

H1: 2021

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A WORD FROM ANDY VINER

GLOBAL HEAD OF MEDIA AND ENTERTAINMENT

After a relative hiatus of the initial months of the pandemic in 2020, M&A sprang back in H1 and there's every reason to think that activity will continue to pick up pace in the coming months. There is no doubt that the success of vaccine programmes worldwide has helped set the stage for a surge in deal activity. Indeed, the first six months of 2021 have already produced a diverse array of deals including a series of blockbusters, blank cheque companies, consolidation in the US and Europe and much more.

'Digital-first' was a mantra heard across advertising, marketing and publishing where the shift towards online channels has been directly felt. This shift in consumption habits has led to advertisers focusing on adaptable and evidence-based targeting and publishers investing in tech platforms. Of course, the search for specialist content to serve niche markets also remains a driving force in publishing M&A.



A WORD FROM ANDY VINER

continued

Private Equity (PE) firms, sitting atop a mountain of dry powder in the range of USD\$1.9tn, were clearly willing to splash out to secure an advantage as we transitioned to the 'new normal'. Mid-market creatives and digitally enabled marketers and advertisers proved to be popular targets for PE investment, notably in the UK and Europe.

2020's rather sharp decline in advertising spend looks set to rebound in 2021/2022, and a glut of M&A in the advertising market shows that agencies are gearing up for a brave new digital world.

Live events were badly impacted by the pandemic, but major sporting events such as Euro 2020, Wimbledon and Formula One have shown that fans are eager to return. This will be music to the ears of a weary industry. For at-home entertainment, the demand for fresh content is likely to keep growing, which means production activity will be frenetic over the coming months – and M&A will follow.

The next six months will set a foundation for the future of audience and consumer engagement influenced by the lessons learned since early 2020. Clear priorities are emerging. Companies with limited in-house expertise

or capability in terms of e-commerce, analytics and other tech efficiencies have been exposed. Those who were unable or unwilling to acquire these capacities previously will now be in a race to do so.

Taking all of these factors into consideration the wave of potential media transactions over the next six months could see 2021 in record-breaking territory.

I hope you enjoy reading this edition. Do please share your comments or feedback at andrew.viner@bdo.co.uk.

Andy

ANDY VINER

Partner,
Global Head of Media & Entertainment



TRENDS AND ANALYSIS

GLOBAL TRENDS

The number of global media M&A deals leapt up by 37% compared to H1 last year. This reflected feelings of heightened optimism, despite the year beginning with continued lockdowns for many. The first half of 2021 has already packed in a wave of M&A headlines that could surpass an average year's worth.

In the US, the new administration turned around significant areas of policy, while across the pond the official divorce between the UK and EU led to some disruption and tension. Major sporting events lifted spirits at a much-needed time, even as the pace of the vaccination roll-out steadied. Global trade tensions were renewed with more hawkish governments in major trading centres, while the G7 presented a united front for future cooperation. That headline summary barely scratches the surface of the events of 2021 so far!

Much of the media world has been kept awake by the rapid shift of consumption to online and mobile channels. We have seen relative decline in traditional sources of revenue, which has opened up tremendous opportunities but also significantly raised

the bar for technological embeddedness. M&A activity was a clear reflection of these immediate trends. Trade buyers looked to shore-up their capabilities while investors, including PE funds with their abundance of dry powder, revealed their confidence in digitally and technologically enabled companies. With deal-making restrained for the vast majority of 2020, there was a glut of deals in H1, including several mega-deals:

- ▶ AT&T's spin-off of Warner Media
- ▶ Amazon's acquisition of MGM Studios
- ▶ Apollo Global Management's acquisition of assets from Verizon Media Group that sent total values through the roof.

Compared to H1 2020, the US increased its share of M&A deals as both an acquirer and a target region. As an acquirer, US-based companies snagged 34% of global media deals and the US saw 32% of global media deals as a target region. Around a quarter of US acquisitions were cross-border in nature, a slight decline on previous years but still relatively strong given the context. The UK was the recipient of a large portion of that buy-side interest, though deals also targeted continental Europe.

The Asia Pacific continued its run in second place as a target and acquirer region,

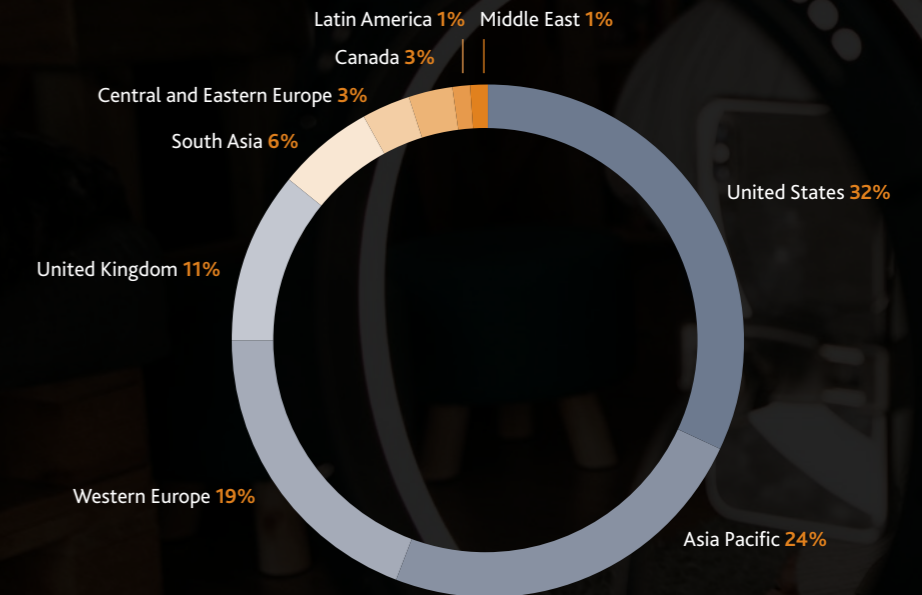
“Much of the media world has been kept awake by the rapid shift of consumption to online and mobile channels. We have seen relative decline in traditional sources of revenue.”



though it saw a relative decline on both sides compared to the same period last year. Driven primarily by activity in Japanese and South Korean media markets, the Asia Pacific made up 24% of global media deals as an acquirer region and 24% as a target region, representing a 4% and 2% drop respectively. With reports of Asia-focused PE funds raising almost 60% more in the first half of 2021 compared H1 2020, it is no surprise to see PE investors involved in the action. Notably, in June 2021, Keystone Private Equity of Korea announced the acquisition of a 15% stake in Seoul-based newspaper Asia Business Daily.

