August 8, 2018

-Press release-

Channel 10-Reshet Merger Approved

Reshet will be required to sell its holdings in the joint news company before the parties may go forward with the merger

Today (Wednesday) the Director General of the Israeli Antitrust Authority (IAA) approved the merger between Reshet Media Inc. and the New Channel 10 Inc. The merger approval is subject to a condition requiring Reshet to sell its shares in the Israeli News Company Inc, which it owns jointly with Keshet Broadcasting Inc. The holdings in the news company must be sold before the parties may merge ("fix it first").

The Director General's decision to approve the merger is based on her findings that, absent the merger, Channel 10 was likely to exit the market, raising serious concerns of harm to competition and the public. Channel 10's exit would have led to the closure of one of the two primary television news companies, leaving a single primary television news company in the market.

In light of this finding, approving the merger was competitively preferable, competitively speaking, to an objection, despite the possible competitive harms that may be raised.

The Director General's decision was reached according to the "failing firm" doctrine. Mergers are approved under the failing firm doctrine only in extremely rare cases, as the merging companies must prove that they meet the following three cumulative conditions:

- The target company (in this case Channel 10) is failing – i.e. it will not be able to continue its activities in the relevant market absent the merger;
- There is no alternative buyer that would be preferable from a competitive perspective;
- Competitively speaking, the result of the merger is preferable or at least comparable to the failing firm simply exiting the market (Channel 10 closing).

In order to examine whether the above conditions were met, the IAA examined a variety of data:

Firstly, the IAA examined Channel 10's financial position in recent years, and specifically following the split of Channel 2 in November 2017. The examination of the channel's economic position and extensive additional data presented to the IAA

raised considerable doubt as to the channel's capacity to continue to exist absent the merger. Following the split of Channel 2, Channel 10 found itself competing with two other channels broadcasting throughout the entire week. While the advertising income "pie" grew slightly during the relevant period, this growth was certainly not to an extent comparable to the increase in the broadcast hours following the split. In addition, Channel 10 found itself competing against Reshet and Keshet on unequal regulatory terms: while Reshet and Keshet shared the costs of their joint news company and the current events programs it produced, Channel 10 bore the expenses of its news corporation alone. All of the above, in addition to objective accounting and financial data, led the Director General to the conclusion that Channel 10 in its current format was failing economically.

Secondly, the IAA examined whether there was an alternative buyer that would be preferable, competitively speaking. In this framework, the IAA was presented with documents and data showing the steps that Channel 10 took to find an alternative buyer, directly and via intermediaries – steps that were unsuccessful. The sum of the circumstances examined led the Director General to conclude that there was not an alternative buyer with whom a merger would raise fewer competitive concerns.

In light of these two examinations, it became clear that approving the merger would not lead to a smaller number of competitors as compared to an objection – in either case, only two commercial channels were expected to remain.

In addition, the examination indicated that, absent the merger, there was a significant chance that only one leading news company (held jointly by Reshet and Keshet) would remain in the market in the near future. Such a situation would be significantly worse than the merger in terms of competition for two primary reasons: Firstly, the public would have fewer options for news programming than under the merger and thus there would be less competition in news broadcasting. Secondly, this structure would leave Reshet and Keshet as partners in a significant part of their programming production, within their joint news company – a partnership that was liable to harm their incentives to compete against one another in general.

The condition for the merger will ensure that there will be two primary, competing news companies and will dissolve the affiliation between Reshet and Keshet. Therefore, approval of the merger subject to this condition is competitively preferable to Channel 10's closing.

Therefore, the Director General decided to approve the merger, subject to the condition that Reshet sell its holdings in the news company prior to completing the merger ("fix it first").