Dear Colleagues,

I would like to first thank you all for your efforts this year.

We have much to be thankful for as we embark on year five as a firm. The past 12 months have been pivotal to our growth and we reached milestones including our 60th transaction with clients around the world.

It’s now more important than ever that we continue to be focused on our clients and remain humble, with our heads down as we enter into what will be another exhilarating year.

As we reflect on 2016, and the road ahead, it becomes clear that we are entering an era of uncertainty and more importantly, opportunity in the TMT and Consumer landscape. To understand where we will go, we must draw a thread between our past and our future, with a particular emphasis on the macro environment.

In his book *Homo Deus: A Brief History of Tomorrow*, the historian Yuval Noah Harari says that mankind has conquered huge, existential challenges only to create new hazards that must be overcome. I agree with this idea and think that politics and the increasing power of technology have emerged as the disruptive forces with which we must contend. We must better understand their possibilities and anticipate pitfalls if we want to see how they will impact our world.

Politics and technology can be destabilizing forces. They challenge our economic and civil orders. I have always believed that in order to best serve the firm and our clients, we must understand new uncertainties, create strategies to account for them and remain nimble and alert to sudden shifts in the landscape.

**Politics: The New Disruptor on a Global Scale**

After the post-war era, and later following the fall of communism, Western democracies settled into political grooves that were distinguished by the degrees to which they emphasized laissez-faire capitalism or government controls, conservatism or liberalism. No matter the system, power was concentrated. This phenomenon collapsed borders for corporations having a global view in a new competitive marketplace. However, government agencies and systems representing broad populations were lagging in their adherence to this new global landscape, thereby creating friction and disenfranchisement.

This year’s historic Brexit vote and the U.S. presidential election show that the world is wrestling with the results of that choice. The broad desire to roll back globalization in the hopes of increasing jobs at home was evidence that we must now strike a balance between taking care of our own at home while being part of a more competitive global ecosystem.

Nations will feel increased pressure to tend to their people as corporations rely more on productivity and efficiencies related to technology, such as artificial intelligence. The shift to a faster, more automated workplace will inevitably accelerate job displacement and could negatively impact workers more so than globalization.
Governments that have framed the world through a lens of corporate growth are being forced to account for the needs of citizens who demand power. This is, however, not a socialist movement. A strong bent toward free market capitalism still runs through these emerging political systems, sending a strong message that people want to prosper without government interference.

We do not know what these new governments will look like, but as we transition from a concentrated approach to one that is more broad and diverse we could, for example, see countries adopt France’s hybrid protectionist strategy for balancing the needs of its own while participating in a global marketplace.

No matter what structures form as political systems attempt to strike a balance between an inward focus and growth, opportunities will arise. Perceived political risk will lead to price discounts between assets that have roughly the same value. For example, a U.S. broadcast company’s valuation might outpace that of a comparable European counterpart due to near-term country risk.

The political shift could also pave the way for a tax repatriation deal that favors U.S. corporations. This would free up cash for M&A and fuel a wave of deal activity. Repatriation could be of particular benefit to Apple, Microsoft, Alphabet, Cisco and Oracle, which are holding a combined estimated $500 billion in cash overseas. As my mentors and teachers in finance dating back to my early days in the high yield bond market advised, follow the cash.

Bold executives with a global outlook should look to divert their capital, take advantage of long term opportunities and build for the future. This is especially true for tech and entertainment companies that operate in global environments and export many of their products.

But public company shareholders who focus on short-term results could stymie these ambitions. Investor pushback creates friction as well as opportunities for alternative transactions and the realignment of corporate capital structures. We’ll see companies test what it means to have the appropriate ratio of debt to equity. We’ll see PIPE (Private Investment in Public Equity) deals become more popular as a way to bridge the gap between investors with short-term needs and CEOs with long-term vision. This is a huge opportunity for private capital markets.

We will have to work through these shifts as they create volatility and dislocations in asset prices. After launching just four years ago, nearly 40% of our pipeline at LionTree represents transactions outside of the U.S., giving the firm a global point of view which will be our guide as we analyze the opportunities illuminated by these emerging political systems.

Under-priced Risk

Political schisms will cause significant swings in asset prices, but the market is underpricing the risk that this shift portends. In the first week of December, the major stock indices closed higher every day for the first time in five years. Yields on the 10-year Treasury note continue to reach new 52-week highs, and are hovering near 2.5%, up from about 1.9% on Election Day. Volatility has fallen as investors pile into the year-end rally.

The new political winds create uncertainty on many levels. Corporations have long benefited from closer global bonds. Media and technology leaders such as Liberty, Fox, Discovery,
Viacom, Tencent, Netflix, Amazon and Google have increasingly embraced a global approach to expansion and innovation. As technology brings their customer bases closer together, their desire for cross border business will not end.