As with previous years, most deals were domestic (over 90% for South Korea, 85% for China, and 75% for Japan, for example) with some intraregional deal flow. Only 13% of acquisitions led by an Asia Pacific-based company targeted a company outside the region. A notable exception to this was US-based Match Group's announced acquisition of South Korean social media company Hyperconnect for a consideration of c. USD\$1.73bn. Hyperconnect owned two popular apps that use integrated voice and text translation to facilitate connections across geographic and language boundaries. This capability proved appealing to Match, who own dating app Tinder.

FIGURE 1: GLOBAL MEDIA M&A DEALS BY TOP TARGET REGION IN H1 2021



IN H1 2021, FURTHER CONSOLIDATION OF US MEDIA HELPED TO INCREASE ITS SHARE OF GLOBAL DEALS TO 32%. THE INCREASE IN ACTIVITY TARGETING THE US AND WESTERN EUROPE – WHERE SHARE OF DEALS ROSE TO 19% - CAME AT THE EXPENSE OF ASIA PACIFIC, WHICH NONETHELESS SAW 24% OF GLOBAL DEALS.

TRENDS AND ANALYSIS GLOBAL TRENDS

Western Europe (excluding the UK) also held its place as the third most prolific region in terms of combined M&A activity with its global share of media deals rising substantially in H1 2021. As a target of media M&A, Western Europe had a 5% increase in market share (19%) compared to H1 2020 which was also the case on the acquiror side where it saw 20% of global media deals. Moreover, the appetite for deals was widespread with the Netherlands and Sweden making the largest contributions to European media M&A by volume, followed by Germany, Spain and France.

One notable deal in March was the announcement that Swedish audiobook subscription service and Audible rival Storytel will acquire a 70% stake in Bokförlaget Lind & Co. Lind & Co are one of Sweden's most successful publishing houses. Early movers in digital publishing, they also own a strong selection of Swedish literature.

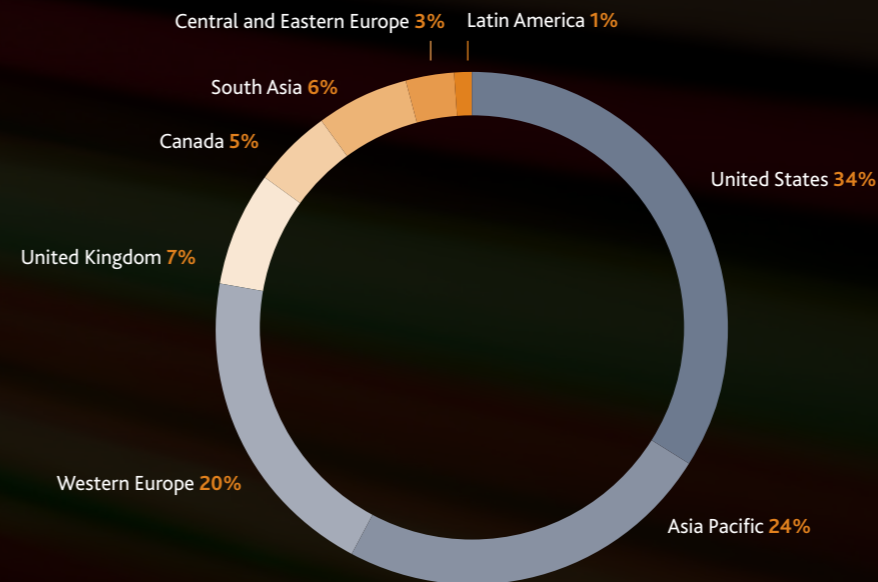
Central and Eastern Europe also saw a relative surge in media M&A rising to a 3% share of global media deals as both a target and acquiror region.

The **UK** remained one of the foremost media markets in the world recording 7% of global media M&A as an acquiror region, with the US the primary target region for British buyers. As a target region, the UK saw 11% of global media deals attracting interest from the US –but also an array of European partners including the Netherlands, Spain, France, Norway and Germany.

The **South Asian media market**, including India's flourishing mediascape, has continued to be a source of regular M&A. As a target region, South Asia increased its share of global media deals by 1% compared to H1 2020, taking 6% of all sell-side deals. On the buy-side, the region recorded 6% of global deal-making.

Back in **North America**, Canada saw its share of global deals decline as both a target and acquiror region. As a target of M&A transactions, Canada saw 3% of media deals while as an acquiror region it still held 5% of global media M&A.

FIGURE 2: GLOBAL MEDIA M&A DEALS BY TOP ACQUIROR REGION IN H1 2021



ON THE BUY-SIDE THE DOMINANT US TOOK 34% SHARE OF DEALS. AGAIN, INCREASES FOR THE US AND WESTERN EUROPE (20%) SLIGHTLY DIMINISHED ASIA PACIFIC'S SHARE OF DEALS. IT REMAINED IN SECOND WITH A 24% SHARE OF GLOBAL MEDIA DEALS.

TRENDS AND ANALYSIS

GLOBAL TRENDS

MEGA-MAY'S DEALS

With all the talk of technology and tech-enabled companies driving transactional activity, it would be easy to overlook the fact that media contributed some of the highest numbers and most significant deals in H1.

In May, Amazon took a big swing when it announced a major deal to acquire famed production studio Metro Goldwin Mayer (MGM) for a consideration of c. USD\$8.5bn. Though regulatory hurdles remain, presaged by public criticism from some US antitrust lawmakers, the deal would furnish Amazon with an esteemed archive of IP including partial ownership of the James Bond franchise. How Amazon intends to use the archive will be crucial to assessing the virtues of the transaction in the future, but just as important could be how Amazon makes use of MGM's talent and experience in producing world-leading titles.

