Finnish hockey league, the Liiga (Ekström 12.11.2019). Moreover, with the ongoing consolidation, the telco once again considered its strategic alternatives, and Dennelind engaged in discussions with Discovery and MTG. Telia's board of directors was involved in the process of evaluating the potential target broadcasters, and comparing them with BB. Discovery was deemed too small to provide enough scale. Conversely, MTG was bigger and had a better portfolio of content rights. Just like before, however, the

broadcaster was regarded too expensive. Furthermore, in terms of cultural fit, BB still was the obvious first-hand choice. With BB once again the seemingly best option, Telia went back to Bonnier after a six-month cooling-off period, and suggested to resume discussions (Mobedjina, 11.21.2019).

5.1.5 Resumed Discussions—an Acquisition of Bonnier Broadcasting

Back to the negotiating table in the middle of 2017, Telia declared it wanted a controlling stake in the combined entity, otherwise there would be no deal. Bonnier responded it did not intend to be a minority owner. Hence, Telia acquiring BB was the only way forward. (Mobedjina, 11.21.2019)

When the real negotiations commenced and all the deal details were to be ironed out, there were a lot of people involved (Ekström, 11.12.2019). From Telia, the central players included the CEO, Dennelind, the Swedish CFO, Hélène Barnekow, the Swedish Head of Strategy & Transformation, Freenasp Mobedjina, the Head of Corporate Development, Henriette Wendt (a role that was later assumed by the Group General Counsel, Jonas Bengtsson), the Head of Group M&A, Andreas Ekström, and the M&A Project Leader, Karin Karlström. From Bonnier, the central players included the CEO, Franzén, the Head of Strategy, Corporate Development, and M&A, Jan Lund, the BB COO, Mathias Berg, and the BB Head of Strategy, Philip Lindkvist. Since Berg and Lindkvist were to become Telia employees if the transaction was to succeed, they were in a conflicting situation. This was true also for BB's CEO, Almqvist (Almqvist, 10.29.2019). From the start, Almqvist was a proponent of the deal and he took part in the due diligence process, but due to conflicting interests he kept a rather low profile. In any case, in addition to the Telia and Bonnier employees, a significant number of advisors were involved in the process (Ekström, 11.12.2019). The niche investment bank Stella EOC, the traditional investment bank Lazard, and the law firm Mannheimer & Swartling were advisors to Telia; SEB Investment Banking and the law firm Roschier were advisors to Bonnier.

Naturally, the valuation of BB was an important topic to agree on. Even so, this was not the most difficult topic to settle on, and the parties reached common ground relatively quickly. (Mobedjina, 11.21.2019)

Being primarily a telco, Telia did not have a lot of experience of the valuation of a media company. Content rights payments could, however, be compared to a telco's recurring license fees, due every third, fifth, or tenth year. Valuing BB, Telia's M&A team, together with the advisors at Stella EOC, carried out a DCF valuation, a precedent transactions valuation, and a trading multiples valuation. The DCF valuation consisted of the sum of the standalone value of the current business and the estimated synergies. The standalone value, in turn, consisted of the sum of the standalone values of the profit-making TV4 and the loss-making C More and MTV Finland. Based on a DCF valuation of

the projected advertising and distribution revenues, TV4 was assigned a value of SEK 9–10 billion. Assuming Telia was to pull the plug on C More and MTV, acquiring BB for SEK 9–10 billion, with no synergies, would not make any sense, however: *"Why should we pay a dollar to get a dollar back later? It's not part of our core operations to add a media business if we're not going to do anything with it. In that case, we might as well buy a supermarket or something like that, and that's not what the shareholders have assigned us to do."* (Ekström, 11.12.2019)

As for the synergies, the transaction was predominantly deemed a revenue-enhancing case and not a cost-cutting one, enabling higher customer satisfaction and ARPU (average revenue per user), and lower churn and subscriber acquisition and retention costs ("SAC"/"SRC") (Ekström, 11.12.2019). For example, with Telia's customer knowledge, the BB businesses would be able to offer more personalized advertising, content, and platforms, leading to higher revenues and lower churn (Almqvist, 10.29.2019). These synergies, as well as some cost synergies from economies of scope, were taken into account in the valuation. Some Telia employees reasoned that an important transaction rationale was to offset a future margin squeeze as the result of increased content rights owner bargaining power and increased content costs, which the telco would not be able to pass onto customers (Ekström, 11.12.2019). In any case, such a transaction rationale was not quantified due to the difficulty to follow up on its effect post transaction.

In contrast to the valuation of BB, deal certainty was a rather contested issue between the two parties (Ekström, 11.12.2019). For Bonnier, deal certainty was very important. The company truly needed to solve its financing issues and could not risk the deal breaking down because of the disapproval of Telia's owners or the European Commission ("the Commission"; "the EC"), leaving BB in an even worse situation than before and, perhaps, in a more adverse market environment. As for the telco's largest shareholder, the Swedish State, one anticipated it might condemn the transaction because it already was an indirect owner of the public service TV broadcasters Swedish Television ("SVT"), Swedish Radio ("SR"), and the Swedish Educational Broadcasting Corporation ("UR"), which were financed by a public service fee collected as a tax. Telia attempted to assure Bonnier that a potential disapproval by the Swedish State should not be seen as a major execution risk. Indeed, Telia's board of directors would make the final decision regarding the transaction, and the largest shareholder, although owning 37.3% of the company, had declined to have a representative on the board. What is more, if the Swedish State were to try to fire the board of directors, it would not be able to appoint new board members on its own, as new board members were to be elected by the nomination committee. Telia did not want to treat the Swedish State any differently from its other shareholders. Even though the telco knew the acquisition of a broadcaster might upset its largest

owner, it was decided the State would have to read about the transaction in the news, like everyone else. Eventually, after having negotiated breakup and reverse breakup fees, Bonnier budged with respect to Telia's owners constituting an execution risk. Hence, the EC, which was to investigate the acquisition, made up the main remaining hinder. Of course, Telia could not guarantee the Commission would approve of the transaction (Mobedjina, 11.21.2019). Instead, in order for Bonnier to feel comfortable, the two parties negotiated in detail what remedies they would be willing to accept for the deal to go through. Initially, Bonnier asked for a hell-or-high-water provision but, in the end, a well-defined list was agreed upon.

Other topics negotiated included the organizational structure, governance, and the existence of an earnout structure. As for the latter, such a structure was reckoned appropriate since it was assumed EC's investigation would prolong the time period between signing and closing quite a bit, and Telia did not want BB to slow down during that period but continue to develop its operations. The agreed-upon earnout period was relatively short, though, as it was chosen to just cover the expected regulatory process. (Almqvist, 10.29.2019)

Despite the lengthy and in-depth discussions, and with pretty much all the pre-deal considerations settled, the process suddenly came to a halt in the beginning of 2018. This time, a hiccup involving the Danish telco TDC would put a spoke in the transaction's wheel.

5.2 TDC

In spring 2015, Telia had stood at a three-way junction, deciding whether to focus on the infrastructure business, to vertically integrate in the TV value chain by organically becoming a broadcaster, or to vertically integrate by inorganically becoming a broadcaster. Whereas, eventually, the third route had been chosen, the first route had not completely been abandoned. In fact, over the years, Telia had occasionally considered acquiring the leading Danish telco, TDC (Ekström 12.11.2019). The potential transaction had been known to the media, as well. In the beginning of 2017, amidst Telia and Bonnier's cooling-off period, Dennelind had commented on the 2016 annual report. He had stated that the company was pursuing solutions to its profitability issues in the Danish operations, and that is was seeking acquisition opportunities, but that an acquisition of TDC was deemed too risky and expensive (Mellqvist, 2017). Shortly thereafter, Telia had reiterated its intention to reach the goal of divesting all of its Eurasian operations before the end of the year (Telia Company, 2017c). This had led to intensified rumors that the company might be on a shopping spree (Mergermarket, 2017c). At the same time, TDC had been rumored to be involved in M&A activities

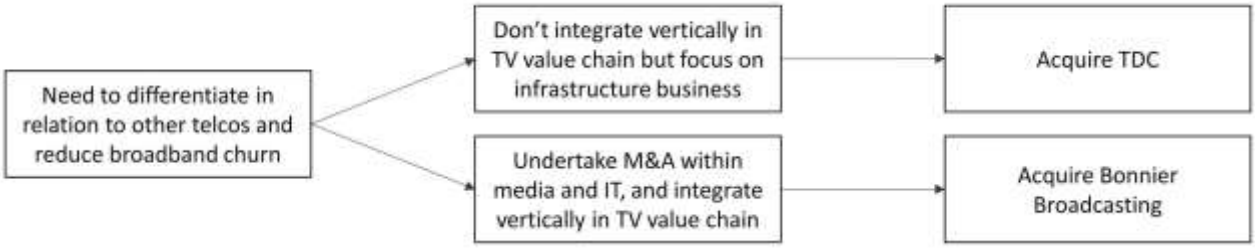
due to the recent substantial increase in the company's share price and the lack of a major shareholder of the company (Mergermarket, 2017b).

When 2017 had come to a close, the plot thickened. On January 10, 2018, Tele2 announced its merger with Com Hem (Tele2, 2018). A few weeks later, on January 31, MTG announced it was to merge its Nordic Entertainment and MTG Studios business with TDC, and become a 5.6% owner in the combined company (MTG, 2018b). This vertical merger, in which a content rights owner and an infrastructure provider and TV distributor were to integrate, triggered the sudden halt in Telia's discussions with Bonnier (Ekström 12.11.2019). Indeed, now, if Telia was to acquire TDC, it would become an owner of MTG, too, and MTG and BB were close competitors. In the end, Telia placed a bid on TDC. To make things more complicated, however, a consortium made up by the Australian private equity firm Macquarie and Danish pension funds also placed a bid on TDC, on February 12 (Dagens Industri, 2018).

Once again, Telia was standing at a junction, this time a two-way one (see Figure 4). Taking the left route, the company would remain a traditional telco—the Nyberg way. One would pursue the TDC acquisition and aspire to become the "undisputed telco champion" in the Nordics and Baltics, and try to avoid marginalization by offering superior quality. Acquiring TDC would increase Telia's financial leverage significantly and so there would be no room for further M&A activity for quite some time. On the other hand, taking the right route, Telia would diversify and undertake several smaller or medium-sized M&A transactions within media and IT, including vertically integrating in the TV value chain with the acquisition of BB. One would try to obtain an as strong standing as possible in the ongoing consolidation game. There were few success stories of other companies pursuing this strategy, but taking the right route would pose less of a strain on Telia's balance sheet. (Ekström, 11.12.2019)

Figure 4: Telia Company's Strategic Alternatives in the Beginning of 2018

This figure illustrates the strategic alternatives Telia Company was considering in the beginning of 2018, as the company aspired to differentiate in relation to other telcos and reduce broadband churn.



Source: Andreas Ekström (interview November 12, 2019); case writers.

"*During 2016 and the major part of 2017, the right route, i.e. media and IT, was our focus. That changed—I still don't know exactly what the trigger point was—but during late autumn 2017, we decided to go all-in and try to win TDC. We had considered doing this at least 3–4 times before, but this time we felt it was 'now or never'. What we didn't know, starting this process the fourth time around, was that Macquarie was also assessing the TDC case and that TDC was assessing an acquisition of MTG. All of this culminated in a crescendo in January 2018 when we placed a bid on TDC, against Macquarie, while TDC was opportunistic and placed a bid on MTG. During this period, Bonnier was obviously wondering what was going on, why they didn't hear from us. We had to dodge that; at that time, we put Bonnier on hold […]. One of our conditions, and one of Macquarie's conditions, was that TDC would withdraw its bid on MTG. A vortex of different transactions was going on and, meanwhile, Bonnier was standing on the sidelines."* (Ekström 12.11.2019)

Eventually, Telia lost the TDC bidding war against the consortium (Hägerstrand, 2018). Dennelind publicly declared that the price tag had been too high and that the transaction would not have been worthwhile from a balance sheet perspective. Instead, Telia would focus on increasing the pace of its M&A activity in Sweden and Norway in order to strengthen its fixed telephony, mobile telephony, and TV offerings. Furthermore, Dennelind restated the importance of a transaction to allow a viable payout policy and high dividend yield, which catered to investors (Ekström, 11.12.2019).

With the consortium acquiring TDC, TDC withdrew its bid on MTG (MTG, 2018a). (Later in spring 2018, MTG announced it would split into two companies.) This meant that Telia still had the opportunity to be a forerunner as a Nordic telco acquiring a content rights owner (Mobedjina, 11.21.2019). It was deemed there was a first-mover advantage in getting such a vertical transaction approved by the EC and, of course, being able to go with the most preferable target. Consequently, Telia decided to resume its discussions with Bonnier. Compared to the potential acquisition of TDC, acquiring BB would leave Telia less leveraged and allow for the company to carry out the share buyback program it announced in April 2018 (Telia Company, 2018f).

On May 25, Telia publicly verified the ongoing discussions with Bonnier regarding a potential acquisition of BB (Telia Company, 2018e). On July 16, the Swedish business newspaper Dagens Industri reported that the negotiations were all but finalized (Hägerstrand & Rex, 2018). The article said the parties wanted to finalize the deal before Midsummer's Eve on June 22, but that the negotiations had prolonged more than expected. The journalists speculated that the price for BB would amount to about SEK 10 billion, and some analysts predicted it might be slightly higher than that (Stenvall, 2018). At this time, the market was skeptical towards the transaction as one reckoned

Telia should focus on its core telco business, instead. A telco-business horizontal transaction was then announced on July 17, when Telia revealed it was acquiring the Norwegian telco and TV distributor Get from TDC for NOK 21.0 billion; approximately SEK 22.8 billion (Telia Company, 2018d).