By this time next year, we’ll have witnessed votes on a dozen key political races in Europe alone that could likely push those national leaders to look inward, strengthen their borders and pass policies suited to a siloed world.

It is unclear how protectionism will play out country by country. We do not yet know how the Trump administration will approach issues that are important to media and technology companies, including anti-trust regulation, immigration and trade with key allies in Asia, Latin America and Europe.

There is a real possibility that over the long term, populism will backfire. As Peter Goodman wrote in the New York Times, “Trade is such an elemental part of the modern global economy that impeding it is almost certain to produce the opposite effect. It will damage economic growth, diminishing prosperity for all.”

Should this happen, we could see another great economic reset, brought on by our own collective political yearnings rather than bad balance sheets and overzealous risk. We could see a profound rise in volatility, particularly if a chasm grows between the needs of businesses for global expansion and the policies and regulatory regimes that spring up in the near term.

With this risk in mind, companies should consider seriously the role they could play in pushing for favorable deals that benefit growth and workers. A counsel of globally-minded private sector CEOs could work with their international counterparts to push their governments on key issues. The Softbank investment, whereby they plan to invest $50 billion (of the overall $100 billion) in the U.S., while working amicably with political leaders, is an example that could be scaled.

Media’s Long Game

During one of the rare panel discussions that Steve Jobs participated in during his lifetime, he defined media as simply ”the creation of content distributed through technology.”

Underlying technologies continue to evolve. Distribution has gone from newspapers to broadcast, broadcast to cable/telecoms, and increasingly to tech platforms like Snap, Apple, Amazon and Google. These platforms will undoubtedly evolve yet again, but the creation of content and the global, insatiable appetite for it will remain constant.

In this paradigm, value shifts to the bookends – the underlying content and the technology platforms that touch the end user – and the middle-man is increasingly pressured. It is our role to understand how the economic shift is pushing us into future opportunities, namely the fact that traditional media players will turn to digital media to drive growth and expansion as the bookends gain in value.

In the traditional bucket, I include large media brands such as Time Warner, Comcast, and Verizon, as well as tech giants in the content space like Apple, Netflix and Facebook. Their key advantages are scale, access to capital, diverse product base, significant global audience and strong management teams. The key challenge facing these giants consist of the need to transform their business to cater more effectively to younger audiences and innovate their
technology platforms rapidly to adopt to changing consumer preferences. Successful digital companies that are challenging some of these giants include Snap, Buzzfeed, Jaunt VR, Thrillist, and MLBAM – each of whom is able to innovate quickly.

The Convergence of Digital and Traditional Media Creates Significant Opportunity

These deals should create more scale and reach and give digital players more access to growth capital and exit alternatives.

The convergence of traditional and digital media will yield content synergies, advertising scale across several platforms and sales force efficiencies. It should give legacy players access to a younger audience and data. Consumers should ultimately benefit with easier access to a diverse array of content formats and more second-screen and interactive experiences.

With the view that digital and traditional media convergence would create opportunities across the landscape, we launched LionTree Growth (LTG) in 2014 to focus on early stage growth companies. LTGrowth was privileged this year to have advised on about a dozen transactions that support this thesis.

We were the exclusive advisor to New Form Digital on its Series B funding, which was led by ITV. Similarly, we advised Group Nine Media on its investment from Discovery Communications, with which it struck a strategic partnership; BuzzFeed on its strategic investment from Comcast; and GameChanger on its sale to Dick’s Sporting Goods.

As we continue to focus on convergence, I think we can worry less about the impact of over-the-top streaming and skinny programming bundles. Theoretically bundles should satisfy a broad customer base and present a material threat to traditional video and distribution. But demand elasticity is high for OTT and demand falls sharply when prices rise. Programming
costs to create an attractive skinny bundle of channels will likely force providers to price their packages at rates that are too high to encourage demand.

The Next Wave

Below, I’d like to share a few of our 2017 themes, which we will discuss with our clients in depth, as we ramp up into the new year.