Amazon, who made a few key media acquisitions in the first half of 2021, wasn't only swinging for the fences. Following its acquisition of podcast producer Wondery in 2020, Amazon announced a planned acquisition of US-based podcast monetisation platform Art19 for an undisclosed sum in June. Art19 offers premium host-read advertising as well as an inventory of pre-made podcast advertisements. As with Wondery, Art19 will

“Though several years behind Spotify, Amazon appears to be following a similar model of incorporating exclusive podcast content into its music subscription service.”

be housed inside Amazon Music. Though several years behind Spotify, Amazon appears to be following a similar model of incorporating exclusive podcast content into its music subscription service. As a revenue model, this differs markedly from the advertising-based approach that has been dominant in the industry. These players are certainly indicating that bundled content is one potential future of subscription services.

Another mega-May blockbuster included AT&T's spin-off of Warner Media. US-based media and entertainment giant Discovery, renowned for its nonfiction programming, agreed to acquire Warner Media in an all-stock transaction valued at c. USD\$87.1bn. The deal still awaits regulatory approval, as well as a name for the newly created entity, but will emerge as a likely competitor to existing cable

networks and streaming players. Each entity already owns its own streaming platform – HBO Max (c. 60m global subscribers) and Discovery Plus (c. 15m global subscribers) – though neither have found the magic formula. The new company will boast HBO, CNN, Cartoon Network, TBS, TNT, Warner Bros Movie Studio, Animal Planet, Food Network, TLC, HGTV, and others under one roof. Whether a fuller library can inspire significant subscriber growth will be the question in unlocking further revenue.

Never far from the headlines, private equity firm Apollo Global Management, along with LionTree Advisors, announced its own mega-deal in May when it agreed to acquire the assets of Verizon Media Group (VMG) for a consideration of c. USD\$5bn. The resulting company, which will be known as Yahoo, contains a collection of internet-based brands across publishing and advertising. It is expected that the deal will allow Apollo's existing portfolio to find synergies with Yahoo's diverse online presence and strength in e-commerce and AdTech. It is unclear whether the deal will also furnish the new company with rights to National Football League (NFL) streaming – based on a deal made by Yahoo Sports in 2017 – or National Basketball Association (NBA) virtual reality broadcasts – agreed with VMG subsidiary Ryot in 2020.



SIMPLY IN TERMS OF CONTENT, THE TREND HAS BEEN TOWARDS ONE OF LOCALISATION, EVEN 'HYPER-LOCALISATION'. THIS SOMEWHAT DULLS THE APPEAL OF MERGING ENTITIES ACROSS NATIONAL BOUNDARIES WHEN INTERNATIONAL MEDIA CONGLOMERATES ARE BENEFITTING FROM BROADCASTING THAT'S BUILT AROUND LOCAL TASTES.

CONSOLIDATION ON THE CONTINENT

For largely practical reasons, the idea of consolidation across the European broadcasting space has not been met with a great deal of excitement.

One proponent of such consolidation, Luxembourg-based RTL Group, announced the acquisition of a 50% stake in RTL DISNEY Fernsehen in March, a deal that will give RTL Group 100% ownership of Super RTL. The latter was started as a joint venture between RTL and Walt Disney in 1995 as a Germany-based provider of children's content. In June, RTL Group also announced the acquisition of a 70% stake in Netherlands-based Talpa Network, creator of Big Brother and The Voice, via its Dutch subsidiary. Further detail on this is shared in our Netherlands section.

Across the Atlantic, consolidation in the US broadcasting market continued at a steady pace with Gray Television scooping up some prime assets. Also in May, Gray announced the acquisition of assets including 17 TV

stations from Meredith Corp in a transaction valued at c. USD\$2.7bn. The deal is another in a long line of acquisitions for Gray over the past few years and brings Gray's reach to 36% of the US market. Meredith, meanwhile, will use the spin-off as an opportunity to focus its energy on its magazine and digital publishing business. Earlier in the year, Gray had already announced its intention to acquire the family-owned media business Quincy Media, owner of TV stations covering 102 US markets, for a consideration of c. USD\$925m.

In April, Mexico-based Grupo Televisa and US-based Univision announced their intention to merge in a transaction valued at USD\$4.8bn. The merged entity would become the largest Spanish-language media company in the world, according to the joint announcement. The wealth of cable, film and radio content, alongside existing subscription services will hasten the development of a Spanish-language streaming platform with access to newly produced content and IP.

TRENDS AND ANALYSIS

GLOBAL TRENDS

LISTENERSHIP RISING

With listening figures soaring and 155m albums purchased or streamed in 2020 according to the British Phonographic Industry (BPI), music publishers were busy.

With a notable boost in demand over the past 18 months, the global music industry has seen a growing and increasingly diverse base of investors – from industry titans to tech platforms and fintech, pension funds and Special Purpose Acquisition Companies (SPACs). As a result, there has also been an acceleration of deal flow through H1 which, according to some counts, has already

eclipsed the value of deals struck during 2020. In June, for example, Sony Music continued a busy six months that included deals across the gaming, tech and music spaces, with the announcement of the acquisition of a majority stake in Alamo Records. A multi-genre label devoted to finding and nurturing new talent, Alamo will remain a creative centre maintaining its own roster of artists under the Sony imprint.

While streaming has in many ways helped rescue the music industry after two decades of digital piracy, it has also revealed deep structural issues. Starting in October 2020, the UK Department for Digital, Culture, Media and Sport (DCMS) began a six-month inquiry into the economics of music streaming. The report revealed that the talent driving streaming growth – namely performers, songwriters and composers – is not

receiving an adequate share of profits. Record labels and streaming sites came under heavy criticism. Streaming services take between 30-35% of streaming revenue while the remaining royalty pot is dominated by record labels. The report demonstrated the dominant position that incumbent record labels have over the industry, making it difficult for new entrants to gain significant market share. Moreover, these incumbents are using size to their advantage, often acquiring smaller independent labels and rightsholders. For instance, in H1 Sony Music Entertainment bought AWAL Digital and Kobalt Neighbouring Rights together in an all-cash deal valued at USD\$430m. The deal entwines the ability to secure comprehensive consumption data and licensing for multimedia use of music.

To achieve equitable remuneration for the artist, the DCMS report recommended using existing legislation to reclassify music as a “rental” when it is played on streaming platforms. This would bring streaming plays in line with radio plays when it comes to royalty division. The findings of the report will be heavily contested and are unlikely to produce sweeping change in the short term, however even small changes could alter the landscape of the music industry over the next decade, and M&A accordingly. These changes could certainly shift the balance of bargaining power.

“While streaming has in many ways helped rescue the music industry after two decades of digital piracy, it has also revealed deep structural issues.”