5.3 The Announcement

On July 20, 2018, it was finally announced that Telia was to acquire BB, including TV4, C More and MTV Finland, from Bonnier (see Appendix 9.3). The transaction was valued at SEK 9.2 billion on a cash and debt free basis; equivalent to an EV/EBIT multiple of 15.4x based on the last 12 months of performance as per March 31, or a multiple of 7.7x taken into account the estimated run-rate synergies of SEK 600 billion. The deal also included an earnout of up to SEK 1 billion, to be based on BB's future revenue and EBITA performance. The acquisition was to be financed with cash from the balance sheet and was said not to affect Telia's share buyback program or dividend policy. (Telia Company, 2018c)

Synergies were expected to be gradually realized starting 2020 (the first full fiscal year post expected closing), with full effect of SEK 600 million per year in 2022. Integration costs were expected to amount to SEK 400 million on an aggregated level in 2020 and 2021. Standalone, BB would contribute SEK 600 million to Telia's operating free cash flow ("FCF") in 2020, SEK 500 million net of synergies and integration costs, but was said to contribute positively to Telia's bottom line from day one. (Telia Company, 2018c)

Telia declared its intention to establish a new business area, TV & Media, in which the BB businesses and Telia's existing media business were to integrate (Telia Company, 2018c). Almqvist, the BB CEO, would become the head of the new business area, which eventually would employ BB's 1 200 employees and about 200 employees and 75 consultants from Telia (Törnblad, 11.21.2019). Lastly, closing was expected during the second half of 2019, due to the mandatory EC merger control procedure (Telia Company, 2018b). The EC was to be notified sometime after the deal announcement, and a *Phase I* (basic) investigation was to be initiated. Telia anticipated that a *Phase II* (in-depth) investigation might be required, as well.

5.4 Deal Rationale and Synergies

The acquisition was said to combine "Telia Company's leading mobile and fixed network with one of the most successful commercial media houses in the Nordics." The transaction was to amalgamate Telia's technical know-how, network, and customer base with BB's local content, TV expertise, and

brands. With the acquisition, Telia would gain differentiation and new revenue streams. BB, in turn, would benefit from greater investment capacity and scale. (Telia Company, 2018c)

SEK 500 million of the SEK 600 million run-rate synergies was classified as revenue synergies (Telia Company, 2018b). The majority of the revenue synergies, SEK 350 million, was expected to stem from the enhancement of core operations. By being able to offer customers more flexible and personal content packages and a first-class user experience, as a vertically integrated business, Telia would be able to monetize its connectivity offering better. One expected the SAC, SRC, and broadband churn to decrease. Telia stated that the churn rate was five percentage points lower with customers having broadband and TV subscriptions, than with customers having broadband subscriptions only. What is more, with lower churn, one would profit from economies of scale in the fixed content costs (Berg, 11.20.2019). Whereas the effective commercial bunding was anticipated to justify the continuing of the broadband price premium Telia was currently enjoying vis-à-vis its competitors, the synergies stemming from the enhancement of core operations were mostly due to SAC, SRC, and churn reductions rather than ARPU increases (Mobedjina, 11.21.2019). They would affect the top line as well as the cost base.

The second part of the revenue synergies, SEK 150 million, was expected to stem from upselling (Telia Company, 2018b). Telia anticipated to upsell BB's pay-TV services, C More and TV4 Play, to its existing customers as well as upsell the enhanced OTT offering to new customers. As with the lower churn, the upselling would enable for the combined entity to leverage the fixed content costs (Mobedjina, 11.21.2019). For example, with every new customer taking on a C More subscription, paying SEK 100–150 a month, Telia would enjoy a 100% contribution margin (less a SAC if the new C More customer was not a Telia customer to begin with). At this time, Telia had about five million customers, of which only a smaller, undisclosed number were C More customers, so the upselling potential was considerable. The synergy in question would affect ARPU and profitability positively.

Lastly, the SEK 100 million cost synergies were expected to stem from the creation of common technology and development operations, and insourcing. For example, one was to consolidate systems and platforms, and reduce the number of third parties. (Telia Company, 2018b)

Of course, as with any M&A transaction, there was a risk that the synergies would fail to be realized. During the pre-announcement discussions, faulty integration had been highlighted as one of the major hazards (Mobedjina, 11.21.2019). As always, culture would play an important role in making the integration successful. While Telia and BB were believed to be a better cultural fit than Telia and any of the other broadcasters the telco had considered engaging in M&A with, one feared

that the risk of the combining entities' cultures clashing was more pronounced with a vertical M&A transaction than a horizontal one, since entities coming from different industries and heritages were to combine (Almqvist, 10.29.2019). If the cultures were to clash, one risked losing key competence and operational speed (Törnblad, 11.21.2019). Moreover, in order for the combined business to flourish, continued investments in content rights and technology would be vastly important, but this might pose a cultural challenge for a telco (Larson, 11.12.2019). Ultimately, one decided the new business area ought to operate separately from Telia's core business, but the solution was not entirely straightforward. *"If this would have been a regular horizontal telecom acquisition, the only way to go would have been to integrate [the target] as soon as possible, but since these are different industries, I think [the acquirer's] core business has to be held separately. But the two units can't live separate lives; in order to realize the synergies, you must bring them together at the top with the commercial offerings. And then it goes back to the fundamental question—could the sought outcome have been realized with a partnership instead of ownership?"* (Ekström, 11.12.2019).

For Telia, one of the major upsides with the vertical integration was that the telco, now, had secured key content (Telia Company, 2018b). During the transaction presentation, Telia announced it did not intend to make this content exclusive for its customers, however, but that the content would continue to be available via other TV distributors and OTT players. This made sense for several reasons. As for the broadcasting business, scale was essential for the operations to be profitable, given the fixed cost base (Berg, 11.20.2019). Moreover, revenues from advertising and the selling of distribution rights to TV distributors would suffer if a broadcaster had fewer customers and viewing decreased. At the time of the transaction, Com Hem alone allegedly accounted for about SEK 1.5 billion, or 20%, of BB's total revenue, so keeping content exclusive for Telia's customers would not have been a viable business case (Åberg & Österberg, 2018). As for legacy Telia, the very reason for undertaking the transaction was to differentiate and enhance the customer experience in order to strengthen the core business and reduce broadband churn (Mobedjina, 11.21.2019). In order to realize this, content flexibility, i.e. being able to package content in a unique way without any restrictions from content rights owners, was more important than content exclusivity. Additionally, owning non-exclusive content rights would increase Telia's bargaining power with other content rights owners and TV distributors.

5.5 Market Reaction

When the transaction was finally announced, speculations had been ongoing for weeks. The day before the announcement, on July 19, Telia's share price had tumbled 9.4% from its peak on May 8.

During the same time period, the OMXS30 index had fallen 1.5%. Then, on the day of the announcement, Telia's share price fell 1.9%. The OMXS30 index traded -0.3% the same day.

The transaction triggered reactions from the Swedish State, Telia's largest shareholder (Holmberg Karlsson, 2018). The Government and the Parliament declared they were to try to stop the deal from closing. With the BB acquisition, they feared their ambition of a diverse media landscape would be hindered, since the Swedish State now would be the (indirect) sole and largest owner of SVT and TV4, respectively. As for the general investment community, the immediate reactions from analysts were somewhat mixed; some said the transaction was reasonably good, while others called it a disaster (Mawby et al., 11.27.2019). Very few, if anyone, applauded the transaction. *"I remember, before the transaction […], you were talking about the cash flow case, the dividend increases, etc.—and then this [(the BB acquisition)] happened. And some of the reactions were: 'Oh no, they've wasted their cash again. What other stupid things are they going to do now?' I guess that's a deep-seated approach towards Telia, that they're not spending their money in the most value-adding way."* (Mawby et al., 11.27.2019).

In the investment community, valuation, Telia's financial position, deal rationale, and whether BB was a preferable target, were among the most prevalent issues discussed.

5.5.1 Valuation

The purchase price of SEK 9.2 billion, or SEK 10.2 billion including the potential SEK 1 billion earnout, was somewhat below the market's expectation. The consensus expectation had been around SEK 10 billion, whereas some analysts had expected a price of up to SEK 12 billion (Stenvall, 2018). Despite the price being lower than expected, the market reacted negatively on the transaction announcement, as Telia's share price fell more than the OMXS30 index. Analysts judged the share price decline of the last one and a half months exaggerated, however, since it did not correspond to the magnitude of a possible overpayment. An SEB analyst stated: "If we take a bearish view and state that the market only looks at EBITDA multiples, one can argue that Telia overpaid some SEK 4bn for the two acquisitions [(Get and BB)] (versus its own valuation), which is some 3% of Telia Company's market cap, which then should be compared with the recent share price decline since a peak of 10%." (Ahlqvist & Höglund, 2018).

With the transaction details announced, the investment community found it difficult to put a value on the synergies, since they primarily consisted of revenue synergies which, as commonly, were deemed especially risky (Arbuzov, 2018). Consequently, many analysts chose not to include the effect of some or all of the potential synergies in their estimates and, hence, they did not anticipate any

significant DCF estimate revisions as a consequence of the transaction (Mawby et al., 11.27.2019). (A case writers' DCF valuation of BB, based on analyst FCF estimates, is included in Appendix 9.4. Section 6.5 discusses the valuation.)

5.5.2 Telia Company's Financial Position

The investment community was worried about Telia's post-closing financial position, especially since the company had announced a new share buyback program in April 2018. A Citi analyst wrote: "Telia's CEO has reiterated that the deal would not change Telia's current dividend payout and buyback program. But with the two deals announced [(Get on July 17 and BB on July 20)], Telia's leverage will be pushed up to 2.3x by the end of FY18, closing to the top end of leverage target of 2.5x. With EBITDA unlikely to improve materially post FY18 and declining FCF profile, the nervousness on dividend sustainability is set to grow." (He & Ierodiaconou, 2018)

Certainly, not everyone was as concerned about Telia's financial position. Some analysts and investors found Telia's leverage undemanding, given the company's defensive nature (Nilsson & Sarkamies, 2018). The consensus view, however, was that there was no room for further M&A by Telia.

5.5.3 Deal Rationale

The questions asked to Telia by analysts regarding the BB acquisition were very different from those asked regarding the Get acquisition. With the horizontal Get transaction, Telia essentially acquired a customer base to be transferred to the company's own network, thus increasing the utilization of its existing infrastructure. This was very straightforward and made sense to the market. Conversely, the rationale of the vertical BB acquisition was more difficult for the market to grasp. (Ekström, 11.12.2019)

Sure, on the one hand, the market seemed to understand the need for Telia to find new revenue streams and differentiation as a means to make up for falling TV distribution revenues and to reduce broadband churn when the company risked becoming merely a bit pipe. "*It [(acquiring a content player)] is not a fantastic strategy, it will not add a lot of value, but the alternative is worse. Telia will not become a growth company because of BB, but the transaction might mitigate negative growth.*" (Mawby et al., 11.27.2019). Furthermore, in line with what Dennelind stated at the investor presentation, analysts believed the acquisition of a broadcaster would give Telia increased bargaining power with other content rights owners and TV distributors.

In general, however, the transaction was not seen as very logical to the market. First, several analysts questioned Telia's ability to realize the communicated revenue synergies (Ekström, 11.12.2019). For one, the realization was dependent on seizing a larger share of customers' wallets. Moreover, the actual improvement of e.g. the churn rate, SAC, and SRC, explicitly due to the acquisition of BB and not anything else, would be difficult to measure (Mawby et al., 11.27.2019). Second, it did not make perfect sense to invest in the TV segment when linear viewing was declining and content rights costs, especially sports rights costs, were increasing. Third and last, the market did not seem to understand why Telia felt the need to integrate vertically, when it could just partner with a broadcaster, instead. As a Bank of America Merrill Lynch analyst put it: "Move of telcos into acquiring content has no obvious successful precedents. Telia, similar to other US deals has struggled to explain how ownership of content is superior to partnership. There seems to us only minor benefits from owning the back catalogue […] which are outweighed by horizontal competition from Netflix, Amazon etc. […]." (Boulan et al., 2018). On the same note, the flexible-packaging argument put forward by Telia was questioned since the content the company was now owning was deemed to have been fully available to it before (Åberg & Österberg, 2018). What is more, the notion that integrating vertically would help Telia avoid a margin squeeze when content costs were rising was also questioned, since it was reckoned the company ought to be able to push any such content cost increases onto its customers (Mawby et al., 11.27.2019).

At large, the market had a tough time trying to grasp what customer pain points Telia was trying to solve with the acquisition. It seemed like the transaction was mainly a defensive move; an attempt to resolve the lack of differentiation that otherwise threatened to make the company a mere commodity service provider, competing on price, and an attempt to avoid becoming redundant in the TV value chain. (Mawby et al., 11.27.2019)

5.5.4 The Target

Assuming the strategy of a telco integrating backward in the TV value chain and acquiring a broadcaster made sense, the market debated whether BB was the most suitable target. The consensus view seemed to be that it was, predominantly because of the reputable standing of TV4. *"I think a lot of people believe that the best thing they could have done would have been to distribute the cash. But assuming they were to acquire something in media/content […] you'd probably say this was the best target. Local content is king, but possessing TV4's content and generation of blockbuster series is key."* (Mawby et al., 11.27.2019). Additionally, with declining linear viewing being one of the main perils

with the TV industry going forward, BB's strong brand and its ability to shift viewers from the FTA space to the AVOD space, provided approbation (Larson, 11.12.2019).

The one matter, relating to BB being the preferable target, that seemed to segregate the market was sports rights. Telia declared it did not intend to focus on acquiring sports rights in the near future (Ekström, 11.12.2019). This was appreciated by several analysts, since sports rights were vastly, and increasingly, expensive. Other analysts, however, believed Telia's content portfolio would be subpar without more sports rights (He & Ierodiaconou, 2018). One speculated whether the company would be forced to purchase such content rights when live sports, alongside live news streams, was what kept linear viewing alive (Larson, 11.12.2019).

5.6 Epilogue

From the transaction announcement on July 20, 2018, it took almost 17 months until closing. During these 17 months, ever more consolidation took place in the global TV value chain. Several content producers integrated downstream by bypassing broadcasters and TV distributors. For example, Disney launched Disney+, a direct-to-consumer OTT service (Axelsson, 2019). Disney chose to engage in a partnership with the American telco Verizon to establish an initial subscriber base. In October 2019, Verizon announced that the company would be able to offer a free year of Disney+ to some of its customers. Apple TV+ (Mediavision, 2019) and HBO Max (Coster & Richwine, 2019) were other direct-to-consumer OTT services launched in 2019.

