H2: 2021

MEDIA*talk*

COURTING TALENT IN THE AGE OF CONTENT

H2: 2021

MEDIA*talk*

A WORD FROM ANDY VINER

GLOBAL HEAD OF MEDIA AND ENTERTAINMENT

2021 WAS A YEAR OF TWO HALVES, FIRST MARKED BY OPTIMISM THAT WE WERE EMERGING FROM THE PANDEMIC AND SECOND BY ACCEPTANCE OF THE ENDEMIC NATURE OF THE VIRUS.

Pandemic-related disruption has led to foundational shifts in consumer behaviour. As a result, business models are being challenged by an accelerated drive towards digitisation.

The tidal shift towards digital media is exemplified by the fact that YouTube reported over a billion hours of video content consumed every day last year, by 2.3 billion users worldwide. In contrast, the Academy Awards garnered 10 million viewers. The change is not just about channel, but demographic: younger consumers have turned almost exclusively to digital alternatives.

These broad trends provided a great deal of impetus for media M&A in 2021. The volume of announced media deals increased by almost a third in 2021 when compared to the year before. But more staggering was the value of these deals.

Fuelled by megadeals early in the year, disclosed M&A values shot through the roof, rising 127% year on year. Average deal values rose almost twofold. Those figures are testament to the vibrancy and profound challenges facing the global media sector.

Struggles for content, control and consumer intelligence will continue to drive the search for new strategies and models of competition well beyond this year. As life settles into a more 'normal' rhythm we can expect the M&A market to stay busy.

Andy

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THINGS WE EXPECT TO SEE IN 2022

IT'S AN EXCITING TIME FOR THE MEDIA SECTOR AS DIGITAL PLATFORMS SURGE IN POPULARITY AND CONTENT CONSUMPTION INCREASINGLY TRENDS TOWARDS SMALLER, MORE MOBILE SCREENS. TRYING TO FORESEE HOW CURRENT TRENDS WILL PLAY OUT IS CHALLENGING — BUT THAT WON'T PUT US OFF.

HERE ARE THE PREDICTIONS FOR 2022 AND BEYOND.

1. PRIVATE EQUITY'S PRESENCE IN MEDIA WILL GROW

Private equity still doesn't quite get media domains such as production but is more than happy to invest in technology platforms and the like. With significant sums to spend, private equity's penetration in the media sector is set to grow in 2022.

2. DEMAND FOR NEW FORMS OF CONTENT WILL CONTINUE

From podcasts to vlogs and e-games to brand films, it is hard to imagine a greater variety of content than what is available today. But consumers' insatiable demand for new forms of entertainment will doubtless lead to new content variations this year.

3. FANG CHALLENGERS WILL ATTRACT INVESTMENT

Media investors worry that their properties are increasingly beholden to just four platform providers: Facebook, Amazon, Netflix and Google. Any company that can deliver revenues without relying on the FANG foursome is likely to get attention from backers.

4. THERE WILL BE CONSOLIDATION IN THE MARKETPLACE

With over half of media businesses planning mergers and/or acquisitions this year, it is likely that 2022 will be a year of significant market consolidation — although an abundance of business opportunities could also lead to a rash of startups.

5. COMPANIES WILL TRY TO CRACK CHINA

China's vast consumer market is a lure for media providers — but cracking the Chinese code is not easy, which is why private equity and other investors have so far shied away from the task. This year will likely see more attempts to change that picture.

6. PLATFORMS AND BUSINESS MODELS WILL DIVERSIFY

Last year saw Kings of Leon launch an album as a non-fungible token and TikTok become the world's fastest growing media platform after only five years. Media creativity is alive and well in the development of new platforms and business models.

7. COMPANIES WILL LOOK TO EXPAND ABROAD

Countries from Austria to New Zealand are looking to attract media companies, and the industry's current growth prospects make international expansion almost a given in 2022.

8. SOUTH AMERICA WILL COME INTO VIEW

With a massive, content-hungry population and technical skills available at competitive rates, it seems only a matter of time before Latin America emerges as a major media centre.

9. THE WAR FOR TALENT WILL INCREASE

The biggest challenge facing media companies this year is where to find the people they need to deal with soaring demand for services.

10. INFLATION MIGHT START TO BITE

After years of low interest rates, the current inflationary climate could start to have an impact on investor appetites.

11. MUSIC RIGHTS WILL CHANGE HANDS

As live music collapsed in 2020, the success of streamed audio has contributed to a massive increase in the value of music rights and catalogues, empowering many artists. There are likely to be many deals involving rights to creative property, and the music industry will be at the centre.

12. SCEPTICISM OVER SPACS WILL GROW

Last year saw many special-purpose acquisition company (SPAC) deals—and increasing pessimism around their use. SPACs are time-limited affairs and there remain a number that have yet to make any acquisitions. As deadlines loom, 2022 could see more SPAC-related deals shake out.

