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H2: 2020

# MEDIA*talk*

# THE BRIGHT APPEAL OF M&A

H2: 2020

# MEDIAtalk





# A WORD FROM ANDY VINER

## GLOBAL HEAD OF MEDIA AND ENTERTAINMENT

Media in 2020 proved to be a remarkably resilient sector, buoyed in particular by increased demand for entertainment and related services. Globally, the value of media-related M&A topped USD $130 billion, a figure that underscored the market's staying power in a remarkably difficult year. And even though we saw a reduction in the number of deals announced in 2020, average deal values actually increased by around 14%.

There was, of course, a significant divergence in how COVID-related restrictions affected different subsectors, with large numbers of companies directly vulnerable to lockdown policies and the newly cautious behaviour of consumers that went with them. While premiums were placed on assets and businesses with strong tech underpinnings and/or embedded data and digitalisation plans, deals targeting under-performing businesses were slower to materialise. Investors will now need to determine how to price in any necessary recovery period and the impact of corporate decisions taken to help businesses weather the storm.

# A WORD FROM ANDY VINER
*continued*

That said, while revenue growth may be slower initially through Q1, we anticipate recovery to speed up over the rest of the year, and there could well be a shorter path for M&A too. Globally, the media sector retains significant upside potential, and deals were noticeably picking up in H2 of 2020. PE (private equity) has played a fundamental role in keeping M&A rolling across the mid-market, both in established areas of interest and in newer directions. PE houses recorded a 19% increase in activity over the second half of 2020, as compared with H1 2020.

US media deal activity slowed in 2020 compared to previous years, in the wake of recent historic market shifts. But the slowdown also created pent-up demand to put cash to work and capture new opportunities as consumer media consumption habits change. The end of the year brought a resurgence in ad spending, which was a boost both to entertainment companies and the media agencies that develop and place ads. Signs point to a busy year for deal flow and investment in 2021.

In the UK, as around the world, few businesses escaped unscathed from the pandemic's blanketing effect on the economy. But pre-pandemic, the UK's creative industries contributed more than GBP £111 billion to the UK economy, and the advertising and marketing subsector made up a quarter of that. With its attractiveness to overseas investors and potential to bounce back, it made up a big chunk of all deals struck through 2020, both within the UK and globally. Many of these deals focused, as globally, on companies looking to add to or enhance their digital reach and targeting capabilities.

In the world of entertainment, meanwhile, content is still king, and the persistent battles over streaming capabilities have only strengthened the appeal of production-related businesses. Digital publishing is also seeing a steady flow of deals as PE and trade buyers vie for the best brands and assets. Interactive gaming remains another space to watch.

So in 2021, we may not quite see a return to pre-COVID deal volumes just yet; there are still too many uncertainties to resolve. But the stage is certainly set for another very active twelve months…

We hope you find the latest edition of our report useful – do please share your comments or feedback at andrew.viner@bdo.co.uk.

Andy

**ANDY VINER**
Partner,
Global Head of Media & Entertainment



# GLOBAL M&A OVERVIEW

2020 was a year with little relief for many businesses, as the pandemic coiled itself around markets and intermittently constricted activity. But even if there is a bumpy road ahead to recovery, we can see now that there are certainly blooming pockets of optimism, and exciting opportunities ahead.

Though the number of global media M&A deals declined by 30% year-on-year in 2020, the second half of the year saw stronger volumes return across the Asia-Pacific and US markets, with relative spikes in September and December.

Contrary to some expectations, the pandemic has not led to a complete paradigm shift. Rather, it has simply accelerated existing long-term trends, which in fact should provide a measure of confidence from a strategic perspective. True, many sectors may be feeling the pressure to fast-track digital transformation, but these adjustments will remain relevant well beyond lockdown. In economic terms, the vast spending programmes and monetary policies now in play around the world are likely to keep interest rates at basement levels for some while yet – always a positive for investors.

## UNITED STATES

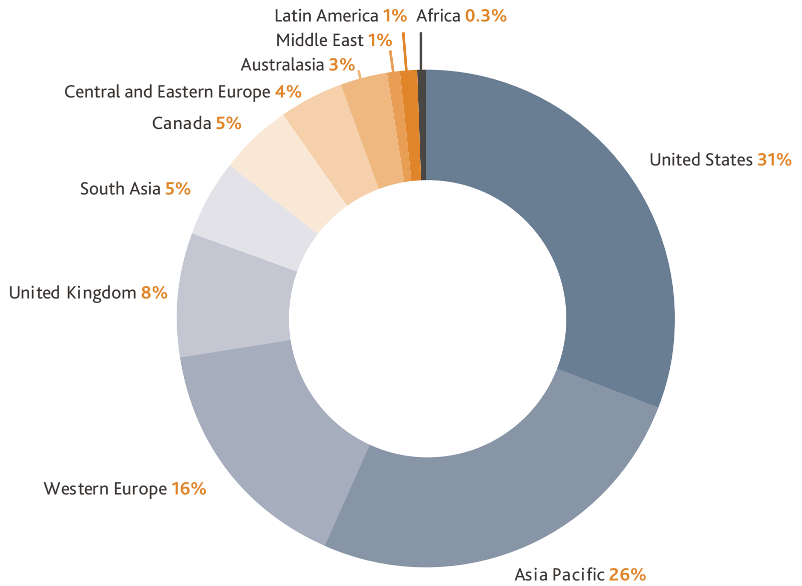
In the US, President Joe Biden's celebrity-studded inauguration bodes well for political stability after four rambunctious years, but it may not be so auspicious for all. The tech sector, for one, is likely to come under renewed anti-trust scrutiny, and the new administration looks ready to explore tax changes that could target capital gains. Both these developments could spur M&A activity: tax-rate increases could accelerate the completion of transactions, while corrective antitrust enforcement may force the divestiture of certain brands or assets.