The reason for the delay between transaction announcement and closing was the EC merger control procedure. On March 13, 2019, Telia announced it had formally notified the Commission of the BB acquisition (Telia Company, 2019d). This triggered a *Phase I* investigation during which the EC had 25 working days to analyze the deal. After that, the Commission would either clear the transaction or open a *Phase II* investigation. A *Phase II* investigation comprised a more in-depth analysis of the transaction's effects on competition, and once the Commission had opened such an investigation it had 90 working days to make a final decision (European Commission, 2013). On May 10, the EC declared it had decided to initiate a *Phase II* investigation, as anticipated by Telia (Telia Company, 2019b). One month later, the Commission announced it was to stop the 90-day clock as it was awaiting information in order to proceed (Wallin, 2019). The deadline was extended by 20 working days, and so the EC's final decision was now expected on November 19.

On August 4, Telia announced Dennelind had informed the board of directors he was to resign as CEO and leave the company (Telia Company, 2019c). This news struck the media and investment community by surprise. Since Dennelind had been a leading initiator and promoter of the BB

transaction which, likely, was just about to close, the timing of the resignation was deemed peculiar (Bråse, 2019a). Two months later, it was made public that the Swedish State, Telia's largest shareholder, had requested an extra general meeting with the purpose to appoint a new chair of the board (Telia Company, 2019f). The nomination committee brought forward Lars-Johan Jarnheimer, CEO of Tele2 in 1999–2008 and (former) board member of Egmont, MTG, and the telco Millicom, who replaced Ehrling, chairwoman of the board since 2013. Four days after this news, on October 24, it was announced that Alison Kirkby, at that time CEO of TDC and CEO of Tele2 in 2015–2018, had been appointed the new CEO of Telia (Telia Company, 2019a). Shortly after the announcement, Kirkby commented the BB acquisition, stating that she was just as enthusiastic as the Telia team was (Bråse, 2019b). She said that, going forward, the big question would be how telcos were to differentiate themselves; that it would all boil down to the ability to create customer experiences; and that owning a larger part of the value chain could enable that. The moral of this comment was quite different from that of her previous comment, five months earlier, when she was the CEO of TDC: "I still don't believe in adding content the way Telia is doing. TDC aggregates and distributes others' content. A regional actor can't compete on content with actors like Disney or Netflix."

On November 12, Telia announced that the EC had approved the company's acquisition of BB (Telia Company, 2019e). The announcement sparked further political discussions. In spring 2019, the Swedish Parliament had declared that the Government was to review a way in which the State could divest its ownership in Telia (Sveriges Riksdag, 2019). One of the suggestions put forward had been to split Telia into two separate entities—a network entity and a commercial entity, respectively (Öjemar, 2019). That way, the State could keep its ownership in the network entity, since the State owning Telia's infrastructure was deemed important for national safety reasons, but divest its ownership in the commercial entity comprising BB. With the acquisition approved by the EC, the discussions intensified.

The EC merger approval was not delivered without strings attached, but an approval subject to remedies had been anticipated by the market and the involved parties alike. After numerous and lengthy discussions and negotiations with the Commission, the final product, a 380-page decision memo, was presented to Telia and the public (Mobedjina, 11.21.2019). Among other things, the memo said what commitments Telia had agreed to, to guarantee continued competition in the Nordic TV and telecom market, including:

i) To license, on fair, reasonable and non-discriminatory terms, BB's FTA/basic and premium sports channels to TV distributors in each of Sweden and Finland, respectively;

ii) To license standalone OTT rights to one other market player in each of Sweden and Finland, respectively;
iii) To sell advertising space, on fair, reasonable and non-discriminatory terms, to providers of mobile telecommunication services, providers of fixed Internet access services, and TV distributors in Sweden and Finland, respectively; and
iv) To license Liiga Channel package on fair, reasonable and non-discriminatory terms to TV distributors in Finland. (Telia Company, 2019e)

To Telia, the remedies were reasonable. What is more, they did not make the acquisition business case any less promising. In contrast, the remedies were pretty much in line with Telia's strategy for the combined business. The company had already stated it did not intend to make the content exclusive for its customers, which made sense because the broadcasting business relied on scale due to the fixed cost structure and the need for distribution and advertising revenues. Hence, committing to license BB's content rights to other TV distributors and OTT players, and to sell advertising space to other telcos and TV distributors, was "a no-brainer". Furthermore, as for the OTT commitment, the EC stipulated Telia was to "license *standalone* OTT rights to *one* other market player in each of Sweden and Finland, respectively" (emphasis added)—not give *several* players access to the *entire* content catalogue. This meant that Telia would still be the only player able to package all of BB's content in a fully flexible way, enabling the company to achieve its ambition with the acquisition, i.e. to differentiate and enhance the customer experience in order to strengthen its core operations and reduce broadband churn. *"The [acquisition business] case builds on a customer experience that is sufficiently interesting, and [we] haven't had to give that away. [We] can still offer a very interesting customer experience. Will it be exclusive? No, because other players will offer the content, too. But can [we] offer a unique customer experience? Yes, [we] can. Will it be based on exclusive content? No, it will not. This is what a lot of people find difficult to understand."* (Mobedjina, 11.21.2019)

Finally, on December 2, 2019, almost five years after the initial meeting between Telia and Bonnier, Telia announced the closing of the acquisition of BB (Telia Company, 2019h). It was time for the vertical integration to be put to the test.

6 Discussion

This section discusses, what seems to have been, the main reasons for Telia's acquisition of BB. Interestingly, the alleged deal rationale differs depending on who one asks. Indeed, the involved parties, i.e. Telia and Bonnier, and the investment community do not seem to perceive the transaction exactly the same way. Moreover, taking into account also what is written in the literature on vertical

M&A, yet another dimension is added. Consequently, this section discusses the seemingly principal reasons for the acquisition from different perspectives, assessing how the involved parties' and the investment community's stated reasons relate to theory.

6.1 Improve Standings in the Changing TV Value Chain

An important reason for the acquisition of BB by Telia seems to have been that one aspired to improve the companies' standings in the changing TV value chain. With customer preferences changing and with new, fierce competition from OTT players, the broadcasting and TV distribution stages of the value chain faced challenges and risked becoming redundant. By integrating vertically, Telia tried to make itself and BB more viable. Hence, the transaction constituted a strategic, defensive move for both companies. The fact that a vertical M&A transaction in general, and this one in particular, could be a means to offset the negative consequences of the changing TV value chain is, to some extent, recognized by the involved parties, the investment community, and the literature alike. Nevertheless, the underlying reasons for why that fact holds true differ between the parties.

A 2015 Arthur D. Little & Exane BNP Paribas report states that *taking control of key positions in the value chain* is a common justification for vertical integration in the TV segment. In the traditional value chain, broadcasters' and TV distributors' positions as content and channel aggregators, respectively, and telcos' position as infrastructure providers, i.e. content distributors, were key. Whereas the latter position still is key, however, in the new landscape, the aggregation activities in question are no longer as demanded. Instead, alongside network transmission, high-quality and personalized content is foremost demanded by consumers. Hence, while traditional broadcasters and TV distributors, focusing on content and channel aggregation, risk becoming redundant, broadcasters and telcos (i.e. not sheer TV distributors) still have a chance to stay viable in the TV business, if they make use of their key positions as content rights owners and content distributors, respectively. What is more, by integrating vertically, broadcasters and telcos ought to improve their standings in the value chain even more, since an integrated company controls both key positions. Actually, Evens & Donders (2015) argue that such a vertical integration produces "global powerhouses that control the entire TV value chain and therefore enjoy significant market power." For telcos, integrating with a broadcaster can offer new revenue streams in the TV business, to make up for the falling TV distribution revenues. In line with these academic findings, early on in their discussions, Telia and BB established that content and distribution were key to future success in the TV business and, hence, that the companies made a complementary duo with BB's ability to pinpoint attractive content and Telia's efficient distribution network (Mobedjina, 11.21.2019). The integrated

company will hold content ownership as well as content distribution, which makes it more competitive in relation to both traditional horizontal players and new OTT players. Similarly, the investment community seems to believe the integrated company will be more viable, controlling both key positions, even though it regards the TV business, as such, being rather volatile and risky (Mawby et al., 11.27.2019).

Rising content rights costs and falling linear viewing threatens broadcasters' profitability, as stated in the 2015 Arthur D. Little & Exane BNP Paribas report. Just like when selling a 35% stake in C More to Telenor in 2010, BB needed a *financing partner* when entering into M&A discussions with Telia (Almqvist, 10.29.2019). The telco's strong cash position will enable investments in valuable but costly content. Additionally, by selling BB's content to Telia's non-BB customers, the integrated company can achieve *economies of scale* in the fixed content rights costs. These rationales are recognized by both the involved parties and the investment community (Åberg & Österberg, 2018). A view that is not shared by all parties, however, is whether the rising content rights costs affect an independent TV distributor and telco negatively. On the one hand, Telia states that avoiding a *margin squeeze* was an important transaction rationale. Ekström, Head of Group M&A at Telia, says: *"We all know content costs only go in one direction—up. And in the long run, we'll have difficulties passing those cost increases onto the end customer, i.e. we'll suffer a margin squeeze. Our costs will increase and we won't be able to compensate for that with increased revenues."* (Ekström, 11.12.2019). On the other hand, the investment community reckons Telia surely should be able to push such content cost increases onto end customers (Mawby et al., 11.27.2019). To the investment community, avoiding a margin squeeze is not a valid reason for Telia to undertake the transaction. In the literature, the concept of double marginalization relates to the discussion on margin squeezes. Spengler (1950) introduces the notion that when upstream and downstream actors both have market power, vertical integration can eliminate double marginalization, i.e. the occurrence of both actors setting a markup on their good or service. Furthermore, Hovenkamp & Sukhatme (2018) argue that eliminating double marginalization is one of the main reasons to integrate vertically in the TV value chain. However, since Telia is essentially saying it does not enjoy market power in the TV distribution stage of the value chain, since it cannot push content cost increases onto end customers, the theoretical benefits of eliminating double marginalization do not apply to this case. Conversely, with the vertical integration, Telia might actually be able to set a *higher* markup on its TV products and services, because its TV offering will be more unique.

The literature postulates that broadcasters integrating downstream in the TV value chain oftentimes benefit from *getting closer to the end customer*, since this enhances the company's

customer knowledge (Arthur D. Little & Exane BNP Paribas, 2015). As for the transaction in question, yet another incident which is said to improve BB's standing in the changing TV value chain is that the broadcaster will benefit from Telia's customer knowledge and the downstream advancement per se, by enabling it to offer more personalized advertising, content, and platforms (Almqvist, 10.29.2019). Indeed, Almqvist, the BB CEO and head of the new Telia TV & Media business area, expresses that getting access to Telia's customer base is like *"adding rocket fuel to BB's existing strategy."* Integrating downstream will thus assist BB to be on par with OTT players who reach end customers directly.

Ekström mentions that the acquisition of BB will improve Telia's standing in the changing TV value chain by strengthening its *bargaining power* with other content rights owners, whose power increases when content is becoming ever more imperative, and TV distributors, because the telco now owns some non-exclusive content rights (Ekström, 11.12.2019). Content rights owners barter such content rights with each other and sell distribution rights to TV distributors. The upside of a strengthened bargaining power was furthermore mentioned by Dennelind at the investor presentation with respect to the transaction, and the investment community agrees it constitutes an advantage (Mawby et al., 11.27.2019). This rationale makes sense also from an academic point of view. Indeed, the literature describes how vertical integration can strengthen a company's bargaining power by eradicating its dependency on powerful participants in the value chain (Gaudin, 2018), and that this is a common justification for vertical M&A activity in the TMT sector (OECD, 2019a).

In conclusion, Telia's acquisition of BB strived to improve the companies' standings in the changing TV value chain. There is support for such a rationale in the literature. Moreover, the rationale is justified by the involved parties, and the investment community seems to agree to some extent. In any case, the involved parties and the investment community both seem to believe BB was the most suitable broadcasting target. For Telia, BB was the preferable choice in terms of geographical focus, size, and cultural fit (Ekström 12.11.2019; Mobedjina, 11.21.2019). The investment community, for its part, endorses BB's TV4 holding, strong brand, and ability to shift viewers from the FTA space to the AVOD space, which is very important in the new TV landscape (Larson, 11.12.2019; Mawby et al., 11.27.2019).

6.2 General Benefits of Being Vertically Integrated

Irrespective of the TV value chain changing or being static, there could be benefits of being vertically integrated in it. However, although some such benefits can be recognized with the transaction in question, enjoying them do not seem to have been the primary reason for Telia to undertake the acquisition of BB.

Frequently, companies engage in vertical integration to enjoy *economies of scope* (OECD, 2019a). For example, in the TV segment, vertically integrating companies oftentimes benefit from such efficiencies from the sharing of data assets that have a high fixed cost of production but a low or zero cost of replication. By the same token, the companies in question are said to benefit from BB drawing on Telia's customer knowledge (Almqvist, 10.29.2019). Moreover, the SEK 100 million run-rate cost synergies represent economies of scope, as they are to stem from the consolidation of systems and platforms, and the reduction of the number of third parties (Telia Company, 2018b).

Upselling is not mentioned explicitly in the literature as a reason to integrate vertically. Nonetheless, upselling to Telia's existing customers as well as to new customers is to bring about SEK 150 million in run-rate synergies in the Telia/BB case (Telia Company, 2018b). These synergies will affect ARPU and profitability positively and, per definition, they would not be possible to achieve if the companies would not combine forces. Whereas, obviously, the stated synergies make up a reason for the involved parties to undertake the transaction, the investment community questions the integrated company's ability to realize them, in part because the realization builds on seizing a larger share of customers' wallets (Ekström, 11.12.2019).

Several academics point to the fact that anticompetitive motives such as *raising rivals' costs* (Ordover et al., 1990), *foreclosing competitors* (Chen & Riordan, 2007), and getting hold of *sensitive data on horizontal rivals* (OECD, 2019a) are common with vertical M&A. However, with the acquisition in question, Telia is prohibited by the EC to engage in such activities (Telia Company, 2019e). What is more, Telia explicitly states it does not intend to make BB's content exclusive for its customers nor keep competitors from advertising on BB's channels (Mobedjina, 11.21.2019). Indeed, why would it, when scale and advertising and distribution revenues are the backbone of the broadcasting business. As Mobedjina, Head of Group Strategy at Telia, puts it: *"What everybody doesn't understand, [since] we've only talked about the synergies, is that the main part of the [acquisition business] case builds on the standalone case. And, standalone, [BB] without the advertising business is futile; it has to work. [Telia's] mobile business benefit of not letting Telenor advertise on TV4, versus the money it pays to advertise—of course [we] won't say no."* (Mobedjina, 11.21.2019).