13. REGULATORS WILL PICK OVER MEGADEALS

The threat of increased regulation, especially over matters of anti-trust and protectionism, has been hanging over global M&A. With the digital economy squarely in its crosshairs, increased scrutiny could impact megadeals involving technology and digital giants.

GLOBAL TRENDS AND ANALYSIS

The number of global media M&A deals increased by 31% in 2021 compared to the previous year. Announcements slowed marginally in the second half of the year, but M&A activity in the media sector was nonetheless strident through 2021, despite disruptions associated with the pandemic.

While the second half of 2021 lacked the megadeals of H1, it was anything but quiet. The global media industry continued to ride a series of waves predating but also exacerbated by the pandemic. Trends defining the transactional marketplace in 2021 included:

- The stalled recovery of live events and businesses reliant on in-person activities
- Well-placed businesses putting content ownership ahead of trend watching
- A seemingly insatiable appetite for content amongst consumers
- The drive for data and digital supremacy across marketing and advertising.

Publishing, broadcasting and content and intellectual property were prominent sources of global M&A in 2021. In the coming months, control over creative rights and more immersive worlds for advertisers and brands in gaming could be noteworthy areas for M&A.

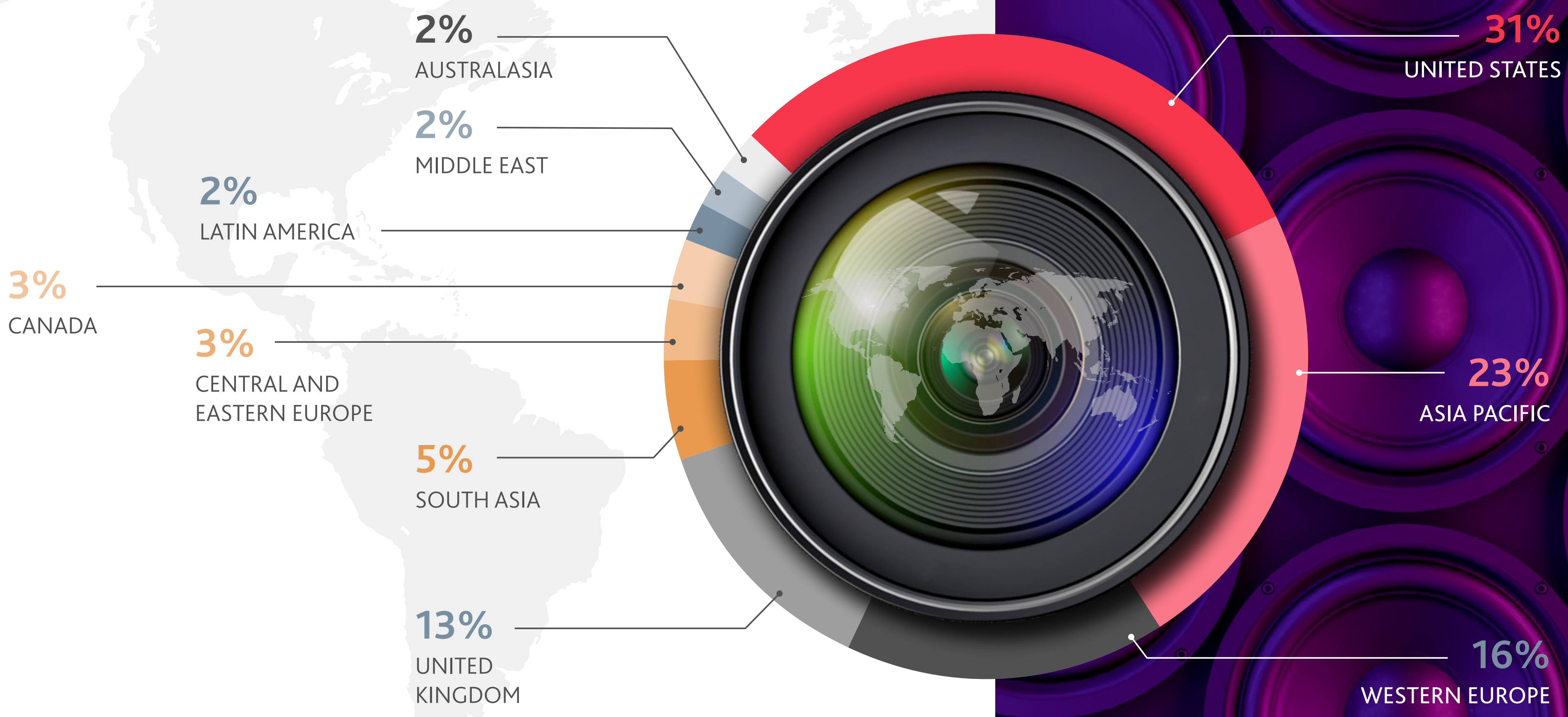
The speed of business — and deal-making — has increased as competitors vie for talent, data and targets. Decision making increasingly relies on good data, good analysis and more granularity. That may be especially true for Private Equity (PE) investors who, sitting on upwards of USD$2.3tn, are keen to act fast on highly valued assets.