The US remained top of the list of regions for both targets and acquisitions in 2020. Though other geographies have become more active in the media sector, contributing to a slight fall in the US share of overall deals since 2018, its status as a global powerhouse remains undiminished. In 2020, 30% of global acquisitions targeted American companies, while 29% of global buy-side deals originated in the US. Deals led by American buyers fell by half (50%) in 2020 on the previous year, but deals targeting US companies fell by a relatively modest 30%, demonstrating the market's persistent allure against even the most difficult of backdrops.

To take one example, a consortium of investors led by Swiss venture capital firm Blue Horizon Corporation – and including Griffith Foods and PE backers Trustbridge Partners and EQT Partners – announced a USD $135 million investment in Livekindly. Focused on sustainable, cruelty-free health & beauty content, Livekindly has benefited from heightened consumer interest in environmentally-friendly products.

The US began catching up significant ground in the second half of 2020. Deal volumes had diminished markedly in H1, but we saw a spurt of acquisitions targeting US-based companies in Q3 and Q4, and PE activity lifted investment in the mid-market. Crestview Partners, for example, set its sights on a future rebound for in-person events by committing USD $135 million to Viad Corp, an Arizona-based provider of event marketing services.

**FIGURE 1: GLOBAL MEDIA M&A DEALS BY TOP TARGET REGION IN 2020**




THE US STAYED TOP FOR DEAL SHARE WITH 31%, WHILE ASIA-PACIFIC PICKED UP SHARE ON 2019, AND WESTERN EUROPE AND UK SAW THEIR SHARES DECLINE.

# GLOBAL M&A OVERVIEW

## ASIA PACIFIC

The Asia Pacific saw its share of global deal volumes remain steady over the second half of 2020. Though year-on-year deal-making declined here as everywhere else, Asia Pacific improved its proportion of global deals as both a target and acquirer region for the year – by 3% (to 26%) and 2% (to 29%) respectively. As with previous years, deals were primarily domestic, some intra-regional; but 7% of acquisitions made by Asia-Pacific companies targeted the US.

The speedy rollout of impressive test-and-trace systems in South Korea and Japan in H1 may well have benefited M&A activity later in the year: both countries recorded a higher volume of overall deals than the UK. Japan led the way, both as an acquirer and target country, with a shifting around of publishing assets. But South Korean production and entertainment was also on the up: two of the bigger 2020 deals involved South Korean music giant Cube Entertainment and content producers Fantagio, which swapped out majority investors during H1.

By contrast, China's share of global deals has shrunk over the past couple of years, along with the amount of venture capital invested into the market since 2018. Helping to fill that space, Tencent led a Series B funding round of USD $100 million for Versus Programming Network (VSPN) in October. The investment will help further VSPN's ambitions to grow the reach of esports around the world by creating a dedicated institute and culture park.

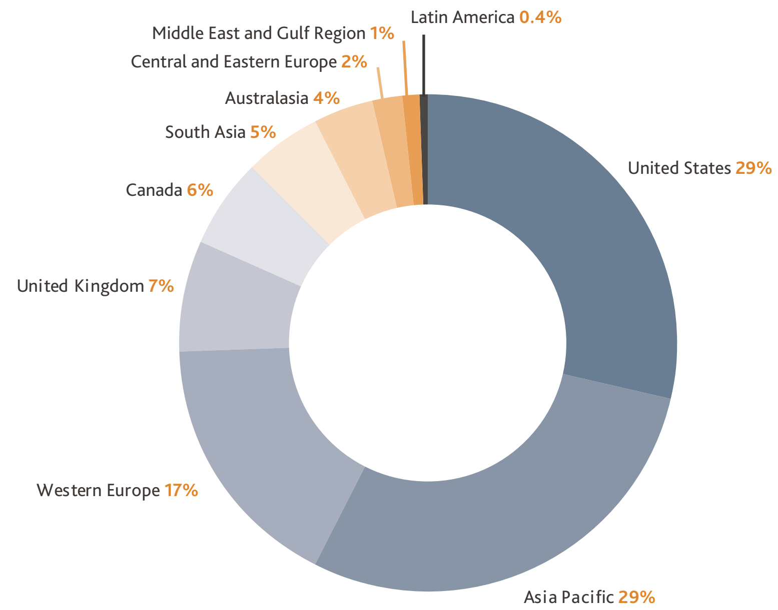
## WESTERN EUROPE (EXCLUDING UK)

M&A activity in Western Europe also picked up marginally in the second half of 2020, even if global deal volumes still slipped on 2019. The region saw 16% of deals on the buy-side, a 3% reduction on 2019. Its share of global deal volume as an acquirer region fell by just 1%, to finish the year with 17% of global deals by volume.

There were a slightly higher number of intra-regional deals, compared to other regions. Cross-border transactions fell largely within EU boundaries, though a minority reached out to the US, the UK, the Middle East and Africa. Germany and France vied for top target country, and the Nordic countries also contributed notably to the overall tally.