So, although the vertical integration, per se, makes possible the generation of some synergies from economies of scope and upselling, it does not seem like the primary reason to undertake the transaction was to enjoy any such general benefits of being vertically integrated. On the contrary, the newly formed business area is to operate separately from Telia's core business, making it difficult to incur any substantial economies of scope, and Telia will not and cannot undertake any anticompetitive measures (Ekström, 11.12.2019; Mobedjina, 11.21.2019). Instead, as Mobedjina says,

the standalone case, i.e. entering the broadcasting business as such, seems to have been focal for the telco. But why? As stated in Section 6.1, by undertaking the vertical integration, Telia hoped to improve its and BB's standings in the changing TV value chain. However, whereas improving its standing in the changing TV value chain seems to have been the ultimate value driver of BB, it seems to have been merely a means to achieve a higher-level objective for Telia—namely to strengthen its core operations by differentiating itself from other telcos. Section 6.3 discusses this in more detail.

6.3 Strengthen Telia Company's Core Operations

In the early 2010s, Telia's core telco business suffered from intensified competition and a lack of differentiation. Dennelind, appointed CEO in 2013, felt the need to do something in order not to become merely a bit pipe, and so he launched the "new generation telco" strategy of connectivity, convergence, and competitive operations in 2014. As for the convergence pillar, the company was to converge its broadband, telephony, and TV offerings into a triple-play offering. This was imperative because it was supposed to reduce broadband churn rather significantly. However, in order to achieve a successful triple-play offering, the telco's TV operations needed to become more viable. Consequently, acquiring BB was primarily a means to strengthen Telia's core operations; the TV-business defensive move of acquiring a broadcaster really was a telco-business defensive move. Ekström imparts: *"What I mean is, there are some definitive advantages with the transaction, but my viewpoint is that it's attractive from a defensive perspective rather than an offensive perspective."* (Ekström, 11.12.2019). Similarly, the underlying motivation for entering the TV business in the first place, in 2005, had been to reduce broadband churn. Whereas the investment community does not seem to fully comprehend why Telia had to enter the TV broadcasting businesses in order to strengthen its core operations, Telia seems to believe it was the preferable option. Some of the reasons for this are discussed below.

Evens & Donders (2015) state that undertaking an M&A transaction with a broadcaster can offer a telco *differentiation*. Indeed, by getting hold of unique and popular content rights, a telco gains a competitive advantage vis-à-vis its peers, which is highly favorable when telcos risk becoming pure commodity service providers. On the same note, by acquiring BB, Mobedjina argues that Telia will gain differentiation by being the only player able to package all of BB's content in a fully flexible way, thus creating a unique product offering (Mobedjina, 11.21.2019). Ekström agrees: *"We're going to create a new product that no other telco can offer and, hence, we'll get a higher ARPU and a higher customer satisfaction."* (Ekström, 11.12.2019). What is more, by being able to offer customers more flexible and personal content packages and a first-class user experience, Telia expects to earn the

majority—58% or SEK 350 million—of the SEK 600 million run-rate synergies, stemming from lower churn, SAC, and SRC (Telia Company, 2018b). The investment community questions the flexible-packaging argument, however, as it reckons BB's content seems to have been fully available to Telia before (Åberg & Österberg, 2018). Furthermore, while the investment community agrees that differentiation makes telcos more competitive, and that the vertical integration with a broadcaster will offer Telia differentiation (Mawby et al., 11.27.2019), not everyone seems to grasp how the vertical integration is going to allow Telia to offer a unique customer experience with BB's content, given the procompetitive commitments agreed to by Telia to the EC (Mobedjina, 11.21.2019). Specifically, to the investment community, the distinction between a unique customer experience and an exclusive customer experience is not obvious. However, as Mobedjina explains, whereas the remedies prohibit Telia from using BB's content in an exclusive way, it does not prohibit the telco from using it in a unique way. Hence, the acquisition can still offer Telia differentiation to reduce broadband churn and strengthen its core telco business.

Of course, offering merely a unique product does not guarantee a competitive advantage; there has to be a demand for the product, as well. While especially TV4's content was highly popular at the time of the transaction, it is reasonable to believe the vertical integration will lead to even *higher-quality output* as well as *increased and faster innovation,* in line with the findings of Bishop et al. (2005). As for the higher-quality output, with the transaction in question, BB will have more money to put into content and technology, and advertising, content, and platforms will become more personalized when BB gets access to Telia's customer base and knowledge (Almqvist, 10.29.2019). As for the increased and faster innovation, the integration will lead to better information flow and coordination, and for Telia to offer products and content in unique ways that were not possible before. Furthermore, while broadcasters have felt the need to make "safe" investments in already well-known content lately, because they fear that linear viewing and, hence, revenues will fall further if they do not (Larson, 11.12.2019), with the vertical integration, BB might experience a greater incentive to invest in more pioneering content, feeling more reassured its content will reach the end customer. All of this will enhance the customer experience, and ought to lead to a higher demand for Telia's TV offering. With its triple-play offering, this ought to strengthen the company's core operations, and lead to ever more differentiation in relation to other telcos.

Larson points to the fact that when network demand is increasing, new telco players want to enter the market, intensifying commoditization and pushing down broadband prices even more (Larson, 11.12.2019). However, Bain (1956) and Porter (1980) raise the notion that vertical integration *raises industry entry barriers* as new competitors will have to enter both stages of the value

chain. Moreover, such a rationale, to raise industry entry barriers, is common with vertical M&A in the TMT sector (OECD, 2019a). Consequently, by acquiring BB and integrating vertically in the TV value chain, Telia strengthens its position not only vis-à-vis incumbent competitor telcos, but also vis-à-vis potential competitor telcos.

To sum up this Section 6.3 so far, the primary reason for Telia to acquire BB seems to have been to strengthen its core operations, since owning a broadcaster was deemed to enable for the telco to hold a viable TV and, hence, triple-play offering, which would reduce broadband churn. The involved parties, the investment community, and the literature all seem to agree that differentiation makes telcos more competitive as they face commoditization. Even so, not all parties seem to agree that *engaging in M&A* with a broadcaster in order to achieve differentiation is necessary nor suitable. Instead, some parties believe that a partnership might be preferable over M&A. Starting with the literature, it says that partnerships ought to be the preferable option for telcos since it entails less exposure to the volatile TV market, allows for telcos to exclusively control the networks, and at the same time offers differentiation and decreased broadband churn (Arthur D. Little & Exane BNP Paribas, 2015). Similarly, the investment community generally reckons a partnership would have been the preferable option for Telia. Some of the arguments put forward are that there are no successful precedents of telcos integrating upstream in the TV value chain, and that also the upstream competition is fierce (Boulan et al., 2018). Moreover, with content rights costs increasing and linear viewing declining, acquiring a broadcaster is not a straightforward strategy (Mawby et al., 11.27.2019). Conversely, however, Telia asserts M&A was the preferable option with BB. Specifically, the company claims that with a partnership with a broadcaster, giving the broadcaster access to its customer base, Telia would effectively have created value for, and increased its dependence on, another player in the value chain, without receiving a proportional amount of value itself, just like when the telco partnered with Spotify in 2009 (Mobedjina, 11.21.2019). Additionally, the partnership option would not have allowed for Telia to enjoy content flexibility, e.g. to use the same content in a channel package as well as on an OTT platform, since there would be contracts limiting this.

Taking this discussion even further—regardless of a partnership or M&A being the preferable transaction structure, was entering the broadcasting business, at all, preferable in order to reach the main goal of strengthening Telia's core operations? The investment community does not seem to think so, but instead generally seems to reckon Telia should have stayed in and focused purely on the telecom network business (Mawby et al., 11.27.2019). Thus, while BB might be deemed the preferable *broadcasting* target, it might not be deemed the preferable target in order to strengthen the telco's core operations. Then again, what options did Telia have to strengthen its core operations? Apart

from going with another broadcaster, Telia considered acquiring another telco, TDC, several times (Ekström, 11.12.2019). With this option, Telia would have aspired to become the "undisputed telco champion" in the Nordics and Baltics, and tried to avoid marginalization by offering superior quality. Such a horizontal transaction would have fortified the company's global position, whereas the undertaken vertical transaction fortifies its local position, since content and the TV business are very local. Nevertheless, with the telco market characterized by consolidation and strict market regulation (OECD, 2019a), a horizontal M&A transaction between Telia and TDC ought to have represented even more of a challenge from a merger control perspective. Moreover, acquiring BB instead of TDC was said to pose less of a strain on Telia's balance sheet, as well as not to affect the company's dividend policy or share buyback program, which was important to investors (He & Ierodiaconou, 2018; Ekström, 11.12.2019).

All in all, the above discussion suggests that, from Telia's perspective, entering the broadcasting business by acquiring BB really seemed to be the most viable option for it to strengthen its core operations. Symmetrically, strengthening its core operations seems to have been the principal reason for the telco to acquire BB—at least if one disregards the possibility of managerial preferences being principal. Section 6.4 takes this possibility into account.

6.4 Managerial Preferences

Sometimes, a corporate transaction is undertaken, not because it makes sense from a corporate strategy or financial perspective, but because the manager of the acquiring company simply wants to. Bishop et al. (2005) assert that such a transaction could still be value creating, if the manager has superior knowledge of the businesses in which the firms operate. Nonetheless, since the telco and TV distribution businesses are quite different from the broadcasting business, in terms of both culture and operations (Ekström, 11.12.2019; Larson, 11.12.2019; Mobedjina, 11.21.2019), such *managerial talent synergies* ought not to be substantial with the Telia/BB transaction.

Instead, a peculiar feature with the transaction calls into question whether *empire building*, the act of a manager undertaking M&A for self-serving reasons when the deal, in fact, is suboptimal for the company (Jensen, 1986), might have been prevalent. To investors, it was important that any corporate transaction did not affect Telia's three-year, SEK 15 billion share buyback program announced in April 2018 (He & Ierodiaconou, 2018; Ekström, 11.12.2019). Correspondingly, Dennelind publicly declared the BB acquisition would not do this. Even so, in October 2019, the company announced it was to cancel the last year of the program (Telia Company, 2019g). What is more, Ekström mentions that the board of directors reflected upon the telco's leverage position being

quite high in relation to its target position, if the company was to pursue both the BB and the Get acquisitions. Consequently, this calls into question whether Dennelind, at the time of the BB transaction, in reality knew Telia might have to cancel its share buyback program. In an alternative scenario, the CEO knowingly misled the market, attempting to make the BB acquisition seem better than it actually was, simply because he wanted to do the deal. Perhaps Dennelind aspired growth, per se, and due to the difficulties of finding horizontal growth in a consolidated telco market, and ever more consolidation taking place, integrating vertically in the TV value chain was the only way for him to run a bigger company, resulting in more power, prestige, and money. Perhaps he wanted to accomplish something pioneering and different from what his predecessor Nyberg had accomplished, wanted to demonstrate he was able to realize the "new generation telco" strategy, and when all of this was about to be finalized, he could—and did—resign. Sure, this is an alternative scenario as good as any but, really, there is no key evidence Dennelind knowingly misled the market; likely, he genuinely thought the share buyback program would be able to be completed with the BB acquisition. Furthermore, with empire building, the undertaken transaction is suboptimal for the acquiring company, and no facts point to that being the case here. Instead, it seems like Dennelind acted in, what he sincerely believed was, Telia's best interest, and sought differentiation that would decrease broadband churn and strengthen the telco's core operations.

Roll (1986) explains how *managerial hubris* can cause an acquiring company to overpay for a target company because the manager overestimates their ability to extract value from the corporate transaction. On the contrary, with the acquisition in question, Telia seems to have paid a fair, or even slightly cheap, price. Hence, the possibility of an undervalued target constitutes the last potential main reason for Telia's acquisition of BB.

6.5 Undervalued Target

Alongside any strategic motive, it could be that Telia acquired BB because it was a financially attractive deal. Indeed, the investment community had expected the purchase price to be somewhat higher than the actual SEK 9.2 billion, or SEK 10.2 billion including the potential SEK 1 billion earnout (Stenvall, 2018).

Appendix 9.4 holds a case writers' DCF valuation of BB, based on analyst FCF estimates. The valuation suggests that the enterprise value of standalone BB was about SEK 9.6 billion. This number is in line with Ekström stating that the DCF valuation of standalone TV4 that the Telia M&A team and Stella EOC undertook resulted in a value of SEK 9–10 billion, and that TV4 made up almost the entire purchase price (Ekström, 11.12.2019). Consequently, it seems Telia principally only paid for the

standalone value of BB; not the synergies. Hence, as long as some synergies are realized (and the integration costs do not turn out to be substantially higher than expected), the purchase price seems to have been a bargain. Indeed, if all the anticipated synergies are realized, the DCF valuation in Appendix 9.4 suggests the total value of the transaction was about SEK 13.1 billion. On the other hand, not paying for the potential synergies makes sense, because they consist of mostly revenue synergies, and such synergies are especially risky (Arbuzov, 2018). In fact, some analysts have chosen not to include the synergies in their revised estimates (Mawby et al., 11.27.2019).

In sum, it seems Telia paid a fair to cheap price for BB, depending on whether no or some anticipated synergies are realized. Thus, since the economic sense of the transaction lies with the realization of the synergies, it seems the acquisition was primarily a strategic, and not a financial, move for Telia. As Ekström puts it: *"This acquisition has been promoted to the market as a revenue-enhancing case. […] We're going to generate synergies, SEK 600 million annually. One must buy that logic if one is to favor this acquisition. And I guess the big question is whether we'll be able to do that [(generate the synergies)]."* (Ekström, 11.12.2019).

7 Conclusion

The acquisition of Bonnier Broadcasting by Telia Company, announced on July 20, 2018, has been rather contested and criticized by the investment community. Even though the acquisition is merely one of several recent transactions in which companies worldwide integrate vertically in the TV value chain, the public has had a difficult time trying to understand the underlying deal rationale. Consequently, with a case study, this thesis tries to answer the following research question: *What were the main reasons for Telia Company's acquisition of Bonnier Broadcasting?* Ultimately, we discuss five potential main reasons, two of which seem to have been especially important.