GLOBAL TRENDS AND ANALYSIS

FIGURE 1

GLOBAL MEDIA M&A DEALS BY **TOP TARGET** REGION IN 2021

IN 2021, US MEDIA INCREASED ITS SHARE OF GLOBAL DEALS TO 31%. THE INCREASE IN ACTIVITY TARGETING THE US, UK AND WESTERN EUROPE CAME AT THE EXPENSE OF ASIA PACIFIC, WHICH STILL SAW 23% OF GLOBAL DEALS.



"The US retains its position as the most acquisitive nation driving global media M&A. In 2021, the market was one of the foremost regions for cross-border activity. 27% of all US media acquisitions were cross-border deals involving a non-domestic target, while 20% of global cross-border acquisitions targeted a business based in the US."

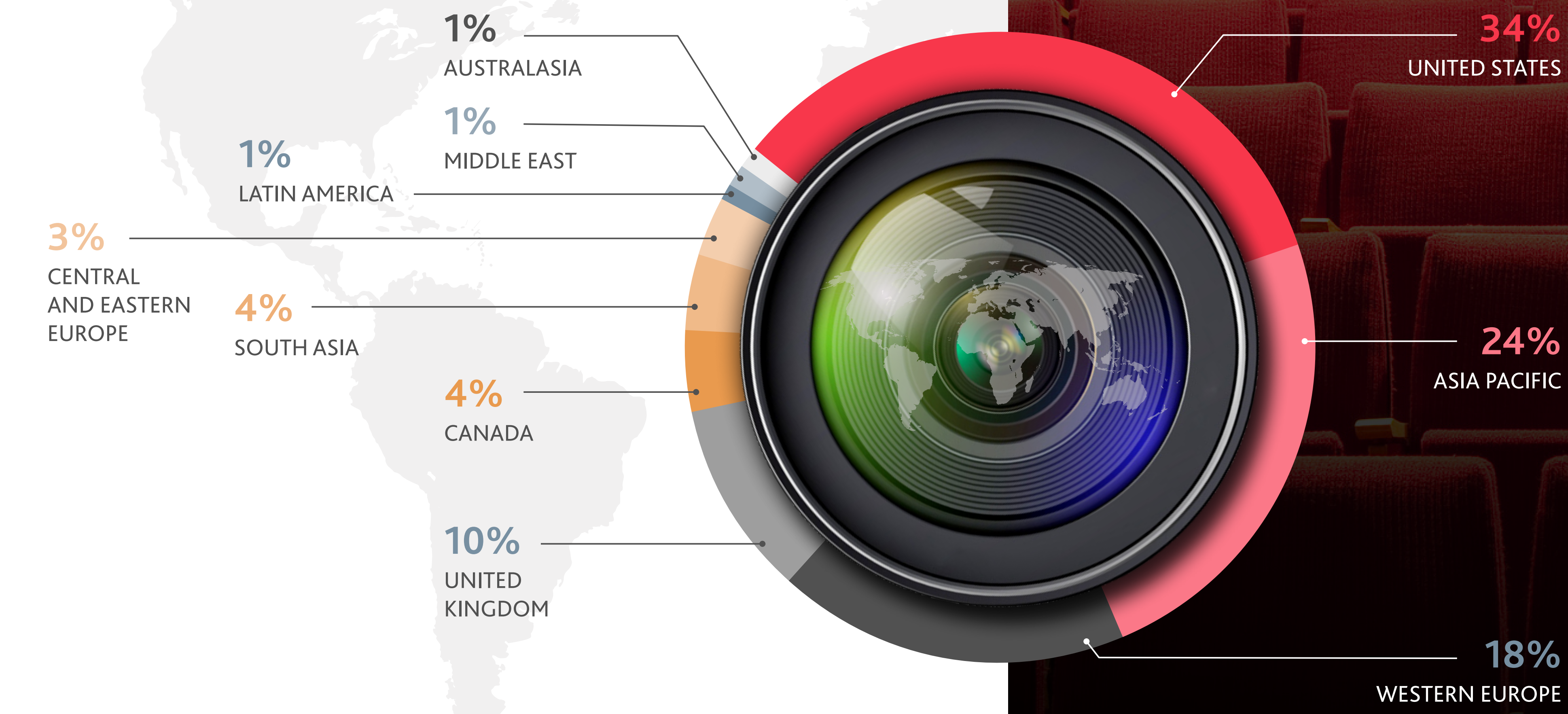
DEMETRIOS FRANGISKATOS
Partner, BDO in USA,
Media & Entertainment

GLOBAL TRENDS AND ANALYSIS

FIGURE 2

GLOBAL MEDIA M&A DEALS BY **TOP ACQUIROR** REGION IN 2021

THE DOMINANT US MARKET TOOK 34% SHARE OF DEALS. AGAIN, INCREASES FOR THE US, UK AND WESTERN EUROPE SLIGHTLY DIMINISHED ASIA PACIFIC'S SHARE OF DEALS — ALTHOUGH IT REMAINED SECOND, WITH 24% OF GLOBAL MEDIA DEALS.