In December, UK-based PE firm Inflexion Private Equity Partners announced a tender offer for all outstanding shares of Norwegian trading and market data provider, Infront. The offer, which values Infront at more than EUR €250 million, will provide the company with capital to support its growth ambitions through potential future transactions. Sweden came second only to Germany as top acquirer with a flurry of deals. These included Stockholm-based digital agency Knowit's acquisition of Norwegian consultancy Creuna for EUR €17.2 million.

**FIGURE 2: GLOBAL MEDIA M&A DEALS BY TOP ACQUIRER REGION IN 2020**




THOUGH THE US SAW MOST DEALS AS ACQUIRER REGION, ACTIVITY OVERALL DECLINED. THERE WERE INCREASES FOR THE ASIA PACIFIC, CANADA AND SOUTH ASIA.

# GLOBAL M&A OVERVIEW

## UNITED KINGDOM

In H1, the UK's share of global deals remained consistent year on year, though continuing struggles in H2 and a third lockdown in November hampered M&A. The UK concluded 2020 with 7% of all buy-side deals by volume, roughly half targeting domestic acquisitions, followed by Western Europe and the US. Along with other established players the UK has lost some ground as emerging markets continue to strengthen their position in the global media space.

The UK remains an obvious draw to overseas investors, even if logistical difficulties and a combination of pandemic and Brexit-related uncertainty led to a drop-off in activity. Global deals as a target region fell by 2% (to 8%). The decline is likely to be temporary, however, more a matter of the surrounding context than a lack of confidence in the UK media market itself, and UK companies are likely to find themselves in greater demand as 2021 progresses.

## OTHER REGIONS

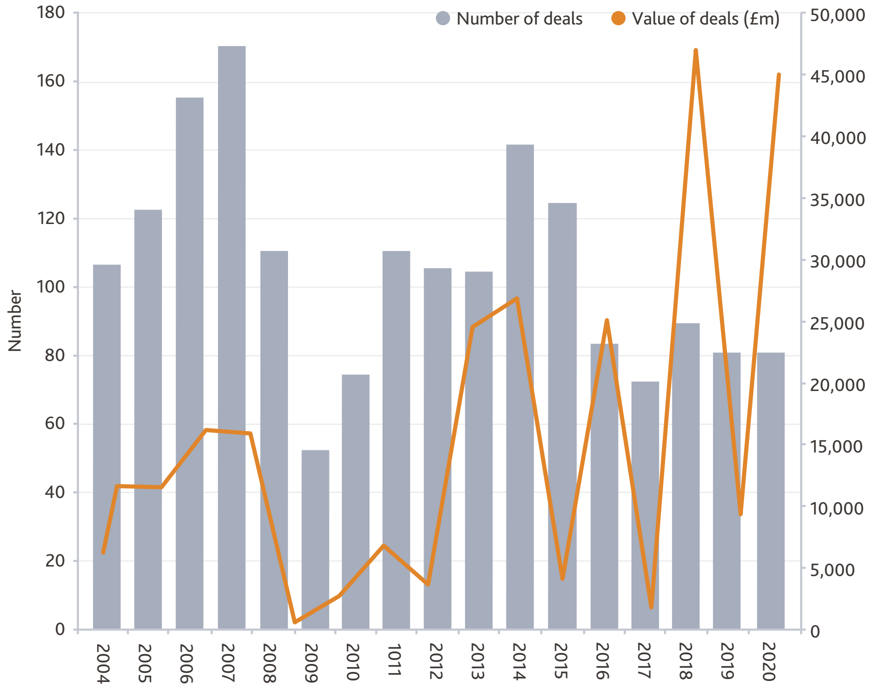
Canada and South Asia – which includes India and Pakistan – each reported 5% of global deals as a target region. While that represents a marginal dip on 2019 for South Asia, Canada increased its share of sell-side deals by 3% (to 6%), boosted by an especially busy H1.

South Asia recorded 5% of global deal volume as an acquirer region, with India's thriving market and growing media consumption a big part of that success. In December media giants Microsoft and Google, alongside investors Sofina SA, Falcon Edge Capital and Lupa India, acquired an undisclosed stake in Dailyhunt, an India-based provider of news and digital book applications, for approximately USD $100 million. Since its founding in 2009, Dailyhunt has raised almost USD $320 million from investors, including a handful of PE backers.

# UK MEDIA M&A: OVERVIEW

In line with the global downturn, UK media transactions declined by roughly 38% in 2020 year-on-year. Underlying that figure, however, is the fact that deals held up reasonably well through the latter part of the year. Though announcements fell relatively silent in August, a final flurry in December buttressed overall volumes.

**FIGURE 3: UK M&A VOLUMES AND VALUES (MEDIA SECTOR 2004-2020)**




TRANSACTIONS SAW A SIGNIFICANT DECLINE IN AN UNPRECEDENTED LOCKDOWN.



Against a backdrop of unprecedented economic disruption, we saw the lowest number of media M&A deals since we began tracking the metric back in 2004. In fact, only the financial crisis of 2009 had a comparable impact on deal flow, when the threat of shrinking credit lines massively hindered M&A activity.