In the context of artist rights, Jack Dorsey's financial services firm Square announced the acquisition of a majority stake in music and entertainment platform Tidal for USD\$297m in March. The deal will also see Shawn “Jay-Z” Carter named to the Board of Directors of Square. As a music service committed to artists, the deal unites Tidal's purpose of supporting artists and providing them direct access to their audience with Square's Cash App which makes financial services more accessible to underserved sections of the market.

Excitingly, global listenership is up across every demographic in almost every region of the world. Spotify, which controls around 40% of the streaming market, is the platform most likely to overturn the balance of bargaining power, not necessarily in favour of artists, but through the success of its lists – now the most common way many people listen to music. Over the last year, Spotify's stock price has doubled and its paid subscriber

base continues to grow. A crucial part of its recent strategy has been to invest heavily in podcasting production and content. This should provide Spotify with a portfolio of content that will, even in a small way, reduce its immediate reliance on licensing deals with major labels. In June, Spotify acquired PODZ, a US-based technology start-up that uses machine learning to generate enticing clips of podcasts, for an undisclosed consideration. The deal followed another H1 acquisition of Betty Labs, best known as the developer of Locker Room, the live audio app for sports fans and insiders.

Whether Apple and Amazon decide to beef up their presence in the music streaming marketplace will determine one direction for M&A activity in the sector. While less likely, even Spotify could find itself a target for acquisition given its robust market position and business model. This opportunity to unite such services and reflect an artist-led experience, may be one that appeals to a suitable PE backer.



ON THE OTHER HAND, INDIVIDUAL

ARTISTS ARE REVEALING ANOTHER POTENTIAL DIRECTION THAT COULD CREATE INTRIGUING OPPORTUNITIES FOR EXISTING OR NEW PLATFORMS. NEIL YOUNG AND MELISSA ETHERIDGE, FOR EXAMPLE, HAVE EACH SET UP THEIR OWN SUBSCRIPTION SERVICES GIVING LISTENERS ACCESS TO THEIR ARCHIVES, INCLUDING AUDIO AND VIDEO CONTENT. AS MORE ARTISTS REALISE THE POTENTIAL TO 'GO DIRECT', IT COULD ONLY BE A MATTER OF TIME BEFORE A PLATFORM EMERGES.



TRENDS AND ANALYSIS

GLOBAL TRENDS

SPAC INVADERS

The music industry has also been heavily involved in another of H1's major themes – SPACs (Special Purpose Acquisition Companies). Heading into 2021, SPACs were already a hot topic having raised substantial sums of money in 2020. In H1, SPACs seemed almost ubiquitous with deals across music publishing, digital news and media, gaming, AdTech and related sectors from the Asia Pacific to the US.

In June, Bill Ackman's Pershing Square Tontine Holdings announced a USD\$4bn transaction for a 10% interest in Universal Music Group (UMG). The deal was later axed following regulatory and shareholder complications, however UMG remains available and a re-structured deal appears possible in H2 2021.

Independent music company, Reservoir Media Management, which holds a catalogue of more than 130,000 copyrights including artists from Johnny Cash to Migos, is set to go public via an April agreement with Roth CH Acquisition. The deal gives the combined company an enterprise value of USD\$788m. In June, Reservoir announced that it had also acquired Tommy Boy Music, the US-based record label and music publisher renowned for its catalogue of hip hop and electronic artists, for a consideration of USD\$100m.

Since early 2020, digital media company BuzzFeed had been linked to an intention to go public. In June 2021, it decided on the SPAC route, announcing an agreement with 890 5th Avenue Partners. The deal values BuzzFeed at c. USD\$1.5bn and will include the acquisition of Complex Networks from Hearst and Verizon for USD\$300m. The deal initiates a new round of consolidation in the digital media space as the new company will explore new opportunities for M&A. The announcement was quickly followed by suggestions that digital publishers such as Vice News and Vox Media could follow BuzzFeed's path into Public Markets.

Gaming, a global market estimated at c. USD\$200bn already exceeds the music and video streaming markets and boasts further growth potential. Roughly half of the gaming market is mobile gaming, which is also one of the fastest growing segments. In February, the SPAC Kismet Acquisition One entered into an agreement to combine with Nexters in a deal that gives Nexters an enterprise value of USD\$1.9bn and will see it listed on the Nasdaq Global Select market. Nexters is one of the top independent European game developers and produces mobile, web and social games for a global audience. Its best-known game, Hero Wars RPG, was downloaded 36m times in 2020.

In February, another gaming-related transaction saw Playstudios strike a deal with Acies Acquisition Corp who are a SPAC led by former MGM Resorts CEO Jim Murren.



PLAYSTUDIOS IS A MOBILE GAMING DEVELOPER WITH A UNIQUE PROPOSITION THAT SEEKS TO BLEND THE VIRTUAL AND REAL WORLDS OF GAMING. ITS LOYALTY PROGRAM REWARDS PLAYERS THROUGH PLAYAWARDS WHICH CAN BE REDEEMED AT MGM CASINOS. THE DEAL EXEMPLIFIES THE GROWING INTEREST IN BUSINESS MODELS THAT CAN STRADDLE VIRTUAL AND IN-PERSON ENTERTAINMENT EXPERIENCES.

The deal values Playstudios at around USD\$1.1bn and is one of many where competitors are jumping on the recent spike in gaming's popularity.

With the soaring popularity of mobile gaming it wasn't only SPACs that saw activity. Electronic Arts (EA) completed the acquisition of US-based mobile game developer and publisher Glu Mobile valued at c. USD\$2.17bn in April. This deal was followed up in June with EA announcing another big mobile game acquisition of the UK-based developer Playdemic for a consideration of c. USD\$1.4bn from sellers including Warner Bros Interactive Entertainment and AT&T. The deals rapidly expand EA's presence in the mobile gaming world, aligning its business offering to take advantage of the boom in demand for mobile games which has risen even further through the pandemic.

Sweden-based game developer Embracer Group, primarily known for PC and console games, also dipped into the mobile gaming sphere when it announced the acquisition of Cyprus-based Easybrain for a consideration of USD\$640m. The deal, which will be paid entirely in shares, will see Embracer Group merge with Easybrain and form its eight-operative division intended to foster further mobile expansion. The deal was announced concurrently with two additional acquisitions for US-based developers Aspyr Media and Gearbox Software for considerations of USD\$100m and USD\$363m respectively.