The Asia Pacific continued its run in second place as a target and acquiror region. With Preqin reporting that Asia-based PE firms held almost a third (27%) of the c.USD$2.3tn in global dry powder in 2021, we should expect to see further PE-related deals in 2022.

SEBASTIAN STEVENS
Partner, BDO in Australia

GLOBAL TRENDS AND ANALYSIS

THIS MAP HIGHLIGHTS THE HEADLINE GLOBAL TRENDS AND ANALYSIS FOR THE FOUR MOST ACQUISITIVE REGIONS IN 2021. AN APPENDIX OF OTHER NOTABLE DEALS CAN BE SEEN ON PAGE 15.

UNITED STATES

- The world's largest media and entertainment market was the main source of global media M&A in 2021
- US companies played acquiror on 34% of global media deals
- The country was target region for 31% of deals
- Just over a quarter of US acquisitions targeted non-US companies, predominantly in the UK and Europe.

SPOTLIGHT DEAL:

- News Corp announced the acquisition of IHS Markit's Oil Price Information Services (OPIS) for USD$1.1bn in August. In December, News Corp followed this deal with the acquisition of IHS Markit's Base Chemicals business for USD$295m. The seller hopes the divestments will help S&P Global's acquisition of IHS Markit, under regulatory scrutiny since 2020.

UK

- The UK saw a resurgence in 2021, with its share of global media M&A increasing substantially
- It recorded 10% of media M&A as an acquiror region, a rise from 7% in 2020, and 13% of deals as a target region, up from only 8%
- UK companies were targeted largely by US-based counterparts, followed by European acquirors
- Around 70% of UK deals were domestic; the US was the top non-domestic market followed by India, Spain, Japan, and Finland.

WESTERN EUROPE

- Deal announcements hit a lull across Western Europe (excluding the UK), dropping by more than a third in the second half of the year when compared to H1. Nonetheless, the region held its place as the third most prolific region in terms of combined M&A activity
- As a target, Western Europe saw its share of global media M&A rest at 16%, equal to 2020
- On the acquiror side, the region recorded 18% of global media deals. Acquisitions were spread across European markets, led by France, Italy, the Netherlands and Sweden.

SPOTLIGHT DEALS:

- Consolidation in France's media sector drove a couple of noteworthy H2 deals. In one of the largest European deals, French media company Television Francaise 1 agreed to acquire media TV broadcasting company Metropole Television SA in a deal estimated at USD$2.5bn in July
- In the same month, listed French media and entertainment firm Vivendi agreed to acquire Amber Capital's stake in Lagardère. The deal ostensibly gives Vivendi full control of Lagardère's media assets including radio station Europe 1, magazines Journal du Dimanche and Paris Match, and leading publishing house Hachette. The deal is reported to value Lagardère at approximately €3.4bn.

ASIA PACIFIC

- M&A activity continued at a steady pace, with deal volumes in H2 virtually equalling those in the first half
- Japan and South Korea were the most vibrant markets, but Chinese acquirors increased activity at the end of 2021
- Asia Pacific accounted for 24% of global media deals as an acquiror region and 23% as a target region
- Only 11% of acquisitions led by a company based within the Asia-Pacific targeted a company outside the region
- The primary arena for M&A across the Asia-Pacific in H2 was publishing.

SPOTLIGHT DEALS:

- China Telecommunications Corporation agreed to acquire a minority stake in China Publishing & Media for USD$128m in July
- In September, Japan-based digital content distributor Media Do acquired a majority stake in eBook company EveryStar Co.
- Outside publishing, in December South Korean sports broadcaster Eclat Media received a USD$£41.9m from SG Private Equity.

GLOBAL 1 TREND

AWAITING THE CROWDS

While the media market as a whole has been relatively buoyant over the last year, live events were unable to make a full resurgence. The ongoing pandemic led to intermittent restrictions on in-person events across the globe through 2021, and caution amongst would-be attendees made for difficult sales. The relative dearth of deals is demonstration of the uncertainty that still surrounds live events.

There were however signs of optimism. As venues across the globe were working through a longer than anticipated reopening in September, American live entertainment company Live Nation Entertainment announced the acquisition of a controlling 51% stake in Mexico-based OCESCA Entretenimiento, an event promoter and the largest multimedia company in the Spanish-speaking world, in a deal estimated at USD$444m. As part of the transaction, Live Nation will also acquire an interest in OcesaSeitrack, OCESA's booking and artist management joint venture; CREA, one of Mexico's special and corporate event specialists; and Centro Citibanamex, an exhibition and convention centre in Mexico City.

Live events should return in 2022, but to significant change. As countries move into what are hopefully the final stages of the pandemic, the subsector will re-emerge. In the meantime, the subsector could see further divestment activity as well as consolidation potentially led by businesses operating out of geographies that have managed to remain relatively open.