First, even though synergies from economies of scope and upselling were expected to stem from the vertical integration per se, merely being vertically integrated does not seem to have been the primary motive to undertake the transaction. Likewise, we investigate the possibility of managerial preferences—notably empire building—being a motivating rationale but find no convincing evidence for that. Furthermore, by carrying out a DCF valuation of Bonnier Broadcasting, we find that the purchase price seems to have been fair or maybe slightly cheap, depending on whether no or some anticipated synergies are realized. Nevertheless, the prevalence of an undervalued target company ought not to have been the primary motive for Telia Company.

Instead, improving the companies' standings in the changing TV value chain seems to have been an important rationale. Indeed, as a consequence of the emergence of OTT platforms and

changing customer preferences, the traditional broadcasting and TV distributor stages of the value chain risked becoming redundant. By integrating, Telia Company tried to make itself and Bonnier Broadcasting more viable, since this would allow for the combined company to e.g. control the two key positions of content rights owner and content distributor, offer consumers more personalized advertising, content, and platforms, and strengthen its bargaining power with other broadcasters and TV distributors—rationales for integrating vertically in the TV value chain brought forward in a 2015 Arthur D. Little & Exane BNP Paribas report.

Whereas improving its standing in the changing TV value chain seems to have been the ultimate value driver of Bonnier Broadcasting, it seems to have been merely a means to achieve a higher-level objective for Telia Company, namely to strengthen its core operations suffering from a lack of differentiation. By acquiring a broadcaster and improving its standing in the changing TV value chain, Telia Company attempted to achieve a successful TV and triple-play offering which would differentiate the company in relation to other telcos, and ultimately reduce broadband churn. Evens & Donders (2015) mention differentiation vis-à-vis other telcos as a motive for such companies to engage in vertical integration in the TV segment. Hence, in conclusion, the transaction in question essentially constituted a defensive move to strengthen the core operations of both companies: Telia Company's telecom network business and Bonnier Broadcasting's broadcasting business.

Being a case study, the findings of this thesis are, to some extent, specific to the acquisition of Bonnier Broadcasting by Telia Company. However, by putting our findings in a wider context as we discuss how they relate to previous academic findings, and by carrying out measures to assure a high research quality, we believe the conclusions drawn can be applied to other situations than the one being considered, as well.

Lastly, as for future research, we have identified three potential research topics. First, since this thesis is written on the heels of the closing of the transaction, it would be interesting to study the post-closing integration and whether the acquisition turned out as hoped, in a couple of years. Second, more generally, when the "new" shape of the TV value chain is set, future research could study how actors in the traditional value chain who undertook vertical M&A strategies fared in relation to those who undertook horizontal ones. Third and relatedly, future research could study how telcos who undertook differentiating strategies to avoid becoming mere commodity service providers fared in relation to those who stayed pure telcos.

8 References

8.1 Published References

Bain, J. S. (1956). *Barriers to new competition*. Harvard University Press, Cambridge, MA.

Bråse, R. (2019b). Byter fot om Bonnier. *Dagens Industri*, October 26.

Carlton, D. (1977). Uncertainty, Production Lags, and Pricing. *American Economic Review, 67(1)*, 244–249.

Chandler, A. D. Jr. (1969). *Strategy and structure: Chapters in the history of American industrial experience*. MIT Press, Cambridge, MA.

Chan-Olmsted, S. M. (1998). Mergers, Acquisitions, and Convergence: The Strategic Alliances of Broadcasting, Cable Television, and Telephone Services. *Journal of Media Economics, 11(3)*, 33–46.

Chen, Y., & Riordan, M. H. (2007). Vertical Integration, Exclusive Dealing and Ex-Post Cartelization. *Rand Journal of Economics, 38*, 1–21.

Coase, R. (1937). The Nature of the Firm. *Economica, 4(16)*, 386–405.

Dubois, A., & Gadde, L. E. (2002). Systematic combining: an abductive approach to case research. *Journal of Business Research, 55(7),* 553–560.

Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of Management Review, 14(4),* 532–550.

Evens, T., & Donders, K. (2015). Mergers and acquisitions in TV broadcasting and distribution: Challenges for competition, industrial and media policy. *Telematics and Informatics, 33(2)*, 674–682.

Farsi, M., Fetz A., & Filippini, M. (2008). Economies of Scale and Scope in Multi-Utilities. *The Energy Journal, 29(4),* 123–143.

Frésard, L., Hoberg, G., & Phillips, G. M. (2013). Innovation Activities and Integration through Vertical Acquisitions. *Review of Financial Studies*. [Forthcoming].

Gaudin, G. (2018). Vertical Bargaining and Retail Competition: What Drives Countervailing Power? *The Economic Journal*, *128(614),* 2380–2413.

Hart, O., Tirole, J., Carlton, D., & Williamson, O. (1990). Vertical Integration and Market Foreclosure. *Brookings Papers on Economic Activity*, 205–286.

Harford, J. (2005). What drives merger waves? *Journal of Financial Economics, 77(3),* 529–560.

Hovenkamp, E., & Sukhatme, N. U. (2018). Vertical Mergers and the MFN Thicket in Television. *Antitrust Chronicle.* [Forthcoming].

Jensen, M. C. (1986). Agency Cost of Free Cash Flow, Corporate Finance, and Takeovers. *American Economic Review, 76(2)*, 323–329.

Merriam, S. B. (1994). *Fallstudien som forskningsmetod*. Studentlitteratur, Lund.

Miller, M. H. (1977). Debt and Taxes. *Journal of Finance, 32(2),* 261–275.

Ordover, J. A., Saloner, G., & Salop, S.C. (1990). Equilibrium Vertical Foreclosure. *American Economic Review, 80(1)*, 127–142.

Porter, M. E. (1980). *Competitive strategy*. Free Press, New York, NY.

Roll, R. (1986). The hubris hypothesis of corporate takeovers. *Journal of Business, 59(2)*, 197–216.

Salinger, M. (1988). Vertical Mergers and Market Foreclosure. *Quarterly Journal of Economics, 103(2)*, 345–356.

Salop, S., & Culley, D. (2016). Revising the US Vertical Merger Guidelines: Policy Issues and an Interim Guide for Practitioners. *Journal of Antitrust Enforcement, 4(1)*, 1–41.

Shleifer, A., & Vishny, R. W. (2003). Stock market driven acquisitions. *Journal of Financial Economics, 70(3),* 295–489.

Silverman, D. (2000). Analyzing talk and text. In: *Handbook of Qualitative Research*. Sage Publications, Newbury Park, CA.

Spengler, J. (1950). Vertical Integration and Antitrust Policy. *Journal of Political Economy, 58(4)*, 347–352.

Tyagi, K. (2018). Implications of the AT&T/Time Warner Decision for Vertical Integration and Media Business Models in the Age of Digitization. *Antitrust Chronicle, 1(2)*.

Verouden, V. (2008). Vertical Agreements: Motivation and Impact. *Issues in Competition Law and Policy, Chapter 72,* 1813–1840.

Williamson, O. E. (1971). The Vertical Integration of Production: Market Failure Considerations. *American Economic Review, 61(2)*, 112–123.

Williamson, O. E. (1979). Transaction Cost Economics: The Governance of Contractual Relations. *Journal of Law and Economics, 22(2)*, 233–261.

Wong-Erwin, K. (2019). Antitrust Analysis of Vertical Mergers: Recent Developments and Economic Teachings. *The Antitrust Source, 18(4)*.

Yin, R. K. (2003). *Case study research: Design and methods*. Sage Publications, Thousand Oaks, CA.

Yin, R. K. (2014). *Case study research and applications: Design and methods*. Sage Publications, Thousand Oaks, CA.

Öjemar, F. (2019). Oppositionens krav: dela upp och avveckla. *Dagens Industri*, November 13.

8.2 Online References

Almqvist, C. (2019a). Casten Almqvist – VD TV4-gruppen/Bonnier Broadcasting. *Chefssnack*, February 17. [Podcast]. [Accessed 18.01.2020]. Available: www.chefssnack.podbean.com/e/12-casten-almqvist-vd-tv4-gruppenbonnier-broadcasting/

Askåker, J. (2008). TV4 köper Canal Plus. *Dagens Industri*. June 16. [Article]. [Accessed 15.01.2020]. Available: www.di.se/artiklar/2008/6/16/tv4-koper-canal-plus/

AT&T. (2016). AT&T to acquire Time Warner. *AT&T*, October 22. [Press release]. [Accessed 09.01.2020]. Available: www.about.att.com/story/att_to_acquire_time_warner.html

Axelsson, J. (2019). Vestbergs Kalle Anka-kupp sänker Netflix. *Dagens Industri*, October 22. [Article]. [Accessed 19.01.2020]. Available: www.di.se/live/hans-vestberg-stora-nyheter-vi-ger-disneyabonnemang-till-kunderna/

Belyh, A. (2016). A Historical Analysis of M&A Waves. *Cleverism,* January 26. [Chronicle]. [Accessed 19.01.2020]. Available: www.cleverism.com/historical-analysis-ma-waves-mergers-acquisition/

Bishop, S., Lofaro, A., Rosati, F., & Young, J. (2005). The Efficiency-Enhancing Effects of Non-Horizontal Mergers. *RBB Economics*, January 1. [Report]. [Accessed 01.20.2020]. Available: www.ec.europa.eu/growth/content/efficiency-enhancing-effects-non-horizontal-mergers-0_nn

Bonnier. (2013). Tomas Franzén blir ny vd i Bonnier AB. *Bonnier,* November 25. [Press release]. [Accessed 09.01.2020]. Available: www.bonnier.com/sv/pressreleases/tomas-franzen--blir-ny-vd-i-bonnier-ab

Bonnier. (2014). Bonnier återtar hela ägandet i C More. *Bonnier*, June 27. [Press release]. [Accessed 15.01.2020]. Available: www.bonnier.com/sv/news/bonnier-atertar-hela-agandet-i-c-more

Bonnier. (2016). Reorganization for Bonnier Broadcasting. *Bonnier,* March 23. [Press release]. [Accessed 09.01.2020]. Available: www.bonnier.com/en/news/reorganization-for-bonnier-broadcasting

Bonnier. (2019). Bonnier's History. *Bonnier.* [Chronicle]. [Accessed 15.01.2020]. Available: www.bonnier.com/sv/page/historia

Bonnier Broadcasting. (2019a). Om Bonnier Broadcasting. *Bonnier Broadcasting*. [Company information]. [Accessed 16.01.2020]. Available: www.bonnierbroadcasting.com/om-oss/bonnier-broadcasting/om-bonnier-broadcasting/

Bonnier Broadcasting. (2019b). TV4s historia 2000-2009. *Bonnier Broadcasting.* [Chronicle]. [Accessed 15.01.2020]. Available: www.bonnierbroadcasting.com/om-oss/tv4/tv4s-historia/2000-2009/

Bråse, R. (2019a). Att han lämnar i det här läget är mycket märkligt. *Dagens Industri*, August 4. [Article]. [Accessed 18.01.2020]. Available: www.di.se/nyheter/styrelsen-understryker-darmed-sin-egen-handfallenhet/

Clover, J. (2013). Axe falls on Telenor's Comoyo. *Broadband TV News*, September 12. [Article]. [Accessed 15.01.2020]. Available: www.broadbandtvnews.com/2013/09/12/axe-falls-on-telenors-comoyo/

Coster, H., & Richwine, L. (2019). AT&T surprises with HBO Max price in battle against Disney and Netflix. *Reuters*, October 29. [Article]. [Accessed 19.01.2020]. Available: www.reuters.com/article/us-media-at-t-hbo-max/att-to-reveal-hbo-max-pricing-details-at-warnermedia-investor-day-idUSKBN1X8173

Dagens Industri. (2018). Konsortium lägger bud på TDC. *Dagens Industri,* February 12. [Article]. [Accessed 18.01.2020]. Available: www.di.se/nyheter/konsortium-lagger-bud-pa-tdc/

European Commission. (2008). Guidelines on the Assessment of Non-horizontal Mergers under the Council Regulation on the Control of Concentrations between Undertakings. *European Commission,* October 18. [Institutional document]. [Accessed 19.01.2020]. Available: www.eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:265:0006:0025:en:PDF.

European Commission. (2013). Merger control procedures. *European Commission,* August 13. [Institutional document]. [Accessed 12.02.2020]. Available: www.ec.europa.eu/competition/mergers/procedures_en.html

Financial Times. (2007). Telefonica sells Endemol for €2.6bn. *Financial Times,* May 14. [Article]. [Accessed 15.01.2020]. Available: www.ft.com/content/cc0ca214-01a0-11dc-8b8c-000b5df10621

Holmberg, I., & Romberg, A. (2018). Telia Case Study - Addressing (ir)responsible business behavior. *Stockholm School of Economics*, October 25. [Case study]. [Accessed 20.02.2020]. Available: www.hhs.se/contentassets/9150381ae3a745bdb322f69b8e1c3491/telia-case-study-20181031-final-.pdf

Holmberg Karlsson, M. (2018). Storbråk efter Bonnier-köpet: "Olämplig affär". *Svenska Dagbladet*, July 20. [Article]. [Accessed 12.02.2020]. Available: www.svd.se/klart-att-telia-koper-hela-bonnier-broadcasting

Holmqvist, L. (2018). Spelet bakom jätteaffären: Därför var Bonnier tvungna att sälja TV4. *Resumé,* August 27. [Article]. [Accessed 09.01.2020]. Available: www.resume.se/nyheter/artiklar/2018/08/27/darfor-var-bonnier-tvingades-bonniers-salja-tv4/

Hägerstrand, A. (2018). Telia ger upp TDC: köpet inte rätt för våra aktieägare. *Dagens Industri*, February 12. [Article]. [Accessed 18.01.2020]. Available: www.di.se/nyheter/telia-ger-upp-tdc-kopet-inte-ratt-for-vara-aktieagare/

Hägerstrand, A., & Rex, M. (2018). Uppgifter till Di: Förhandlingarna mellan Telia och Bonnier "i stort sett klara". *Dagens Industri*, July 16. [Article]. [Accessed 18.01.2020]. Available: www.di.se/nyheter/uppgifter-till-di-forhandlingarna-mellan-telia-och-bonnier-i-stort-sett-klara/

Kinnevik. (2017). Kinnevik acquires 18.5% in Com hem. *Kinnevik,* April 27. [Press release]. [Accessed 15.01.2020]. Available: www.kinnevik.com/media--contact/press-releases/2017/4/2099444-Kinnevik-acquires-185-in-Com-Hem