When it comes to M&A in 2021, however, there are already grounds for cautious optimism. For one thing, Brexit is no longer an impending reality; the fact of a deal, despite its shortcomings, provides much-needed clarity for most businesses. The vaccine rollout, a clear success so far, will hopefully foster a sense of optimism and enable businesses and consumers alike to begin looking ahead with more confidence.

And, as in the US, the UK Government will be looking at potential tax changes – including around Capital Gains Tax. This will be of great interest to investors – while deal flow may not return to pre-COVID levels immediately, the coming year is likely to see active investors and businesses look to M&A as a means of reclamation.

# UK MEDIA M&A

## HOT SECTORS

Taken together, advertising and marketing services made up the largest media subsector for M&A deals in the UK in H1 2020. Though deal making slowed in the second half of the year, the two still accounted for 28% of media M&A overall.

For advertisers to cope with uncertainty they need the flexibility to efficiently measure, target, and adapt messaging, so many deals unsurprisingly focused on the ability to generate timely content and/or enhance programmatic capabilities. Late in the year, for example, two award-winning independent programmatic agencies came together as US-based Kepler Group announced the acquisition of UK Infectious Media for an undisclosed consideration.

In October, digital agency Jellyfish Group announced two acquisitions to expand its Latin American presence. Reamp and San Pancho, acquired for undisclosed amounts, are data-driven players that will enhance Jellyfish's programmatic capabilities as well as provide greater market access.

As businesses trimmed their budgets in 2020, it was a challenging year for the likes of ad-agency giants WPP, Omnicom, Denstu and Publicis. Not only that, but the ongoing challenge from creative consultancies and digital-first offerings like S4 Capital kept the viability of the holding company model under investor scrutiny.

S4 came into 2019 on the back of a wave of acquisitions and just kept on going, despite the logistical issues thrown up by the pandemic. In September, S4's content arm MediaMonks announced that it had acquired Dare.Win, an award-winning Parisian digital creative agency. Dare.Win counts some big names among its clientele, and the deal will expand MediaMonk's geographical reach into Europe's third-largest advertising market.

Only days earlier, S4's programmatic wing MightyHive announced its acquisition of UK-based analytics consultancy BrightBlue. Around the same time MightyHive also acquired Amazon agency Orca Pacific, enhancing an already well-established relationship with Amazon. All deal values were undisclosed, but follow S4's pillared approach to development as well as contributing to geographical reach. S4 has kept the momentum up into the New Year, with the announcement of two takeovers in the first week of 2021: Decoded, a New York-based creative agency will be merged with MediaMonks, while San Francisco-based Metric Theory will become part of MightyHive.

Though big agencies will continue to rely on scale in order to compete, WPP has also looked to spin-offs (as with 2019's Kantar deal) and potential divestments as part of its strategy. But acquisitions are still part of the plan: in September, for example, Wunderman Thompson (a WPP agency itself formed in 2018 by consolidating two other WPP agencies) announced the acquisition for an undisclosed amount of France-based Velvet Consulting. The latter's expertise in multichannel consumer engagement demonstrates WPP's commitment to enhancing its own digital capabilities.

Broadcasting and content accounted for 27% of all media transactions in 2020, boosted by a slew of deals announced late in the year.



As consumers around the world were forced to stay in, and the streaming wars raged on, demand for content remained strong.

Silverback Films, a leading UK natural-history producer responsible for the landmark Netflix series Our Planet, was acquired by All3Media for an undisclosed fee in December. Silverback Films will sit alongside over 40 other production and distribution companies in All3Media's portfolio. In the same month, Discovery Communications, which acquired All3Media in a 2014 joint venture alongside Liberty Global, announced the launch of a new streaming service Discovery+. Having produced films for Discovery in the past, the deal secures access to more content for the new streaming platform in years to come.

The drop in ad revenue wasn't just bad news for advertisers. Media companies reliant on advertising spend, including news publishers, were also forced to tighten their belts. Print advertising was especially hard-hit globally, falling by 25% in the year according to GroupM. It was especially tough on traditional newsprint in the UK, which was already fighting waves of increasing digitalisation and changing habits in news consumption.

Archant, the UK's fourth-largest local-newspaper publisher with a 150-year history, felt the full force of this transition in 2020, as it sought financial support in the form of a Company Voluntary Agreement (CVA) to continue its operations. Rcapital acquired a 90% stake in Archant in September for an undisclosed fee, and was joined by the Pension Protection Fund, which absorbed the pension liability, reportedly GBP £50 million, plus the remaining 10% share of the business. The deal means Archant can continue to operate while affording its creditor some breathing-space, but it highlights the parlous state of local newsprint media, a condition only exacerbated by the pandemic.