GLOBAL 2 TREND

PUTTING CONTENT FIRST

Consumers clearly prefer the convenience of self-directed study. As a result, content providers have fought to offer a more diverse array of content and a destination for consumers to linger. One way for businesses to control the constant sense of 'keeping up' is to put content first, selling expertise and comprehensive coverage of a particular vertical.

UK-based media house Future plc is one example of this approach, and in August announced the acquisition of Dennis Publishing from Exponent Private Equity for a deal valued at GBP£300m. Future, whose market value has increased from about GBP£30m to GBP£4.7bn over the last seven years, will expand its library of wealth and lifestyle titles, including MoneyWeek, The Week and Minecraft World. The acquisition continues Future's buying spree in recent years, as it seeks to move towards a digital model that finds ways to employ magazine content in a variety of new formats.

Consumer tribalism has meant there is much fanfare around specialist providers able to cater to those niche preferences. However, with a seemingly endless appetite for content, large media businesses with the available resources are looking to get ahead of the curve.

GLOBAL 3 TREND

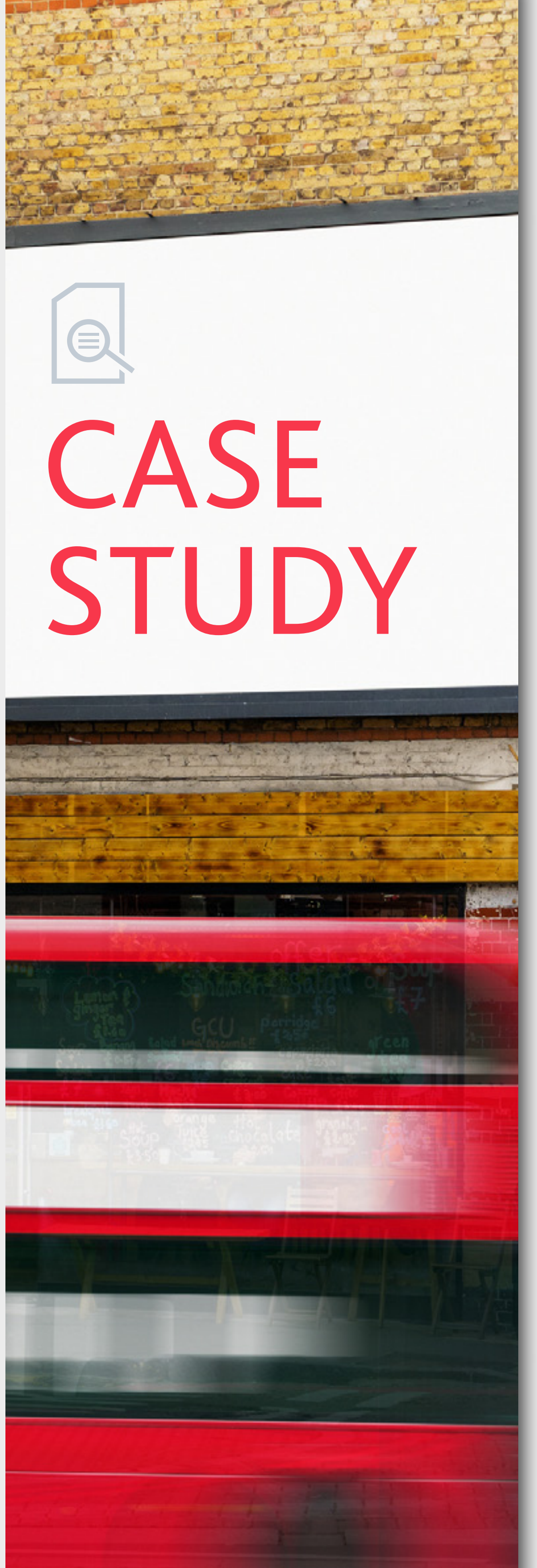
INSATIABLE APPETITE

Indeed, as the consumption of content skyrockets some businesses have modelled themselves around the ability to present novelty to viewers. In this environment, the competition for production capabilities, exclusive rights and intellectual property will remain strong.

The battle for content produced some of the most astounding deals in 2021, led by AT&T's spin-off of Warner Media for an eyewatering USD$43bn and followed by Amazon's smaller (USD$8.5bn) but significant acquisition of production studio Metro Goldwin Mayer in H1. Moreover, with Netflix shelling out consistently huge sums for content and reporting healthy subscriber increases in 2021, these deals signify that the competition is unlikely to subside anytime soon.

Having spent USD$17bn on content in 2021, Netflix is clearly settled on the strategy of keeping viewers plugged in with headline-grabbing titles. In May, it paid USD$18m for *Dhamaka*, a record price by an OTT platform for an Indian-made film. In September, Netflix announced its acquisition of the Roald Dahl Story Company by teasing audiences with "there is no knowing what we shall see". The acquisition builds on a previous partnership in 2018 that saw the two companies collaborate on a number of animated TV shows and projects. The deal, for which terms were undisclosed, is set to take advantage of television shows, films and live theatre experiences already in the works, as well as provide a foundation of material for future products, games and other content.