1. Market is Under Pricing Global Geopolitical Volatility
   - Political uncertainty (new US administration, elections in France and Germany, Brexit implementation)
   - Tax and Trade policy
   - Global FX and commodities landscape

2. Changing Global Economic Environment and Impact on M&A
   - Regulatory landscape
   - Gradual rise in rates and potential return of inflation
   - Repatriation of cash
   - Cross-border deal-flow and diversified assets essential

3. Dominance of Conglomerates in U.S. Tech
   - The opportunity afforded to Google, Amazon, and Facebook
   - Scale drives ability to innovate and develop new models (e.g. Alphabet, Softbank fund)
   - Impact on media players globally

4. Tech / Industrial Convergence
   - The race for dominance between technology, industrial and infrastructure companies for connected car, connected home, and in other industries such as healthcare and financial services

5. Return of Tech IPOs
   - Snap, Airbnb, Palantir, Uber, Dropbox
   - Implications on M&A as this group becomes the new aggressive acquirers

6. 2017 is the Year for Further Media Activity
   - Need for scale
   - Further vertical integration in order to de-risk, diversify, and innovate
   - Uniqueness and scarcity of high quality content assets and digital audiences

7. Sports: Resetting the Traditional Structure and Forcing Change
   - Leverage is shifting as distribution evolves
   - Ratings pressure
   - New entrants gaining share and proliferation of eSports

8. Fixed (Cable) / Wireless Convergence in the Americas and Europe
   - Timing and future of 5G
   - Quad-play offering to consumers to achieve national ubiquity
   - Implications to fiber, tower and data center space

Reflection and Preparation

As we build out LionTree in 2017, I firmly believe it has never been more important to take a long-term investment view as it is now. It will help us and our clients weather short-term volatility, political upheaval, technological disruption and shareholder consternation.

To do this well we must remain both nimble and humble and maintain a global, broad perspective. To that end, we have exciting opportunities in Latin America, where diverse
government policies impact the market and have implications for the sector. Our London office is growing well under Jake Donavan, Louis Kenna and the rest of the team, and we look forward to continuing to expand our capabilities in the region.

Enhancing our global perspectives is our team of Executives in Residence (EIR). It includes John Diercksen (former EVP of Verizon), Betsy Morgan (former CEO of TheBlaze and Huffington Post), Ron Prosor (former UN Ambassador from Israel), Alexandra Keating (co-founder and former CEO of DWNLD) and Edward Vaizey (Member of Parliament and former UK Minister for Culture, Communications and Creative Industries).

We have reason to celebrate this year. Since the firm’s inception in 2012, our team executed on many of the industries’ significant transactions. Charter’s landmark acquisition of Time Warner Cable led to the creation of Spectrum. Liberty Global’s acquisition of Virgin Media and Verizon’s purchase of AOL were important, ecosystem-changing deals. We’ve laid a strong foundation of small yet important to medium-sized transactions as well. And LT Growth now represents 17% of the pipeline and is a fantastic source of sector expertise and relationship building for the firm and our clients.

We’ve announced a number of multi-year efforts with Starz, TiVo and the Tennis Channel. And our work on the BC Partners acquisition of CenturyLink datacenters is an example of how our EIR program, merchant banking and financing talents came together to create an opportunity with meaningful follow-on business potential. We have launched this year an Institutional Investor Membership business which enhances the depth and breadth of the services we are able to provide our client base, including our LionTree Top Themes report which has extended our content leadership. We look forward to building on the strong product set we’ve had out of the gate.

These achievements are in large part thanks to your hard work and humility, as well as to the cultural values of the firm that you uphold. You believe in the value of ongoing learning. You understand that the flat structure we’ve created depends on your ability to take on a wide range of responsibilities. At LionTree, we believe in responsibility, openness, advocacy and results – our R.O.A.R.

But we cannot rest on past successes. Our 2017 deal pipeline is strong, with 50 mandated live deals in the pipeline, versus 28 at the beginning of this year. But we still must focus and execute. As the late space voyager John Glenn said, “We are more fulfilled when we are involved in something bigger than ourselves.”

Next year could be our most exciting yet. Know that we can build a bridge from the past into this new era if we challenge ourselves to come up with the best ideas and the strongest insights for our clients.

To quote Galileo, a favorite philosopher of mine and the man who helped create modern physics and astronomy, “All truths are easy to understand once they are discovered; the point is to discover them.”

But we cannot build that bridge without humility.

Galileo also famously said, “Who would dare assert that we know all there is to be known?”
We offer one another and our extended family of companies and business leaders in technology, media and telecoms around the globe a productive and prosperous year ahead.

Warm wishes for the New Year,

Aryeh B. Bourkoff

P.S. - I believe in being armed with fresh, creative, and provocative ideas, some of which come from reading great (e)books. Some suggestions for holiday reading below:

In addition to Yuval Noah Harari’s *Homo Deus*, I recommend his earlier book *Sapiens: A Brief History of Humankind*.

*The Circle*, by Dave Eggers

*Thank You for Being Late: An Optimist’s Guide to Thriving in the Age of Accelerations*, by Thomas Friedman

*Exponential Organizations*, by Ismail Malone

*World Order*, by Henry Kissinger

*The Undoing Project*, by Michael Lewis

*Born to Run*, by Bruce Springsteen

I also recommend watching Angela Duckworth’s Ted Talk titled “Grit: The Power of Passion and Perseverance.”