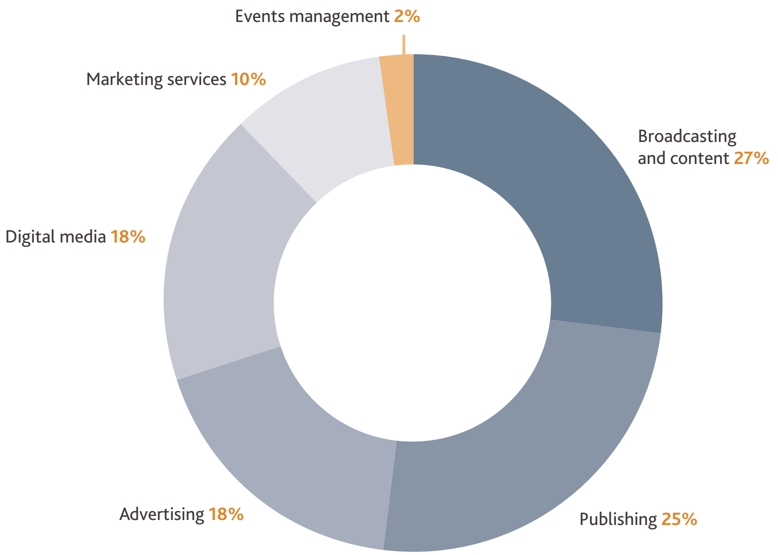
No surprise, then, that the future of publishing looks set to depend on the converging paths of digital transformation and consolidation. Regional owners such as JPI Media have launched digital acceleration programmes to begin the process of converting their print titles, following the success of digital-only titles like The Independent, which grew revenue by 12% in 2020. The Independent embraced digital early, and appears to be reaping the rewards.

# UK MEDIA M&A
## HOT SECTORS

At this point, consolidation looks like a structural necessity. Traditional publishing is already a capital-intensive realm and substantial capital is required to undertake digital transformation. Early in 2020, struggling owner JPI Media – the UK's third-largest regional newspaper publisher – had suggested that it was no longer in search of a buyer, though it continued to divest assets: in October, Daily Mail and General Trust (DMGT) acquired its printing operations in Dinnington, Portsmouth and Carn.

But then, at the very end of the year, National World, a takeover vehicle headed by previous Mirror Group chief executive David Montgomery, announced that it had acquired JPI Media for around GBP £10.2 million. National World has set its sights on developing a 'sustainable local online news publishing model' that will benefit not only from JPI Media's long-established brands but also from its prior efforts in digitalising a handful of top titles.

**FIGURE 4: UK MEDIA M&A TRANSACTIONS BY SUBSECTOR 2020**




BROADCASTING AND CONTENT M&A PICKED UP IN H2 2020, JUST AHEAD OF PUBLISHING. MARKETING SERVICES AND ADVERTISING COMBINED ACCOUNTED FOR 28% OF ALL DEALS.



Events management unsurprisingly felt the full force of the COVID-19 outbreak. But early in the year, SMi Group, a company specialising in global events for the aerospace, defence and pharmaceutical sectors, was acquired by US-based SAE International, a professional association for engineers which operates internationally. Financial details of the deal, which allowed SAE international to merge SMi Group with its publication arm, Tech Briefs, were not released.

Later on in 2020, deals were thin on the ground in the events space, though some buyers continued to build their portfolio. In November Pageant Media, a provider of global business information and events, acquired Falk Margues Group, a conference and networking company specialising in promoting the advancement of women in the private equity, venture capital and alternative investment worlds. Financial details were not disclosed.

For events management, the acceptability of large gatherings in a post-vaccine world will determine the rate at which the sector as a whole can return to growth in coming years.

# THE MEDIA PORTFOLIO

Even private equity – no stranger to risk – was not entirely immune to the unique challenges of 2020. Deal volumes show the vacuum effect that the pandemic had on M&A. And yet, PE remained active in discussions around prospective deals, and global activity picked up significantly in H2 – in fact, the number of global PE-related deals increased by 19% in the second half of the year.

PE proved resilient in an extraordinary year dominated by the need to provide liquidity to portfolio companies and find effective ways to assess value. Fewer exit routes meant a relative spike in secondary buy-outs (SBOs), but PE again played a leading role in driving acquisitions. Deal flow will take some time to rebound as the pace of recovery, regulatory risks and changing demands continue to confound expectations.

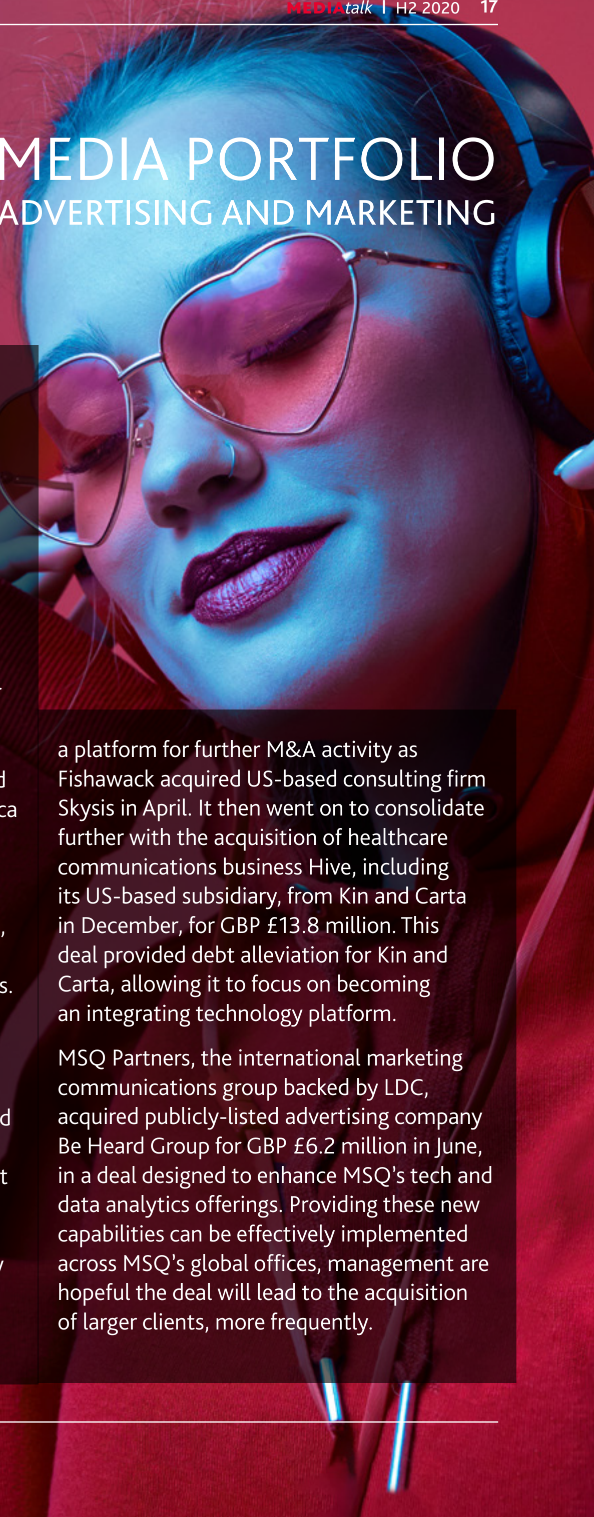
Buy-and-build deals remained on pace from previous years, demonstrating the value placed on digital content and health-related offerings in 2020. H2 saw a clutch of buy-and-builds, including Arsenal Capital's takeover of healthcare communications firm Cello Health PLC via Pharma Value Demonstration for a recommended cash offer of GBP £178.8m.