Heading into 2021, SPACs were already a hot topic having raised substantial sums of money in 2020.

TRENDS AND ANALYSIS

GLOBAL TRENDS

DIGITAL AND TARGETED

Given the changing patterns of media consumption across all geographies, advertisers are being pressed to find the most effective ways to maximise their reach. Making matters more difficult is the pace of change and the variety of different situations that both brands and advertisers are being confronted with. It is no wonder that M&A was strong in this segment of the market and deals tended to reflect one or some mixture of digital permeation, localisation of content, good analytics and the ability to message across channels.

Digital marketing firm Jellyfish Group announced a handful of acquisitions in February 2021 to expand its digital vocabulary and expand its global presence. The acquisitions included:

- ▶ UK-based Quill and Splash
- ▶ France-based Seelk and Webedia
- ▶ Australian-based Data Runs Deep.

The deal values were undisclosed, but Jellyfish now has a presence in all strategic markets and the acquisitions will enable it to roll out localised strategies and content.



“Having a digital edge has clearly appealed to PE investors as the first half of 2021 was rampant with investment announcements for forward-looking, mid-market agencies.”

TRENDS AND ANALYSIS

GLOBAL TRENDS

Shortly before announcing a network-wide rebranding, S4 Capital – now Media Monks – continued its acquisition spree. In January 2021, it announced its acquisition of two US-based digital agencies, Decoded Advertising and Metric Theory, for a consideration of c. USD\$200m. As with all other acquisitions made prior to S4's rebranding, the companies slotted into different pillars with Decoding joining the creative and content pillar under subsidiary Media Monks, and Metric joining the programmatic

pillar under subsidiary MightyHive. Following the change, those two pillars designated by Media Monks and Mighty Hive will be merged under Media Monks offering a more holistic approach in its operations. Also in January, S4 expanded its operations in the Asia Pacific when it announced the acquisition of Tomorrow, a China-based strategic communications agency, for an undisclosed consideration from Swedish PR firm H&H Group. S4, which has been on a run of deals and currently sports a market cap of

close to GBP£4bn, is likely to make further announcements before the end of the year.

UK-based data-driven consulting firm Kantar enhanced its analytic prowess when it announced the acquisition of Netherlands-based MeMo2 in June. MeMo2 specialises in tracking the effectiveness of cross-media campaigns. The final deal value was not disclosed. In June, France-based data-driven marketing company Isoskele announced its takeover of another French agency, TimeOne Group, a digital marketing

specialist focused on customer acquisition. The consideration was also not disclosed.

Spanish communications consultancy LLYC announced a May acquisition of Apache Media for an undisclosed consideration. Apache, a performance digital marketing firm, will help solidify LLYC's Deep Digital unit focusing on leveraging analytics for learning and generating influence. The integration will be gradual, with Apache initially operating independently but as an LLYC company.

Big fish marketer, Publicis Groupe, also found itself in the headlines with rumours of a potential sale, to which both PE interest and media giant Vivendi has been linked. The sale has been denied by the company. With the swift rebound in market activity these rumours, which appeared early last year, appear to be getting caught in the upswell.

In H1, Publicis also made some notable moves to buttress its creative and strategic offering. In February, the company announced the acquisition of Octopus Group for an undisclosed consideration. Octopus is an integrated agency whose technological prowess will have been attractive in a world of e-commerce and disrupted consumption patterns. Publicis also added another acquisition in April of UK-based Taylor Herring, an agency that has won industry plaudit for its innovative brand campaigns. Taylor Herring will immediately become part of the Publicis Influence practice, and includes Taylor Herring's in-house production company, St. Mark's Studios.

Having a digital edge has clearly appealed to PE investors as the first half of 2021 was rampant with investment announcements for forward-looking, mid-market agencies. To name just some, in June, France-based B2B digital marketing agency Labellium, portfolio company of PE firm Qualium Investissement, expanded its capabilities by announcing the acquisition of tech-enabled agency Arcane for an undisclosed consideration. Labellium subsequently fostered interest from UK-based private equity firm Charterhouse Capital

Partners which announced its intention to acquire the agency from Qualium in a deal likely to close sometime in H2.

Sweden-based private equity firm Storskogen Group announced the acquisition of a majority stake in Swedish digital growth consultant Bombayworks in April. Bombayworks has a successful track record with large clients including Toyota, Electrolux and Ikea.

In April, UK B2B marketers The Marketing Practice attracted an injection of investment from Horizon Capital. The company says it intends to use the fresh liquidity to solidify its expertise in tech and data. Sideshow Group, an evidence-based digital communications company with ambitious growth plans, also found a willing partner in Dutch PE firm Waterland Private Equity. Waterland PE is keen to support Sideshow in its goal of becoming the global leader in evidence-driven marketing and transformation.



UK MEDIA SECTOR M&A TRENDS

UK media M&A picked up dramatically in H1 2021 and deals were only 17% behind the whole twelve months of 2020 combined. Activity was in part supported by ample liquidity and rebounding optimism on the back of the UK's successful vaccine rollout.