As demand rises, the top eight American media companies are expected to spend upwards of USD$140bn on content in 2022.



CASE STUDY

GLOBAL TRENDS AND ANALYSIS

LONDON-BASED ADVERTISING GROUP S4 CAPITAL, HELMED BY INDUSTRY STALWART SIR MARTIN SORRELL, EXEMPLIFIES A NEW GENERATION OF DIGITAL NATIVES TAKING THE MARKETING SERVICES SECTOR BY STORM. ITS QUEST FOR GROWTH HAS LED TO A SIMILARLY PIONEERING APPROACH TO CORPORATE MERGERS.

HOW S4 CAPITAL IS GROWING IN A TIGHT MARKET FOR TALENT

Under its unitary brand Media.Monks, the listed company — which is focused exclusively on providing digital services around the world — has seen consistent revenue growth through the pandemic thanks to a combination of organic expansion and mergers.

Media.Monks has merged with dozens of companies since it was set up in 2018, as it expands its client service offering. In 2021, they undertook 12 mergers alone including Metric Theory, Decoded and digital transformation services firm Zemoga. The Zemoga merger is a significant step to build S4's third practice area around Technology Services.

When seeking new opportunities, the company looks for long-term partnerships rather than traditional acquisitions, teaming up with entrepreneurs from around the world to add scope and scale to their service offerings.

This is reflected in the structure of Media. Monks' deals, split 50% cash and 50% shares. This formula rewards owners for their efforts to that point but also enables them to benefit from Media.Monks' unitary structure approach and future growth potential.

The challenge S4 faces when looking at new opportunities is that this is a hot market. The exciting businesses S4 is looking at are being courted by other corporates — and increasingly by private equity firms that are so keen to deploy their dry powder they are prepared to pay eye-watering multiples.

S4's unique selling point is its offering of partnership and mutually beneficial growth. It provides access to a wealth of experience, significant cross-sell opportunities, and the chance to be part of something bigger while retaining personal responsibility and independence.

This is all set out in initial conversations often led by either Sir Martin or his Chief Growth Officer, Scott Spirit, working collaboratively with target businesses to create packages that appeal to entrepreneurs' growth instincts.

The S4 approach to transactions focuses on supporting potential partners through to signing the merger agreement, asking questions, and answering those that come the other way. S4's post-merger integration team plans for the future long before the ink is dry on the paper.

CONOR LAMBERT
CORPORATE FINANCE & RELATIONSHIP PARTNER FOR S4 CAPITAL
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"When we are looking to incorporate companies into the Media.Monks family, it's not just about the numbers," says Spirit. "It's about the future we can build together."

The group relies on its advisers to help sell S4's potential, he adds. "It's about what differentiates us from competitive suitors," he says. "We feel that, crucially, is our offering of partnership, while the financials certainly have to work too."

SCOTT SPIRIT
CHIEF GROWTH OFFICER, S4 CAPITAL

UK MEDIA SECTOR CONFIDENCE & M&A TRENDS

DESPITE THE FIRST MONTHS OF THE YEAR BEING IMPACTED BY LOCKDOWN, UK MEDIA M&A PICKED UP SIGNIFICANTLY IN 2021, INCREASING BY 63% WHEN COMPARED TO 2020. THE SUCCESS OF THE VACCINE ROLL-OUT, AMPLE LIQUIDITY AND STRONG CONSUMPTION WERE EARLY CONTRIBUTORS TO THE SURGE IN DEAL MAKING.

One of the key strengths of the UK market has been its early move to digitisation. This fact has given UK firms a sound basis from which to adapt to changing consumer habits and play a leading role in technological developments.

Sustained digital investment has also been a boon for advertising. With ad revenues up by as much as 36% in 2021, according to GroupM, digital advertising is expected to become more than half of global advertising spending next year.

Permanent shifts in behaviour mean that not all media subsectors will experience a triumphant return; adaptation or transformation will be the only options available. Again, digital is at the forefront and this remains clear across the publishing subsector which continues to adjust itself towards subscription models or digital advertising revenues.

OPTIMISM IN UK MEDIA FUELS THIRST FOR DEALS

Most media companies outperformed expectations last year—and are guardedly confident about the outlook for the next 12 months, according to an industry poll carried out for BDO MEDIAtalk from December 2021 through January this year.

Reflecting this high level of confidence, respondents said their main challenge in the next 12 months would be sourcing skilled and experienced workers.