And digital sports platform DAZN Group entered into talks with TPG Capital in the summer around the possibility of selling a significant stake in a number of its brands. In September, Integrated Media Company (IMC), a portfolio company of TPG Capital dedicated to digital media, announced the acquisition of a majority stake in three online sports news brands from DAZN Group – Goal.com, SPOX Media and Voetbalzone.



# THE MEDIA PORTFOLIO

## PE'S LOVE-IN WITH ADVERTISING AND MARKETING



In many ways, and with a few notable exceptions, the advertising and marketing world has not historically been a natural ecosystem for PE to thrive. Businesses that rely on the vagaries of creativity, with talent locked up in individuals, may look a little too risky for the PE mindset, which tends to prefer more robust models offering predictable revenues and greater accountability, such as subscription-based platforms and software.

But advances in programmatic modelling, digitisation and global scalability have combined to make advertising and marketing much more attractive to PE houses. PE houses are attracted to advertising's increased strategic capability to measure and track effectiveness via data-driven decision-making, witness Blackstone Group's December acquisition of US-based marketing optimisation platform, Liftoff, in a deal estimated to be around USD $400 million. As a result, even in this COVID-hit era, many businesses focused on social media, digital advertising and publishing are delivering the sort of strong multiples and profitability that PEs look for. More recent subscription options have increased the appeal of publishing and programming too, whilst retaining a premium on creativity and inventiveness.

Communications firm North Alliance (NoA), a portfolio company of Norwegian PE house Norvestor Equity, acquired Swedish consultancy Peregrine in August. Peregrine's digital-first approach will be crucial in supporting NoA's data-focused development plans. This is NoA's second deal focused on enhancing data capabilities, following Norvestor's acquisition of a 60% stake in CapMan in 2018.

In March, US-based PE firm Clayton, Dubilier and Rice (CDR) announced its intention to take healthcare and communications group Huntsworth private through a recommended cash offer. The deal completed in May for circa GBP £575 million. Aimed at strengthening Hunstworth's offering in the medical space, the new backing allowed Huntsworth to embark on its own acquisitions later in 2020, including of Nucleus Global and Cormis Partnership, both medical industry specialists.

The management buyout (MBO) of medical communications agency Fishawack in April highlighted two trends of 2020: the contextual premium placed on health-related media, and the rise of SBOs. Bridgepoint Advisors supported the existing management in an MBO valued at GBP £240 million. It was the end of a fruitful era of growth for UK-based PE firm, LDC, which had previously supported an MBO in 2017 for GBP £38 million. Bridgepoint's investment provided a platform for further M&A activity as Fishawack acquired US-based consulting firm Skysis in April. It then went on to consolidate further with the acquisition of healthcare communications business Hive, including its US-based subsidiary, from Kin and Carta in December, for GBP £13.8 million. This deal provided debt alleviation for Kin and Carta, allowing it to focus on becoming an integrating technology platform.

MSQ Partners, the international marketing communications group backed by LDC, acquired publicly-listed advertising company Be Heard Group for GBP £6.2 million in June, in a deal designed to enhance MSQ's tech and data analytics offerings. Providing these new capabilities can be effectively implemented across MSQ's global offices, management are hopeful the deal will lead to the acquisition of larger clients, more frequently.

# THE MEDIA PORTFOLIO

## BACKING CONTENT

With the proliferation of devices and platforms, and restrictions forcing viewers to spend more time at home, global consumption of video and TV continues to rise. Even though filming of new shows and films ceased for much of the year, post-production and virtual effects companies worked on through the lockdowns. By working remotely through connected equipment and practising social distancing where possible, the subsector was able to stay active despite the disruption.

As content has become an increasingly popular commodity, PE has strengthened its foothold in the world of TV and film too. As in the publishing realm, access and scalability are critical considerations for investors looking to take advantage of popular titles matched with efficient distribution capabilities and audience access.