Mediavision. (2019). The Decade that Marks the Loss of a Generation. *Mediavision,* November 13. [Press release]. [Accessed 15.01.2020]. Available: www.mediavision.se/newsletter-13th-of-november-the-decade-that-marks-the-loss-of-a-generation/

Mellqvist, G. (2017). Teliachefen: Farten är bra in i 2017. *Dagens Industri*, January 27. [Article]. [Accessed 18.01.2020]. Available: www.di.se/nyheter/teliachefen-farten-ar-bra-in-i-2017/

MMS. (2018). MMS Årsrapport 2018. *MMS.* [Industry report]. [Accessed 20.02.2020]. Available: www.mms.se/wp-content/uploads/_dokument/rapporter/tv-tittande/ar/%C3%85rsrapporter/%C3%85rsrapport%202018.pdf

MTG. (2018a). MTG informed that TDC Group intends to withdraw recommendation of previously announced combination. *MTG,* February 12. [Press release]. [Accessed 18.01.2020]. Available: www.mtg.com/press-releases/mtg-informed-that-tdc-group-intends-to-withdraw-recommendation-of-previously-announced-combination/

MTG. (2018b). Uppdelning av MTG – aktier i Nordic Entertainment Group delas ut till aktieägare. *MTG*, March 23. [Press release]. [Accessed 18.01.2020]. Available: www.mtg.com/sv/press-releases/uppdelning-av-mtg-aktier-i-nordic-entertainment-group-delas-ut-till-aktieagare/

OECD. (2019a). Vertical Mergers in the Technology, Media and Telecom Sector. *OECD,* June 7. [Institutional document]. [Accessed 19.01.2020]. Available: www.one.oecd.org/document/DAF/COMP(2019)5/en/pdf

OECD. (2019b). Vertical Mergers in the Technology, Media and Telecom Sector—Note by Sweden. *OECD*, June 7. [Institutional document]. [Accessed 19.01.2020]. Available: www.konkurrensverket.se/globalassets/om-oss/2019_vertical-mergers-in-the-technology-media-and-telecom-sector_daf-comp-wd-2019-21.pdf

Sellebråten, M. (2013). Telenor lägger ner filmtjänsten Comoyo. *Mobil,* September 5. [Article]. [Accessed 15.01.2020]. Available: www.mobil.se/mobil-business/marknad/telenor-l-gger-ner-filmtj-nsten-comoyo

Sinclair, J. (2007). Telefonica Agrees to Sell Its 75% Stake in Endemol. *Wall Street Journal*, May 15. [Article]. [Accessed 15.01.2020]. Available: www.wsj.com/articles/SB117913835747701804

Svenska Dagbladet. (2013). Teliahärvan: Nyberg avgår. *Svenska Dagbladet,* February 1. [Article]. [Accessed 07.01.2020]. Available: www.svd.se/teliaharvan-nyberg-avgar

Sveriges Riksdag. (2019). The government is to have the possibility to change government ownership of Telia. *Sveriges Riksdag,* April 3. [Press release]. [Accessed 19.01.2020]. Available: www.riksdagen.se/en/news/2019/apr/3/the-government-is-to-have-the-possibility-to-change-government-ownership-of-telia-nu9/

Tele2. (2016). Tele2 acquires TDC Sweden and strengthens its position in the Swedish B2B market. *Tele2,* June 21. [Press release]. [Accessed 16.01.2020]. Available: www.tele2.com/media/press-releases/2016/tele2-acquires-tdc-sweden-and-strengthens-its-position-in-the-swedish-b2b-market

Tele2. (2018). Tele2 och Com Hem går samman för att skapa en ledande integrerad operatör. *Tele2,* January 10. [Press release]. [Accessed 16.01.2020]. Available: www.info.tele2.com/sv/tele2-och-com-hem-gar-samman-for-att-skapa-en-ledande-integrerad-operator

Telia Company. (2012). TeliaSonera 2012 Annual Report. *Telia Company.* [Annual report]. [Accessed 20.02.2020]. Available: www.teliacompany.com/globalassets/telia-company/documents/reports/2012/annual-report/teliasonera_annualreport_2012_eng.pdf

Telia Company. (2013a). TeliaSonera 2013 Annual Report. *Telia Company.* [Annual report]. [Accessed 20.02.2020]. Available: www.teliacompany.com/globalassets/telia-company/documents/reports/2013/annual-report/teliasonera_ar2013_eng.pdf

Telia Company. (2013b). Johan Dennelind ny VD och koncernchef för TeliaSonera. *Telia Company,* June 16. [Press release]. [Accessed 07.01.2020]. Available: www.teliacompany.com/sv/nyhetsrum/pressmeddelanden/ 2013/6/johan-dennelind-ny-vd-och-koncernchef-for-teliasonera/

Telia Company. (2014a). TeliaSonera 2014 Annual and Sustainability Report. *Telia Company.* [Annual report]. [Accessed 20.02.2020]. Available: www.teliacompany.com/globalassets/telia-company/documents/reports/2014/annual-report/teliasonera_annual-and-sustainability-report_2014_eng.pdf

Telia Company. (2014b). 2014 Capital Markets Day. *Telia Company,* September 30. [Company presentation]. [Accessed 15.01.2020]. Available: www.teliacompany.com/globalassets/telia-company/documents/investors/presentations/2014/teliasonera_presentation_capital-markets-day_2014-09-30.pdf

Telia Company. (2015). TeliaSonera 2015 Annual and Sustainability Report. *Telia Company.* [Annual report]. [Accessed 20.02.2020]. Available: www.teliacompany.com/globalassets/telia-company/documents/reports/2015/annual-report/teliasonera_annual-and-sustainability-report-2015-eng.pdf

Telia Company. (2016). Telia Company 2016 Annual and Sustainability Report. *Telia Company.* [Annual report]. [Accessed 20.02.2020]. Available: www.teliacompany.com/globalassets/telia-company/documents/reports/2016/annual-report/telia_company_annual_and_sustainability_report_2016_en.pdf

Telia Company. (2017a). Telia Company 2017 Annual and Sustainability Report. *Telia Company.* [Annual report]. [Accessed 20.02.2020]. Available: www.teliacompany.com/globalassets/telia-company/documents/reports/2017/annual-report/annual-and-sustainability-report-2017---telia-company.pdf

Telia Company. (2017b). Telia Company the new media partner for the ice hockey league in Finland. *Telia Company,* May 4. [Press release]. [Accessed 15.01.2020]. Available: www.teliacompany.com/en/news/news-articles/2017/tv-finnish-hockey/

Telia Company. (2017c). Unaltered view on Eurasia divestment process. *Telia Company,* January 24. [Press release]. [Accessed 18.01.2020]. Available: www.teliacompany.com/en/news/news-articles/2017/eurasien-statement/

Telia Company. (2018a). Telia Company 2018 Annual and Sustainability Report. *Telia Company.* [Annual report]. [Accessed 20.02.2020]. Available: www.teliacompany.com/globalassets/telia-company/documents/reports/2018/annual-report/telia-company--annual-and-sustainability-report-2018.pdf

Telia Company. (2018b). Telia Company acquires Bonnier Broadcasting. *Telia Company,* July 20. [Company presentation]. [Accessed 18.01.2020]. Available: www.teliacompany.com/ globalassets/telia-company/documents/investors/presentations/2018/bonnier-presentation.pdf

Telia Company. (2018c). Telia Company acquires Bonnier Broadcasting. *Telia Company,* July 20. [Press release]. [Accessed 18.01.2020]. Available: www.teliacompany.com/en/news/press-releases/2018/7/telia-company-acquires-bonnier-broadcasting/

Telia Company. (2018d). Telia Company acquires TDC's Norwegian business. *Telia Company,* July 17. [Press release]. [Accessed 18.01.2020]. Available: www.teliacompany.com/en/news/press-releases/2018/7/telia-company-acquires-tdcs-norwegian-business/

Telia Company. (2018e). Telia Company bekräftar samtal med Bonnier. *Telia Company,* May 25. [Press release]. [Accessed 18.01.2020]. Available: www.teliacompany.com/sv/nyhetsrum/ pressmeddelanden/2018/5/telia-company-bekraftar-samtal-med-bonnier/

Telia Company. (2018f). Telia Company inför ett återköpsprogram av aktier. *Telia Company,* April 20. [Press release]. [Accessed 18.01.2020]. Available: www.teliacompany.com/sv/nyhetsrum/ pressmeddelanden/2018/4/telia-company-infor-ett-aterkopsprogram-av-aktier/

Telia Company. (2019a). Allison Kirkby appointed president and CEO of Telia Company. *Telia Company,* October 24. [Press release]. [Accessed 19.01.2020]. Available: www.teliacompany.com/ en/news/press-releases/2019/10/allison-kirkby-appointed-president-and-ceo-of-telia-company/

Telia Company. (2019b). Granskning av förvärvet av Bonnier Broadcasting går in i Fas 2 - helt i linje med förväntningar. *Telia Company,* May 10. [Press release]. [Accessed 18.01.2020]. Available: www.teliacompany.com/en/news/press-releases/2019/5/granskning-av-forvarvet-av-bonnier-broadcasting-gar-in-i-fas-2---helt-i-linje-med-forvantningar/

Telia Company. (2019c). Johan Dennelind leaves his position as President and CEO of Telia Company during 2020. *Telia Company,* August 4. [Press release]. [Accessed 18.01.2020]. Available: www.teliacompany.com/en/news/press-releases/2019/8/johan-dennelind-leaves-his-position-as-president-and-ceo-of-telia-company-during-2020/

Telia Company. (2019d). Telia Company notifies the European Commission of Bonnier Broadcasting acquisition. *Telia Company,* March 15. [Press release]. [Accessed 18.01.2020]. Available: www.teliacompany.com/en/news/news-articles/2019/bonnier-eu-filing/

Telia Company. (2019e). Telia Company's acquisition of Bonnier Broadcasting approved. *Telia Company,* November 12. [Press release]. [Accessed 19.01.2020]. Available: www.teliacompany.com/ en/news/press-releases/2019/11/telia-companys-acquisition-of-bonnier-broadcasting-approved/

Telia Company. (2019f). Telia Company's nomination committee proposes Lars-Johan Jarnheimer to be appointed Chair of the Board. *Telia Company,* October 20. [Press release]. [Accessed 19.01.2020]. Available: www.teliacompany.com/en/news/press-releases/2019/10/telia-companys-nomination-committee-proposes-lars-johan-jarnheimer-to-be-appointed-chair-of-the-board/

Telia Company. (2019g). Telia Company updates share buy-back ambition. *Telia Company.* October 17. [Press release]. [Accessed 16.03.2020]. Available: www.teliacompany.com/en/news/press-releases/2019/10/ telia-company-updates-share-buy-back-ambition/

Telia Company. (2019h). Telia slutför förvärvet av Bonnier Broadcasting. *Telia Company,* December 2. [Press release]. [Accessed 19.01.2020]. Available: www.teliacompany.com/sv/nyhetsrum/ pressmeddelanden/2019/12/telia-company-slutfor-forvarvet-av-bonnier-broadcasting/

Teracom. (2016). Com Hem köper Boxer TV-Access AB. *Teracom,* June 8. [Press release]. [Accessed 15.01.2020]. Available: www.teracom.se/privat/nyheter/Nyhetslista/comhem-och-boxer/

TV-Nyheterna. (2012). Så ska OTT-tjänsterna öka Telias tillväxt ytterligare. *TV-Nyheterna*, September 4. [Article]. [Accessed 15.01.2020]. Available: www.tv-nyheterna.se/upload/doc/doc22..pdf

Wallin, P. (2019). Telias Bonnier-affär får ny deadline – igen. *Dagens Media*, July 8. [Article]. [Accessed 19.01.2020]. Available: www.dagensmedia.se/medier/rorligt/telias-bonnier-affar-far-ny-deadline-igen/

8.3 Other References

Ahlqvist, J., & Höglund, V. (2018). Telia Company: Time to put things into perspective. *SEB Equity Research*, July 23. [Research report].

Arbuzov, R. (2018). Telia: Acquires Bonnier as speculated, results ahead, cashflow strong. *J.P. Morgan Cazenove European Equity Research*, July 20. [Research report].

Arthur D. Little & Exane BNP Paribas. (2015). Telecom and Media—how to ride the OTT wave. *Arthur D. Little & Exane BNP Paribas,* May. [Industry report].

Boulan, F., Henritzi, F., Patel, S. P., & Wright, D. (2018). Telia Company: Pressure in the Nordics and unwelcome move into content. *Bank of America Merrill Lynch Equity Research*, July 20. [Research report].

Challawala, A., Coles, S., Morris, D., Patrick, M., & Robilliard, M. (2018). Telia Company AB: Averaging into content. *Barclays Equity Research,* July 23. [Research report].

Damodaran, A. (2018). Country Risk Update: January 2018 Data Update 5. *Stern School of Business, New York University*, January. [Report].

Duff & Phelps. (2017). 2017 Valuation Handbook—U.S. Guide to Cost of Capital. *Duff & Phelps,* February. [Report].

Grindle, R., Khiroya, K., Ranjit, R., & Senesi, M. (2018). Telia: Acquisitions not so bonny and Sweden remains weak. Sell. *Deutsche Bank Research*, August 8. [Research report].

He, S., & Ierodiaconou, G. (2018). Telia Company: Weakening organic trends, expensive deal. *Citi Equity Research*, July 20. [Research report].

Mergermarket. (2016). TDC could see its cable TV operations merge with Com Hem if taken over. *Mergermarket,* October 7. [Article].

Mergermarket. (2017a). Nordic broadcasting market to consolidate amid changing viewing patterns. *Mergermarket,* June 13. [Article].

Mergermarket. (2017b). TDC may soon participate in M&A activity. *Mergermarket,* October 13. [Article].

Mergermarket. (2017c). Telia could start acquisitions post completion of sale of its Eurasian business. *Mergermarket,* September 25. [Article].

Nilsson, H., & Sarkamies, S. (2018). Telia Company: Cash yield too good to ignore. *Nordea Markets Equity Research*, July 23. [Research report].

Stenvall, K. (2018). Juggling many balls at once – Neutral. *ESN Investment Research,* July 23, 2018. [Research report].

Åberg, S., & Österberg, L. (2018). Telia Company: Acquires Bonnier Broadcasting. *Carnegie Securities Research*, July 23. [Research report].