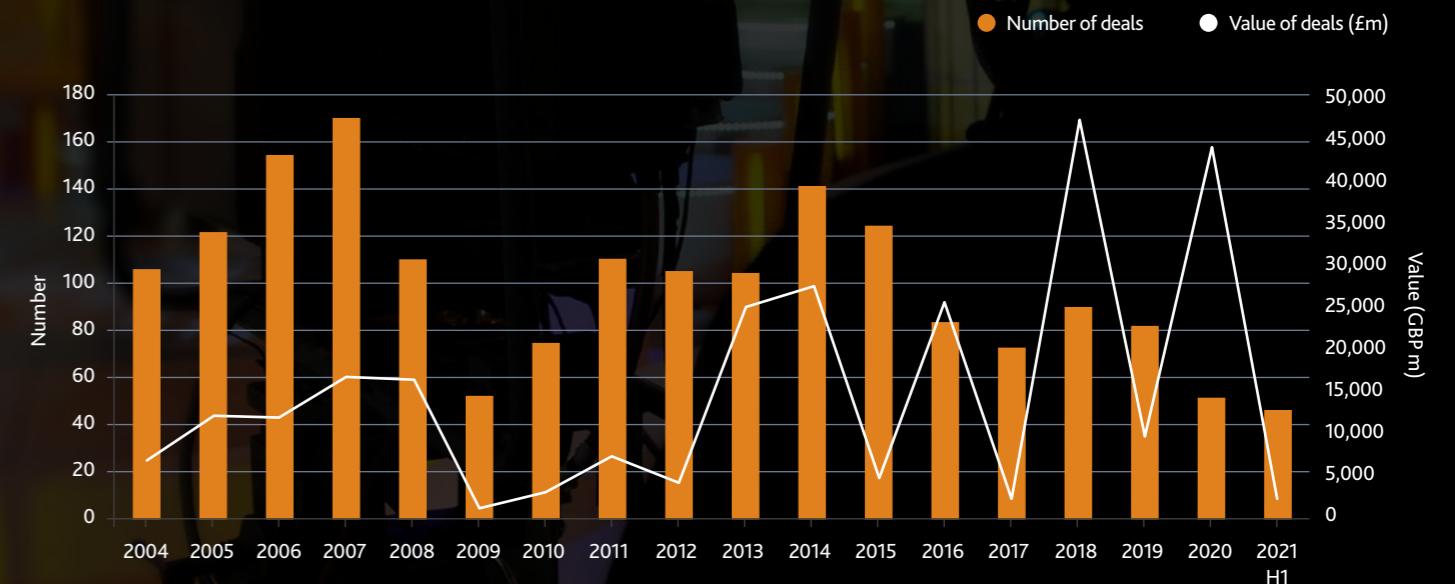
As with global markets, the strength of recent experience – including the reliance on remote technologies from broadcasting to publishing and advertising – drove decision making as the focus on technology was the impetus behind many media transactions in H1. With declining ad spend, digital advertisers found themselves relatively well positioned to support the boom in e-commerce, while streaming content was a hot commodity providing comfort to many in lockdown. Meanwhile, healthcare continued to benefit from increased attention across public relations and publishing.

Events management has been especially impacted since the beginning of the pandemic. The re-opening may feel long coming for many in this subsector and there are signs of growing optimism. For example, Trafalgar Entertainment announced the acquisition of HQ Theatres, operator of 11 UK-based theatrical venues, for an undisclosed consideration. The deal is proof that live events are ready to join the recovery.

“With declining ad spend, digital advertisers found themselves relatively well positioned to support the boom in e-commerce.”

FIGURE 3: UK M&A VOLUMES AND VALUES (MEDIA SECTOR 2004-H1 2021)

THE VOLUME OF TRANSACTIONS IN H1 ALMOST MATCHED THE TOTAL NUMBER OF UK MEDIA DEALS IN 2020. THE LOW AGGREGATE DEAL VALUE IS PRIMARILY BECAUSE OF FEWER MAJOR DEALS; THE ABSENCE OF ANY MEGA-DEALS IN THE UK MARKET VERSUS PREVIOUS YEARS; AND RELATIVELY FEW DISCLOSED DEAL VALUES.



MEDIA M&A

HOT SECTORS

PE ON THE DIGITAL HUNT

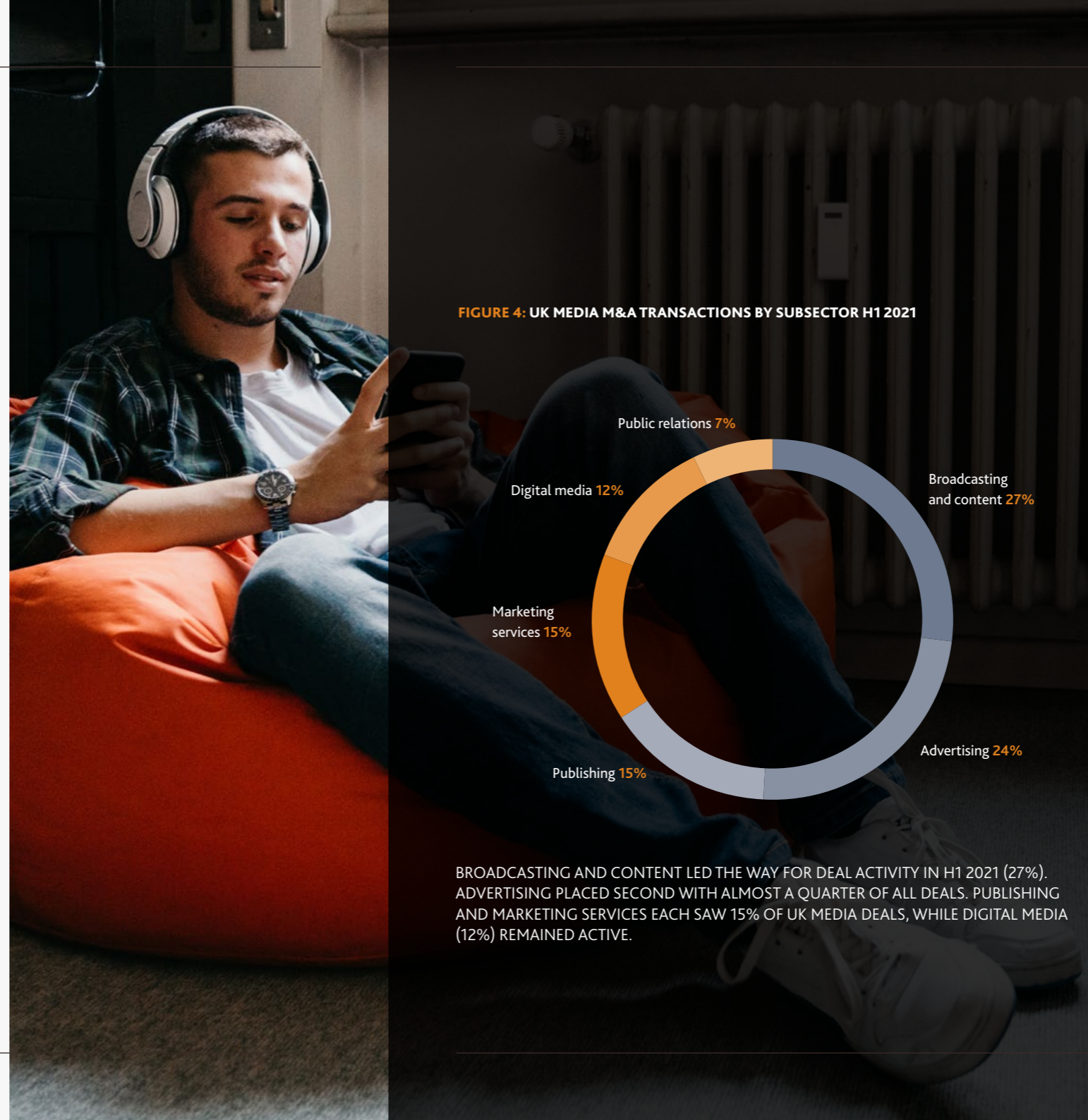
Marketing Services and Advertising combined accounted for over a third (39%) of all UK media deals in the first six months of the year. Agencies with proven e-commerce capabilities found themselves in high demand driven, in part, by the reality of an ongoing lockdown for the first half of H1 but also changing expectations around the impact on consumer behaviour over the longer term. In pursuit of growth potential, PE firms were quickly in the mix to acquire marketing companies optimised to target consumers effectively.