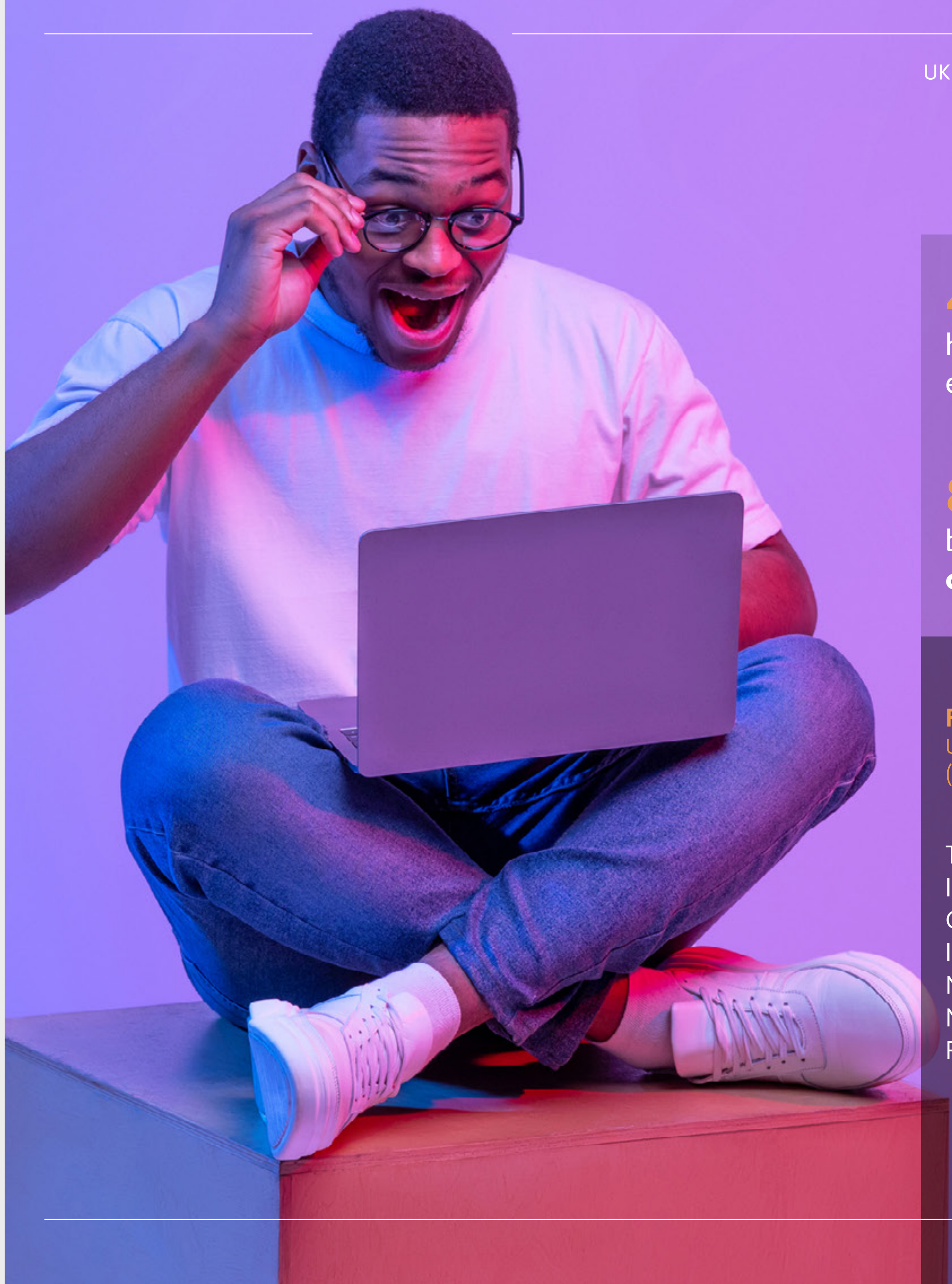
This echoes conversations that BDO has had with media clients and contacts and is further supported by the fact that many recent deals have been motivated by the need to fill corporate skills gaps.

Despite this concern, most companies surveyed were planning to launch new products or services in the next 12 months. Other popular routes to growth in 2022 included refreshing existing products and services, expanding the business into new markets, and acquisitions.

Over half of the business leaders surveyed said they were planning M&A deals or partnerships, adding to the sense of pent-up deal demand that we see from private equity.

As noted elsewhere in this report, the deals landscape will be uneven, for instance with digital content being favoured over live events, but the appetite for M&A appears even stronger now than it has been for a long time.