In November, PE firms Aleph Capital and Crestview Partners acquired Framestore, a UK-based visual effects company that has worked on many UK children's entertainment titles. It's the third major investment in Framestore in the last six years, and enabled Framestore's November acquisition of Company 3/Method (C3M) for an undisclosed sum. The deal will make Framestore the world's second largest visual effects company by headcount, adding 3500 artists, engineers and experts to Framestore's 2500 existing employees.

In July, Moonbug Entertainment, a creator of children's shows distributed across numerous streaming platforms, received USD $120 million in funding from a consortium of private equity backers led by Goldman Sachs Growth Equity. The deal follows an initial USD $145 million round of investment by many of the same players in December 2018. The Series B announcement in July coincided with Moonbug announcing the acquisition of two US-based children's entertainment companies, Blippi and CoComelon. CoComelon alone boasts over 3.5 billion online views a month.

Digital publishing also proved a hot marketplace amongst PE firms, with special interest, education and technology-focused brands all attracting investment. Red Ventures – a portfolio company of General Atlantic Service Company and Silver Lake Partners – made headlines when it acquired the popular digital media brand CNET from ViacomCBS for approximately USD $500 million. The deal, which includes CNET's subsidiaries Gamespot, Metacritic, TVGuide, ZDNet and Chowhound, will help ViacomCBS to level its balance sheet after its blockbuster merger. Only days after announcing this deal, Red Ventures expanded its digital content with acquisition of Lonely Planet Global, the digital travel content publisher, for an undisclosed sum.



# THE MEDIA PORTFOLIO

## SINGING A DIFFERENT TUNE

With growing supplies of dry powder, PE firms have been looking for more creative ways to deploy capital, and with the rise of subscription services, music copyrights have become highly sought after. Music-investment company Hipgnosis acquired a 50% stake in the publishing interests of Rick James in November, and made an early deal in 2021 for stakes in the interests of Jimmy Lovine, Lindsey Buckingham and Neil Young. Earlier in 2020, Stevie Nicks and Bob Dylan each sold a significant stake in their back-catalogue to Primary Wave and Universal Music Group respectively.

PE firms are also looking at leveraging the growth of OTT subscription services in the sporting world. Of course, sports is not a completely new environment for PE – European PE investor CVC Partners, for example, was an early mover that held a stake in Formula One for a decade. It has also acquired a minority stake in English Premiership Rugby and is in the mix for a reported share of GBP £300 million in the Six Nations Rugby tournament, as well as a EUR €1.6 billion investment in Italy's Serie A football league, alongside Advent International.

The scale of the opportunity is such that the big PE players all appear to be entertaining the chance to invest in Germany's top football league, the Bundesliga, as it maps out plans for a global pay service. Reports suggest the league is open to selling a stake in the range of EUR €200m to €300m. It will only be a matter of time before other leagues follow suit, and Italy's Serie A is already under pursuit.

# SPOTLIGHT ON THE US

SPOTLIGHT ON THE US

## BUILDING THE MEDIA CONGLOMERATES OF THE FUTURE

US media deal activity slowed in 2020 compared to previous years. In the wake of recent historic market shifts, many companies and investors opted to watch and wait for a shakeout before committing to any big moves that might contribute to the media conglomerates of the future. But the slowdown also created pent-up demand to put cash to work and capture new opportunities as consumer media consumption habits change.

After a stall in the first half of 2020, the end of the year brought a resurgence in ad spending, which was a boost both to entertainment companies and the media agencies that develop and place ads. Signs point to a busy year for deal flow and investment in 2021.

## DEAL OUTLOOK

In 2020, the US media and entertainment sector recorded 161 deals with disclosed financial terms worth some $60B in total announced value, according to S&P Capital IQ. Deal count declined 20% from 2019, but this is consistent with COVID-led market trends rather than a sign of any industry struggle.

While CFOs forecast economic recovery and increased deal flow for this year, according to the **2021 BDO Technology CFO Outlook Survey**, there is uncertainty around what's likely to come out of Washington DC. With a new administration and change of Senate control, new regulatory and oversight issues are coming to the fore. Consumer privacy issues, though put on the backburner during the pandemic, remain a bipartisan area of concern and are likely to be the subject of new legislation in the next few years. Indeed, for many companies, a standard set of privacy rules or guardrails may be welcome: some 45% of CFOs think the industry needs more regulation, according to our survey. And no matter which issues take priority on the new President's legislative agenda, media companies considering a merger or acquisition will need to place appropriate emphasis and value on information governance and sound data-ethics policies.

## DEAL DRIVERS

Looking ahead, built-up demand coupled with strategic and investor interest bode well for a resurgence in media deals in 2021. And already we can identify three major drivers of media and entertainment deal flow in 2021:

### CONSOLIDATION

In 2021, media & entertainment companies will live or die on their ability to optimise and scale effectively. Independent studios and film & TV libraries will continue to be in demand by the streaming services, according to S&P Capital. Similarly, media agencies and professional service firms will likely continue to merge and consolidate as they reorganise to address pandemic impacts and reduce costs.

Strategic deals will drive the vast majority of media M&A in 2021, with private equity keying in on subscription-based revenue models and other sectors where revenue growth is strong and stable. The resurgence of SPACs (special purpose acquisition companies) in 2020 is likely to continue as they are increasingly seen as attractive vehicles to facilitate some of the new year's industry consolidation.