UK-based PE firm Foresight Group acquired a majority stake in e-commerce specialist Space 48 for an undisclosed fee in February. For more than a decade, the Manchester-based agency has been optimising online offerings through growth marketing, UX design and app development. At the end of June, LDC, the London-based PE firm, invested c.GBP£13m in Hybrid News as part of a Management Buyout (MBO). Based in Bristol, Hybrid specialises in targeting niche audiences within the education and technology sectors, leveraging owned brands including Tech HQ and Study International. The company has already developed an international client base focusing on brand development, marketing insights and analytics. Hybrid also has a

track record in higher education, supporting student recruitment and marketing.

Another digital-first agency, Byte London, was sold for an undisclosed fee in February to Netherlands-based Dept, a portfolio company of Carlyle Group, who has been growing via strategic acquisitions since taking on PE backing in 2015. Byte is a marketing technology agency that specialises in chatbots, augmented reality and paid media; all services which fit with Dept's e-commerce business strategy. Byte has orchestrated campaigns for the e-commerce giant ASOS, leveraging audience engagement on the fast-growing video social media platform TikTok.

However, not all tech-focused marketing agency deals in H1 were private equity backed. Adstream, a software led advertising agency offering cutting-edge programmatic services, was snapped up by the US-based video advertising agency Extreme Reach in April. The deal highlights strong international interest in tech-focused UK advertising agencies.



BROADCASTING AND CONTENT LED THE WAY FOR DEAL ACTIVITY IN H1 2021 (27%). ADVERTISING PLACED SECOND WITH ALMOST A QUARTER OF ALL DEALS. PUBLISHING AND MARKETING SERVICES EACH SAW 15% OF UK MEDIA DEALS, WHILE DIGITAL MEDIA (12%) REMAINED ACTIVE.

REMOTE CONTROL

Broadcasting and Content accounted for 27% of media transactions in H1 2021. While lockdowns stoked demand for engaging content, social distancing policies put pressure on the studio production process. One firm feeling the pinch was Evolutions Television, an independent post-production specialist. It received investment from PE firm Endless through its Enact Fund. Quickly following this announcement, Evolutions launched an 'at home' service for its editors, enabling professional grade production remotely. This is one example amongst many of firms adapting business processes during the COVID-19 pandemic. PE firms, aware of the long-term competitive advantage such investments can produce, have long been well-positioned to capitalise on such moments of business transition.

In February, Asacha Media Group acquired UK factual TV producer WAG Entertainment for an undisclosed fee. Asacha represents a newly minted platform company headquartered in Paris with PE backing from Oaktree Capital Management. It produces content for traditional broadcasters such as Italy's Rai 1 station, as well as on-demand platforms including Discovery. The purchase of WAG Entertainment came after Asacha bought majority stakes in two Italian TV production companies and took control of French-based Mintee Studio last year.

MEDIA M&A HOT SECTORS

CATALOGUING CONSUMER TASTE

With publishing accounting for 15% of media deals in H1, several deals targeted scientific subject matter. John Wiley & Sons, the American multinational publishing company, acquired Hindawi, one of the world's fastest growing scientific research publishers running an innovative open-access business model alongside a fully digital publishing process. The total purchase price, achieved via auction, was thought to be USD\$298m. Also within scientific publishing, the British Journal of Cancer was acquired by the German-British academic publishing company Springer Nature.

Meanwhile, at the consumer end, weekly science and technology magazine New Scientist was acquired by the Daily Mail and General Trust (DMGT) in a deal valued at GBP£70m. This deal, which represents further consolidation in traditional print media, is DMGT's latest acquisition since it purchased three contract printing sites from JPIMedia last year. With strong profit forecasts, a healthy subscription base and strong digital capabilities, the New Scientist is an attractive target.



THE HEALTH IMPERATIVE

Healthcare seemed to dominate PR M&A, which accounted for 7% of all media deals in H1. Amidst a backdrop of COVID-19, the fast-evolving healthcare and pharmaceuticals industry continued to dominate headlines. Demand for timely and specialist PR messaging from this sector has never been greater.

PE firm NorthEdge Capital announced the acquisition of Helios Medical Communications in January. This kicked off the first of three investments made by NorthEdge, the other two in computer services firms Correlia and Distology. March saw two more deals

involving medical PR companies. Intermediate Capital Group (ICG) made an undisclosed investment in Lucid Group, a London based healthcare communications firm looking to follow its own acquisition trail. Following investment from ICG, Lucid went on to acquire DiD, a US based brand consultant. The second deal in March saw Sovereign Capital Partners join the fray with an undisclosed investment in Bioscript Group, a medical communications and regulatory writing agency with a focus on clinical medical communications. Clearly, the importance of effective messaging on health-related issues has caught investors' attention in H1.

The health imperative will hardly come as a surprise, but PR campaigning and corporate reputation are also in high demand with increasing attention on Environment, Social and Governance (ESG) goals. In May, London-based PR consultancy Headland, which specialises in financial and corporate reputation as well as wider consultancy and campaign activities, received a minority investment from the mid-market focused PE firm, LDC. The deal, with an undisclosed value, will provide important support for the quickly growing consultancy.

SPOTLIGHT ON THE NETHERLANDS

Media deal activity in the Netherlands is being driven by consolidation throughout media subsectors and M&A to power global ambitions in new, digital-first spaces. As part of one of Europe's most innovative media markets, Dutch companies are also popular targets for international investors.