9 Appendix

9.1 Telia Company's Market Positions and Market Shares 2012–2018

9.1.1 Subsidiaries

Country	Service	Market Position; Market Share(1)						
		2012	2013	2014	2015	2016	2017	2018
Sweden	Mobile	1; 40%	1; 39%	1; 38%	1; 37%	1; 36%	1; 36%	1; 35%
	Broadband	1; 38%	1; 39%	1; 39%	1; 39%	1; 38%	1; 34%	1; 33%
	Fixed Voice	1; 61%	1; 62%	1; 59%	1; 57%	1; 56%	1; 54%	1; 53%
	TV	4; 13%	3; 14%	3; 15%	3; 16%	3; 17%	2; 18%	2; 18%
Finland	Mobile	2; 34%	2; 34%	2; 34%	2; 33%	2; 32%	2; 32%	2; 32%
	Broadband	2; 30%	2; 31%	2; 32%	2; 31%	2; 30%	2; 27%	3; 26%
	Fixed Voice	2; 22%	2; 23%	2; 25%	2; 24%	2; 24%	2; 20%	2; 17%
	TV	2; 21%	2; 21%	3; 22%	2; 22%	3; 22%	3; 21%	3; 20%
Norway	Mobile	2; 25%	2; 23%	2; 23%	2; 40%	2; 36%	2; 37%	2; 36%
	Broadband	-	-	-	-	-	-	2; 17%
	Fixed Voice	-	-	-	-	-	-	2; 13%
	TV	-	-	-	-	-	-	2; 23%
Denmark	Mobile	3; 18%	3; 18%	3; 18%	3; 21%	3; 22%	3; 20%	3; 19%
	Broadband	5; 3%	5; 5%	5; 5%	5; 5%	5; 5%	5; 5%	5; 5%
	Fixed Voice	2; 8%	2; 7%	2; 8%	3; 8%	3; 8%	3; 7%	3; 7%
	TV	>5; <1%	>5; <5%	>5; <5%	>5; <1%	4; 1%	4; 1%	4; 1%
Lithuania	Mobile	1; 39%	1; 36%	2; 34%	2; 32%	2; 30%	2; 30%	2; 30%
	Broadband	1; 50%	1; 51%	1; 46%	1; 46%	1; 47%	1; 51%	1; 52%
	Fixed Voice	1; 90%	1; 90%	1; 92%	1; 91%	1; 89%	1; 88%	1; 86%
	TV	1; 24%	1; 23%	1; 26%	1; 28%	1; 32%	1; 34%	1; 33%
Latvia	Mobile	1; 43%	1; 41%	1; 43%	1; 42%	1; 43%	1; 45%	1; 46%
Estonia	Mobile	1; 44%	1; 44%	1; 43%	1; 42%	1; 44%	1; 45%	1; 47%
	Broadband	1; 58%	1; 59%	1; 58%	1; 58%	1; 57%	1; 56%	1; 53%
	Fixed Voice	1; 78%	1; 78%	1; 82%	1; 82%	1; 83%	1; 83%	1; 82%
	TV	1; 34%	2; 35%	2; 36%	2; 34%	2; 35%	2; 36%	2; 37%
Spain	Mobile	4; 5%	4; 7%	4; 7%	4; 7%	-	-	-
Kazakhstan	Mobile	1; 47%	1; 46%	1; 44%	1; 43%	1; 38%	1; 38%	-
Azerbaijan	Mobile	1; 52%	1; 51%	1; 48%	1; 48%	1; 47%	1; 47%	-
Uzbekistan	Mobile	2; 43%	2; 44%	2; 43%	2; 41%	2; 42%	2; 42%	-
Tajikistan	Mobile	1; 36%	1; 37%	1; 36%	1; 37%	2; 37%	-	-
Georgia	Mobile	1; 42%	2; 35%	2; 36%	2; 35%	2; 34%	2; 34%	-
Moldova	Mobile	2; 33%	2; 30%	2; 29%	2; 29%	2; 29%	2; 29%	2; 29%
Nepal	Mobile	1; 53%	1; 56%	1; 56%	1; 57%	-	-	-

(1) Market share estimates based on number of subscriptions. "-" means operations have not yet been established or have been divested.

Source: Telia Company (2012, 2013a, 2014a, 2015, 2016, 2017a, 2018a). Case writers' compilation.

9.1.2 Associated Companies

Country	Service	Market Position; Market Share(1)						
		2012	2013	2014	2015	2016	2017	2018
Latvia	Broadband	1; 67%	1; 55%	1; 55%	1; 55%	n/a	n/a	n/a
	Fixed Voice	1; 74%	1; 94%	1; 94%	1; 94%	n/a	n/a	n/a
	TV	1; 34%	1; 35%	1; 35%	1; 35%	n/a	n/a	n/a
Russia	Mobile	2; 27%	2; 28%	2; 35%	2; 35%	n/a	-	-
Turkey	Mobile	1; 52%	1; 51%	1; 49%	1; 49%	n/a	n/a	n/a

(1) Market share estimates based on number of subscriptions. "-" means operations have been divested. "n/a" means data not available.

Source: Telia Company (2012, 2013a, 2014a, 2015, 2016, 2017a, 2018a). Case writers' compilation.

9.2 Bonnier Broadcasting's Financial and Market Positions

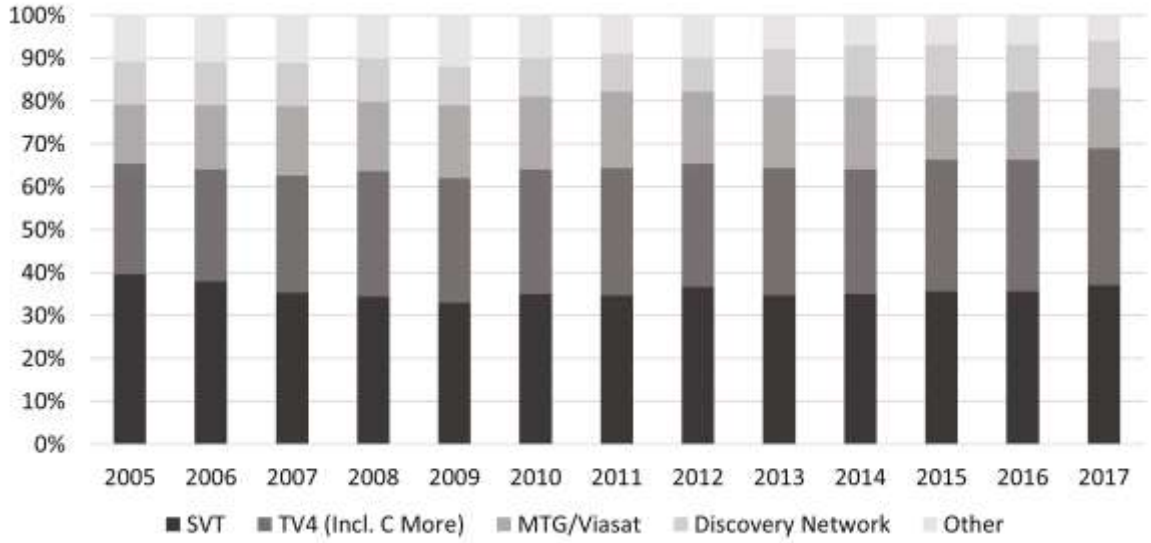
9.2.1 Financial Overview

(SEKb)	2016	2017	2018 R12[1] Q1
Net Sales	**7.4**	**7.4**	**7.5**
TV4	4.2	4.4	4.4
C More	1.5	1.6	1.6
MTV	1.8	1.7	1.7
Other	0.0	-0.2	-0.2
EBIT	**0.2**	**0.4**	**0.6**
TV4	0.7	1.0	1.1
C More	-0.4	-0.4	-0.3
MTV	-0.1	-0.3	-0.3
Other	0.0	0.0	0.0
Operational Cash Flow	**0.0**	**0.3**	**0.3**

(1) Rolling 12 months

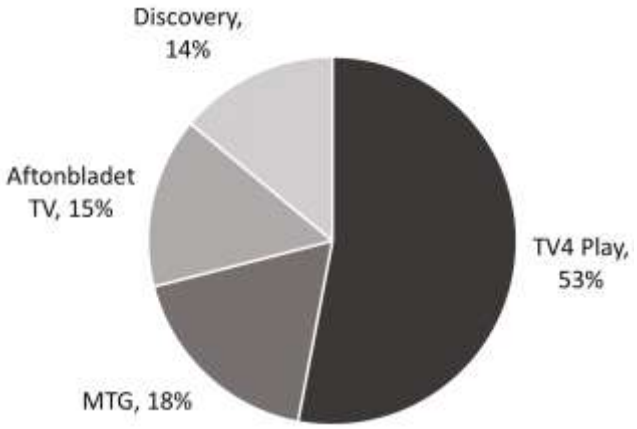
Source: Telia Company (2018b).

9.2.2 Share of Viewing by Channel Family in Sweden



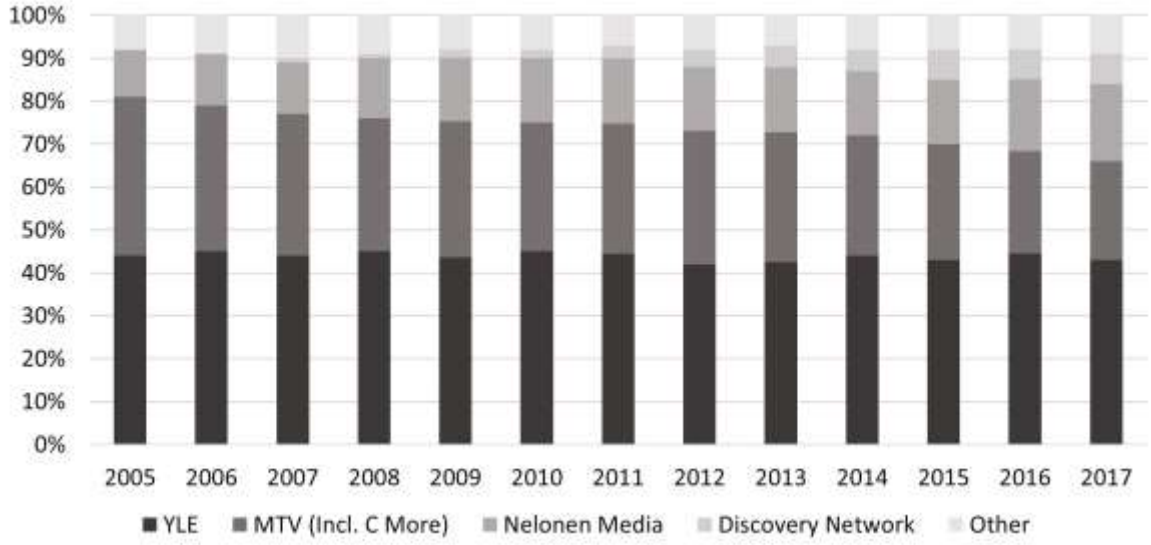
Source: Åberg & Österberg (2018).

9.2.3 Share of Viewing for AVOD in Sweden



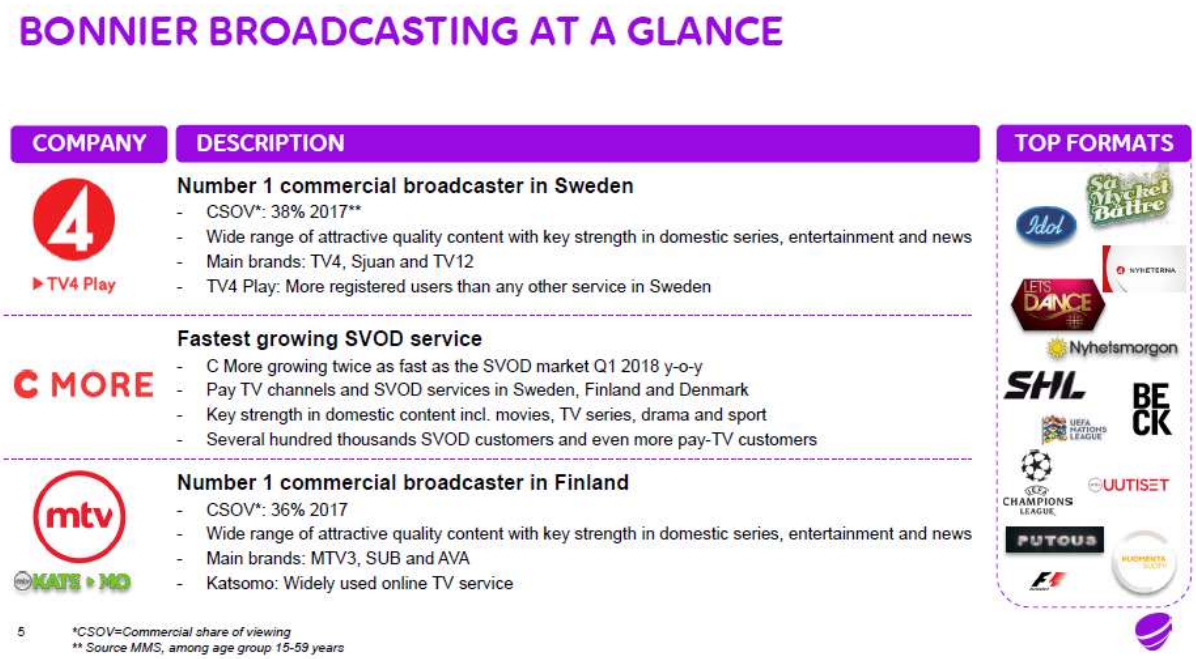
Source: Åberg & Österberg (2018).