### CONSUMER CHANGE

Significant economic change inevitably leads to significant behaviour change; very quickly, some business models lose relevance, while others surge in demand. Quibi, for example, started the year as a hot platform for consumers on the go, offering short-form content that differentiated it from other streaming platforms. But demand shifted when the pandemic hit: the platform closed in December, then sold its content to Roku in January. Looking ahead, we concur with S&P Capital that many media companies will be looking to divest no-longer-core assets, whilst simultaneously bolstering their capabilities across now-essential opportunities.

At the same time, online gambling surged in 2020 as consumers spent more time in home-entertainment mode, and brick-and-mortar businesses were forced to reimagine their spaces and offerings with new safety protocols and changing demand. This fact has clearly had a beneficial impact on gaming valuations, as demonstrated by the feverish bidding war for AIM-listed auto-racing game developer, Codemasters, involving bidders like US developer Electronic Arts (EA) and Take-Two Interactive Software. The online gaming industry is likely to continue to grow as strapped state budgets look for new ways to expand tax revenues, and we expect consolidation will drive deals in the gaming sector as well.

### CONTENT

Ad-based streaming services have generally performed well but face a growing challenge, as subscription services rise and competition increases. Consumers who wanted to cut cords are close to burnout on the breadth of streaming platforms. The key now will be content assets and the ability to differentiate. S&P Capital notes that Apple, Amazon and AT&T, among others, are likely to continue the chase for in-demand media assets. Streaming music platforms also continue to seek exclusivity following a year where many pivoted to provide live virtual concerts and other digital experiences.

# SPOTLIGHT ON THE US

## HOT SECTOR: PODCASTING

Surging demand for content and entertainment was a consistent trend in 2020 for consumers who spent more time at home than ever before. That trend will carry into 2021, and podcasting is one sector that is sure to benefit. Podcast listeners have grown by 37.5% in just three years, according to Edison Research, and listenership has likely not yet peaked. On Apple's platform alone there are 1.75 million podcasts and counting.

Streaming music giant Spotify is also seeking to be a leader in podcasting. In 2020, it signed several major deals, including for The Ringer ($196 million), Gimlet Media ($230 million), Anchor, Parcast and Megaphone, to bolster its content and enhance technology. Spotify also inked exclusive deals with Joe Rogan ($100 million), Prince Harry and Meghan Markle ($54.5 million), the Kardashians and others.

Similar to the streaming video platforms, exclusivity is a top goal for strategic deals due to the competition in the space. Podcasting is also likely to be an attractive market for PE investment, given that so many are built on a subscription model and there is potential for licensing and royalty revenue on top of traditional ad sales.

## HOT VEHICLE: SPACs

SPACs surged as a vehicle for deals in 2020, raising nearly $80 billion, up from $13.6 billion in 2019, according to Yahoo! Finance. In January, CNBC reported that a number of major media companies, including Group Nine Media, Bustle Digital Group, Vox, Vice and Buzzfeed, were in talks to consolidate and then go public via a SPAC. With ample targets on the market, 2021 looks to be another big year for SPAC deals in the media and entertainment sector. While this approach to scale is different than the many mega-mergers seen in 2019, these new companies will contend with scrutiny in the public markets and will need to ensure strong governance and financial reporting compliance are priorities alongside growth.

Though a relatively small portion of the SPAC funding targeted companies in the media sector (around USD $4 billion), such vehicles may well become more commonplace in the world's foremost media market. For example, in October Mountain Crest Acquisition Corp announced its acquisition of notorious publishing and programming company Playboy Enterprises, a combined entity with an estimated market cap of more than USD $370 million.





# LOOKING AHEAD TO 2021

On paper, the prospects for an M&A revival in 2021 look good. The pandemic has significantly accelerated remote working, ecommerce, digitisation and online entertainment, and the re-opening of economies should also lead to exciting comebacks for live entertainment and events management.

To the extent that consumer spending remains constrained in 2021, the amount spent on interactive and at-home entertainment is likely to continue to rise. Subsectors such as gaming and streaming content remain ones to watch as the big players fight to capture revenues by responding best to demand.

While generally, media revenue growth may be slower through Q1, we anticipate recovery to speed up over the rest of the year, and there could well be a shorter path for M&A too. A new approach to antitrust and privacy regulation in the US could precipitate M&A activity, for example, as businesses look to re-organise to adapt to any statutorily enforced changes.

In the US and elsewhere, the end of the year brought a resurgence in ad spending, which was a boost both to entertainment companies and the media agencies that develop and place ads. As advertising and marketing models continue to de-risk and add scale through digitisation, there is every sign of a busy year for ahead for deal flow and investment.

Investor trends could also make 2021 an interesting year ahead, especially in the rise of SPACs as funding vehicles. Though in the US, SPACs may eventually be limited by the lack of dedicated market and regulatory hurdles, the prospects for a number of European markets may be more immediate, meaning this could well be a space to watch.

While the pandemic impacted different sectors of the media and entertainment industry very differently, the common denominator is change. Change in consumer behaviour, change in demand, change in platforms, and ongoing disruption will no doubt fuel deal activity across each sector in 2021. So though we may not expect a return to pre-COVID deal volumes just yet, there is every chance of a strongly resurgent – and hopefully less turbulent – 2021…

Thanks for reading!

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