DUTCH MARKET PERFORMANCE

The Netherlands is a medal contender when looking at GDP per capita, and in 2019 its GDP of USD\$907 billion was the 17th highest in the world.

Internet and mobile penetration rates are among the world's highest in the Netherlands, and the Dutch are active daily users of a wide variety of media content. When looking at the average time spent per day, top performers include:

- ▶ TV/streaming
- ▶ Social media
- ▶ Physical and online news
- ▶ Music streaming
- ▶ Radio listening
- ▶ Online gaming.

In other words, the media market in the Netherlands is driven by a population with buying power, diverse tastes and good access to media. These factors contribute to Dutch media companies being attractive targets and national consolidation of media platforms, as technological advances have created new opportunities and challenges.

THE LAST MAJOR CONSOLIDATION?

In June, RTL Nederland and Talpa Network announced their intention to merge the two media groups. Primarily focused on TV and streaming, the two conglomerates also include radio, print and digital media platforms.

The combined group's 2020 revenue would total EUR€909m with around EUR€84m in operating profits. Deal arguments include significant value creation for shareholders and companies through synergies, estimated to equal between EUR€100m and EUR€120m per year.

Alongside the Super RTL and Talpa Network deals, however, RTL appears to be using a balanced approach, taking an alternative avenue to further consolidation focused at national scale. In another mega-May deal, France-based television broadcaster and listed company TF1 announced that it had acquired the multimedia company Groupe M6. TF1, M6, Bouygues and RTL agreed to merge the activities of TF1 and M6, taking a major step towards consolidation in the French market intending to accelerate the development of French streaming services. The deal will create a merged company with a pro forma value of c. EUR€3.4bn.

SPOTLIGHT ON THE NETHERLANDS

Simultaneously, the deal marks a final consolidation of Dutch commercial TV with one vendor left standing. Similar consolidation scenarios have played out across traditional media subsectors as ever-increasing competition from digital newcomers has driven M&A activity.

Streaming services challenge terrestrial TV; podcasts throw down the gauntlet to radio; and traditional news media must deal with web aggregators and digital-first niche media. Another challenge is that technology platforms like Facebook and Google (including YouTube) are increasingly among primary media and advertising channels for consumers and companies.

While consolidation seems to have reached its peak, more M&A is likely as incumbents will continually be pressured by the digital newcomers.

Some deals will be tied to secure production capabilities in the ongoing 'war for content.' While RTL/Talpa plans to spend an impressive EUR€400m on content, it pales in comparison with Netflix's content budget of a whopping USD\$17bn in 2021 alone.

Bolt-on M&A deals involving data analysis, AI and machine learning companies are also expected, as traditional media continues to struggle with turning data troves into new revenue streams.

DIGITAL GROWTH AMBITIONS

Another M&A driver is younger, digital-first companies in high-growth spaces, such as digital transformation and marketing. These companies have performed impressively over recent years, with many doing exceptionally well during COVID-19 as online advertising and sales became the dominant channels.

Building on that growth is top of mind, with many digital agencies actively looking to expand to new markets and build-out service portfolios. As a result, the industry is experiencing a string of deals within the Netherlands aimed at making revenue growth sustainable while growing rapidly. Dutch companies are also using M&A to achieve rapid market growth and international expansion. While the home market is strong, alluring, more sizeable markets exist elsewhere. This has led Dutch media companies, like Debt Agency, to look west to the US and UK. Azerion is one such company who acquired Collective Media Europe, a UK-based creative digital solution provider and Strossle International, a Swedish-based media tech company.



PRIVATE EQUITY'S GROWING MEDIA APPETITE

International investor interest in Dutch media companies includes traditional buyers, such as large multinational media conglomerates WPP, Publicis, Aegis and IPG.

However, newcomers delivering a more comprehensible array of digital-related services and solutions are also showing a keen interest. S4 is a prime example of this trend, and its Dutch subsidiary, Media Monks, has undertaken multiple M&A deals

in recent years. Newcomers are continually scanning the market for possible additions to their product portfolio and have engaged in multiple Dutch transactions.

Furthermore, PE has shown ever-increasing interest in the media space. One example of this is Egeria's investment in Social Blue, a fast-growing, technology-driven Dutch lead generation agency.

One of PE's strengths is providing a mix of growth capital and operational support needed for further international expansion and bolt-on acquisitions. From

an investment perspective, PE companies see vast opportunities for both stand-alone and buy-and-build acquisitions in the digital media space. Furthermore, PE is enamoured with changes within the media space where companies increasingly share more characteristics with technology companies.

With all the above in mind, we expect to see continued national and international M&A deal activity in the Netherlands' media sector.

2021: THE YEAR AHEAD

Deal activity undeniably surged in H1 2021, and there is good reason to suggest that even more media deals will be announced at a staggering pace during H2.

There remains a queue of SPACs with digital media companies including Vice, Vox, Bustle and other ones to watch. Topical subscription sites are drawing interest, including The Hill and The Athletic, while major publishers, like business colossus Forbes, are drawing interest from investors or looking to add to their catalogue of titles, such as Future PLC. The latter recently added to its stable of women's lifestyle brands with the acquisition of Marie Claire US.

In the UK it will be interesting to monitor the sale of public television network, Channel 4. The process will be subject to a great deal of scrutiny on the grounds of protecting media plurality and is likely to attract the attention of some big fish.

Over the last 18 months we have grown accustomed to complexity, but there are certainly reasons to think deal flow could accelerate. The backlog of deals may not have fully dissipated yet given ongoing challenges

through H1. While not all deals will make it to announcement many will, alongside deals previously mooted. Corporate carve-outs and restructuring could also become a greater source of M&A as media businesses assess the impact of the pandemic.

Concerns over inflation may also provoke investors and buyers to act now out of fears that the cost of borrowing could increase sooner than expected. While the Bank of England remains stoic on the subject, markets are showing some anxiety. PE investors have benefitted from the low-interest rate environment and are in a good position to utilise their accumulated fire power. Overall, PE investors have not yet shied away from high-value deals in parts of the media market.

Of course, despite any concerns, there remains exciting opportunities in a market where the need to cater to consumer demand is greater than ever. The competitive landscape will feel especially stark and companies will either be looking to shore up their advantage or acquire missing capabilities.

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



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