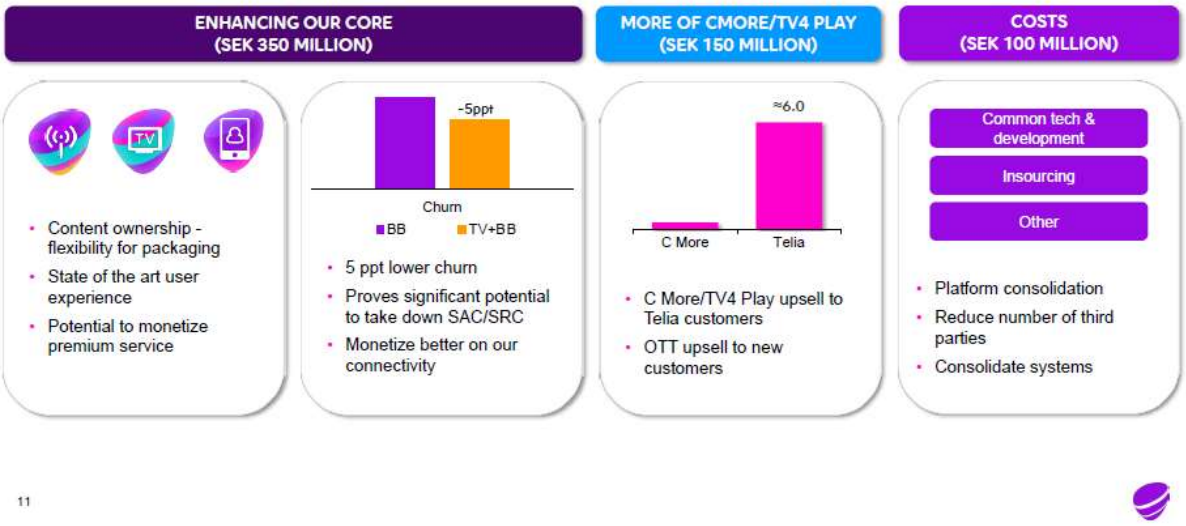
9.2.4 Share of Viewing by Channel Family in Finland



Source: Åberg & Österberg (2018).

9.3 Material from Telia Company's Bonnier Broadcasting Investor Presentation





SIZEABLE SYNERGIES

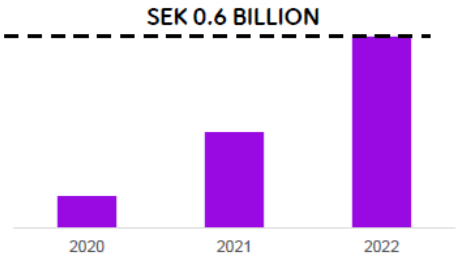
SYNERGY RUN-RATE TARGET OF SEK 0.6 BILLION IN 2022

GRADUAL INCREASE IN SYNERGIES 2020–2022

AGGREGATED INTEGRATION COSTS OF SEK 0.4 BILLION 2020–2021

EBITDA SYNERGY DEVELOPMENT

In SEK billion, run-rate



12

FINANCIALLY ACCRETIVE TRANSACTION

2017 (SEK BILLION)	TELIA COMPANY**	BONNIER BROADCASTING	FULL RUN-RATE SYNERGIES		COMBINED PRO FORMA
Revenues	79.8	7.4	n.a	▶	>87.2
EBIT *(margin)*	13.8 *17.3%*	0.4 *5.2%*	0.6	▶	14.8 *n.a*
EBITDA-CAPEX *(cash conversion)*	10.3 *41.0%*	0.4 *82.4%*	0.6	▶	11.3 *43.1%*

2017 (SEK BILLION)	TELIA COMPANY**	BONNIER BROADCASTING	FULL RUN-RATE SYNERGIES***		COMBINED PRO FORMA
EPS (SEK)	1.92	0.06	0.11	▶	2.08 *(+8.6%)*
Op FCF* *(cash conversion)*	9.7 *38.4%*	0.3 *66.2%*	0.5	▶	10.4 *(+7.3%)* *39.7%*

13

*Telia definition
** Continuing operation, excluding GET/TDC Norway
***Post tax

Source: Telia Company (2018b).

9.4 Discounted Cash Flow Valuation of Bonnier Broadcasting

9.4.1 Valuation

Present Values As At	July 20, 2018				
Standalone Bonnier Broadcasting[1]					
WACC	7.8%				
Terminal Growth Rate[2]	1.0%				
(SEKm)	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**
Years to Discount	0.4	1.4	2.4	3.4	4.4
Revenues	**7,500**	**7,575**	**7,651**	**7,727**	**7,805**
Growth Rate		*1.0%*	*1.0%*	*1.0%*	*1.0%*
EBITDA	**770**	**855**	**994**	**1,004**	**1,014**
EBITDA Margin	*10.3%*	*11.3%*	*13.0%*	*13.0%*	*13.0%*
(-) Depreciation	-100	-101	-102	-103	-104
Depreciation As a % of Revenues	*-1.3%*	*-1.3%*	*-1.3%*	*-1.3%*	*-1.3%*
(-) Amortization	0	0	0	0	0
Amortization As a % of Revenues	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
EBIT	**670**	**754**	**892**	**900**	**909**
EBIT Margin	*8.9%*	*10.0%*	*11.7%*	*11.7%*	*11.7%*
(-) Taxes	-147	-161	-191	-185	-187
Tax Rate	*22.0%*	*21.4%*	*21.4%*	*20.6%*	*20.6%*
(+) Depreciation	100	101	102	103	104
(+) Amortization	0	0	0	0	0
(-) Δ NWC	-50	-51	-51	-52	-52
Δ NWC As a % of Revenues	*-0.7%*	*-0.7%*	*-0.7%*	*-0.7%*	*-0.7%*
(-) Capex	-100	-101	-102	-103	-104
Capex As a % of Revenues	*-1.3%*	*-1.3%*	*-1.3%*	*-1.3%*	*-1.3%*
Free Cash Flow ("FCF")	**473**	**543**	**650**	**663**	**670**
Terminal Value ("TV")[3]					9,996
Present Value FCF + TV	457	487	541	513	7,645
Enterprise Value ("EV")	**9,642**				

Synergies (Less Integration Costs)[4]

Discount Rate[5]	10.0%				
Terminal Growth Rate[2]	0.0%				
(SEKm)	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**
Years to Discount	0.4	1.4	2.4	3.4	4.4
Synergies ("S")			100	300	600
(-) Integration Costs ("IC")			-200	-200	0
Net S + IC			**-100**	**100**	**600**
(-) Taxes			21	-21	-124
Tax Rate			*21.4%*	*20.6%*	*20.6%*
Free Cash Flow ("FCF")			**-79**	**79**	**476**
Terminal Value ("TV")[3]					4,764
Present Value FCF + TV			-62	57	3,429
Enterprise Value ("EV")	**3,424**				

Valuation Output

(SEKm)	
EV Standalone Bonnier Broadcasting	9,642
EV Synergies (Less Integration Costs)	3,424
Total EV	**13,066**

Sensitivity Analysis

EV Standalone Bonnier Broadcasting (SEKm)

WACC	Terminal Growth Rate 0.0%	0.5%	1.0%	1.5%	2.0%
5.8%	11,642	12,550	13,648	15,003	16,717
6.8%	9,930	10,559	11,298	12,176	13,239
7.8%	8,658	9,116	9,642	10,252	10,967
8.8%	7,677	8,023	8,413	8,857	9,366
9.8%	6,897	7,166	7,464	7,799	8,177

EV Synergies (Less Integration Costs) (SEKm)

Discount Rate	Terminal Growth Rate -1.0%	-0.5%	0.0%	0.5%	1.0%
8.0%	4,055	4,294	4,562	4,867	5,215
9.0%	3,534	3,721	3,928	4,159	4,419
10.0%	3,112	3,261	3,424	3,605	3,805
11.0%	2,764	2,885	3,016	3,160	3,318
12.0%	2,473	2,572	2,680	2,796	2,924

(1) Projected free cash flows based on analyst research report estimates (Ahlqvist & Höglund, 2018; Challawala et al., 2018; Grindle et al., 2018).
(2) Case writers' estimate.
(3) Terminal value calculated with the Gordon Growth Method.
(4) Projected synergies and integration costs from Telia Company (2018b).
(5) Synergy risk premium of 2.2% added to the WACC of standalone Bonnier Broadcasting. Case writers' estimate.

Source: Case writers unless otherwise specified in 1–5 above.

9.4.2 WACC Calculation

Unlevered Beta Calculation[1]

Peer Company	Market Cap (LCm)	Net Debt (LCm)	EV (LCm)	Net Debt / Market Cap	Effective Tax Rate[2]	Levered Beta	Unlevered Beta[3]
Atresmedia Corporacion de Medios de Comunicacion SA	1,532	238	1,770	15.6%	22.7%	1.18	1.05
CBS Corporation	21,696	9,877	31,573	45.5%	29.8%	1.45	1.10
Cyfrowy Polsat SA	15,208	10,561	25,769	69.4%	14.7%	0.38	0.24
Discovery, Inc.	13,182	7,889	21,071	59.8%	33.8%	1.48	1.06
ITV plc	6,926	977	7,903	14.1%	21.7%	0.90	0.81
Mediaset Espana Comunicacion SA	2,261	-135	2,125	-6.0%	24.3%	0.86	0.90
Mediaset S.p.A.	3,300	1,891	5,191	57.3%	28.1%	1.63	1.15
Metropole Television SA	2,126	37	2,163	1.7%	41.5%	0.84	0.83
Modern Times Group MTG AB	21,821	3,222	25,043	14.8%	26.7%	1.00	0.90
Netflix, Inc.	157,222	3,706	160,928	2.4%	29.8%	0.81	0.80
NRJ Group SA	657	-192	465	-29.2%	27.3%	0.42	0.53
ProSiebenSat.1 Media SE	5,198	1,709	6,907	32.9%	31.3%	0.89	0.73
RTL Group SA	9,702	1,012	10,714	10.4%	28.1%	0.57	0.53
Sky plc	25,871	6,690	32,561	25.9%	13.9%	0.76	0.62
Television Francaise 1 SA	1,933	-257	1,676	-13.3%	26.8%	0.81	0.90
Average				**20.1%**	**26.7%**	**0.93**	**0.81**
Median				**14.8%**	**27.3%**	**0.86**	**0.83**

General Assumptions	
Risk-Free Rate[4]	1.8%
Effective Tax Rate[5]	20.6%
Market Risk Premium[6]	5.1%
Pre-Tax Cost of Debt[7]	3.0%
Post-Tax Cost of Debt	2.4%
Size Risk Premium[8]	2.1%

WACC Calculation	
Net Debt / Market Cap[9]	14.8%
Net Debt / EV	12.9%
Unlevered Beta[9]	0.83
Relevered Beta[10]	0.92
Cost of Equity[11]	8.6%
Post-Tax Cost of Debt	2.4%
WACC[12]	7.8%

(1) Data from Eikon Refinitiv as at July 20, 2018. Retrieved March 17, 2020. "LCm" is million local currency.
(2) 5-year median.
(3) Unlevered beta = (Levered beta)/(1+(1-Effective tax rate)*(Net debt)/(Market cap)).
(4) 10-year monthly average (July 2008 - June 2018) 10-year Swedish government bond yield. Retrieved from Investing.com on March 18, 2020.
(5) Long-term Swedish corporate tax rate.
(6) Sweden equity risk premium, January 2018 (Damodaran, 2018).
(7) 10-year monthly average (July 2008 - June 2018) average interest rate for Swedish corporate term loans. Retrieved from Statistikdatabasen, SCB, on March 18, 2020.
(8) Duff & Phelps (2017).
(9) Median peer company value.
(10) Relevered beta = (Unlevered beta)+(Unlevered beta)*(1-Effective tax rate)*(Net debt)/(Market cap).
(11) Cost of equity = (Risk-free rate)+(Relevered beta)*(Market risk premium)+(Size risk premium).
(12) WACC = (Net debt)/EV*(Post-tax cost of debt)+(1-(Net debt)/EV)*(Cost of equity).

Source: Case writers unless otherwise specified in 1–12 above.

9.4.3 Business Descriptions of Peer Companies

Atresmedia Corporacion de Medios de Comunicacion SA	Spain-based company primarily engaged in FTA TV broadcasting, but also in radio broadcasting, TV production, and advertising. Transmits programs in Spain, Colombia, Mexico, and the U.S.
CBS Corporation	U.S.-based multinational media conglomerate with interests primarily in FTA TV and radio broadcasting, TV production, and publishing.
Cyfrowy Polsat SA	Poland-based company operating two business segments: one as a pay-TV platform operator, and one as an FTA broadcaster and TV producer.
Discovery, Inc.	U.S.-based global media company primarily engaged in FTA and pay-TV broadcasting. Also offers digital content licensing and distribution agreements, curriculum-based products and services, and content production.
ITV plc	U.K.-based TV producer and FTA TV broadcaster. Operates two business segments: Broadcast & Online which provides FTA TV channels via conventional transmission and a SVOD platform in the U.K.; and ITV Studios which produces TV content in the U.K. and internationally in 12 countries.
Mediaset Espana Comunicacion SA	Spain-based company primarily engaged in FTA TV broadcasting. Produces and distributes content via conventional transmission and an online platform, and produces movies.
Mediaset S.p.A.	Italy-based company primarily engaged in FTA and pay-TV broadcasting in Italy and Spain. Also operates radio broadcasting as well as infrastructure networks and electronic communications services in the field of TV, radio, and mobile phone broadcasting in Italy.
Metropole Television SA	France-based company focusing on the production, distribution, and marketing of FTA TV programs. Broadcasts TV via conventional transmission and online platforms.
Modern Times Group MTG AB	Sweden-based entertainment company servicing Nordic and Baltic countries. Engages in FTA TV and radio broadcasting, pay-TV broadcasting, content production, and e-sports. Distributes content via conventional transmission and online platforms.
Netflix, Inc.	U.S.-based global provider of an online TV network, operating an OTT SVOD platform.
NRJ Group SA	France-based multimedia company primarily engaged in radio broadcasting, but also FTA TV broadcasting and mobile communications services. Operates its radio network mainly in France, Germany, Austria, Belgium, Finland, Norway, Sweden, and Switzerland.
ProSiebenSat.1 Media SE	Germany-based company primarily operating as an FTA TV broadcaster in Germany, Austria, and Switzerland, but also produces content. Distributes content via conventional transmission and online platforms.
RTL Group SA	Luxembourg-based media group engaged FTA TV and radio broadcasting, and TV content production. Operates in Luxembourg, Germany, France, Belgium, the Netherlands, Spain, Hungary, and Croatia.
Sky plc	U.K.-based media and telecommunications conglomerate. Engaged in FTA and pay-TV broadcasting via conventional transmission and online platforms. Operates in the U.K., Ireland, Germany, Austria, Switzerland, Italy, and Spain.
Television Francaise 1 SA	France-based company primarily engaged in FTA TV broadcasting, but also in TV and movie production, movie distribution, and publishing of music compact discs ("CDs").

Source: Reuters (data as at July 20, 2018; retrieved March 17, 2020).