UK MEDIA SECTOR CONFIDENCE & M&A TRENDS



46% of media companies had a **much better year** than expected in 2021

57% are planning **acquisitions**, **mergers** or **partnerships**

87% of respondents expect **difficulties in sourcing talent** this year

89% of media company bosses are somewhat or very **confident about 2022**

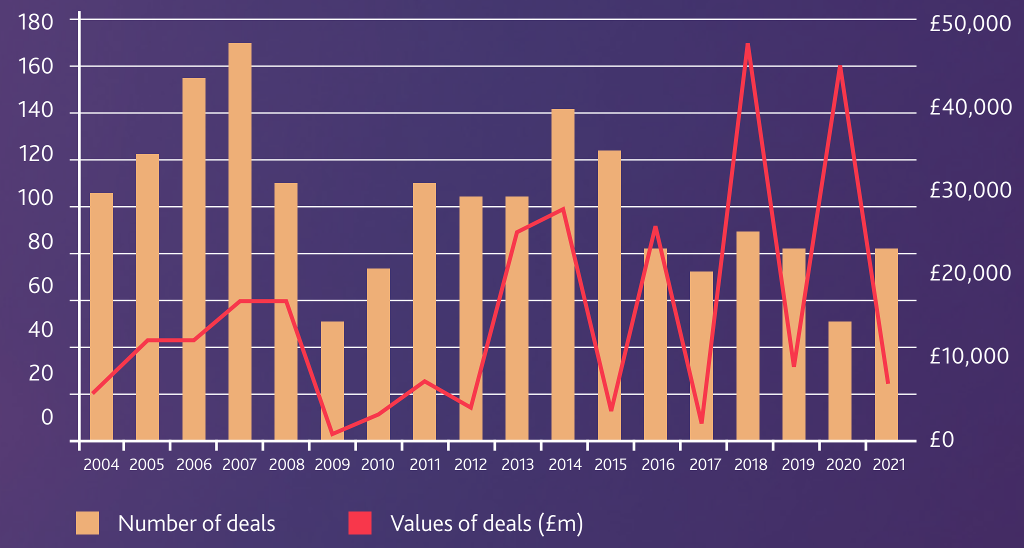
Only **4%** expect **difficulty in accessing finance** in 2022

46% of media companies could **expand into new markets** in 2022

FIGURE 3

UK M&A VOLUMES AND VALUES (MEDIA SECTOR 2004-2021)

THE VOLUME OF TRANSACTIONS IN 2021 OUTPACED THE VOLUME OF UK MEDIA DEALS RECORDED IN 2020. MEGADEALS SPIKED M&A VALUES IN 2020, WHILE MOST DEAL VALUES IN 2021 REMAINED UNDISCLOSED.



UK MEDIA M&A BY SECTOR IN H2 2021

50% OF DEALS - ADVERTISING & MARKETING SERVICES

Advertising and Marketing Services combined accounted for half of all UK media M&A in 2021. Advertising made up 35%, while Marketing Services contributed another 15% of media deals. Particular interest was paid to agencies capable of employing digital skills and strategies to improve brand perception.

Notably, PE firms were hot on Marketing Services and Advertising as seen by the almost fourfold increase in leveraged buyouts (LBOs) targeting the combined subsectors between 2020 and 2021. LBOs targeting these subsectors accounted for more than half of all media LBOs, which more than doubled on the previous year. In September, PE firm Elysian Capital acquired UK-based digital marketer Gravity Global, with support from Investec, for an undisclosed amount. As a promising digital marketing business, the deal is aiming to accelerate Gravity's growth and represents the second investment in a media company from the Elysian Capital III LP Fund.

In December, UK-based digital marketing agency Croud Inc acquired leading luxury digital marketing agency VERB Brands with funding from mid-market PE firm Lloyds Development Capital for an undisclosed value. VERB boasts a big-name client list that includes Bugatti, Harrods, Bloomingdales, Claridge's and Tod's. Representing Croud's first UK acquisition since 2019, VERB offers Croud enhanced capability in web development and influencer marketing.

In August, UK-based PE firm Apiary Capital also acquired a majority stake in MediaSense for an undisclosed amount. MediaSense uses data analytics and modelling to support brands with media reviews. Considered one of the UK's leading technology providers of media advisory, MediaSense has provided innovative media analysis to brands and organisations such as Chanel, Coca-Cola, Diageo, Dyson, Honda, Just Eat, Sanofi and the UK Government.

UK MEDIA M&A BY SECTOR IN H2 2021

PRIVATE EQUITY FINDS TECH IN MEDIA

Private equity houses have historically been cautious about investing in the media sector; they prefer to invest in businesses where they can gauge the return on investment with some predictability and benefit from growing market penetration, and in many cases, global success.

However, aspects of marketing services and production are increasingly facilitated by technology enabled creative people, with higher quality of earnings than traditional media.

As a result, we are seeing increasing private equity activity in the UK on the marketing services and production-related fringes of the media sector.

In 2019, for example, Livingbridge pumped cash into digital marketing specialist Brainlabs, allowing the agency to make a string of acquisitions, ending with creative ad studio Consumer Acquisition last December.

In September, Livingbridge also made an undisclosed investment into Venatus a global AdTech platform targeting gaming and entertainment audiences. The firm connects advertisers with games publishers, giving them access to a highly lucrative global gaming market which has been estimated to include up to 3 billion gamers. Elsewhere, Mayfair Equity Partners acquired mobile ad platform developer LoopMe for $120m in January this year, increasing the value of the company close to $200m.

Admittedly, most of these deals are still biased towards companies with a technology or platform-led approach. But they show there is growing appetite for investments in marketing and media production, albeit that private equity still has a lot to learn.

The private equity firms that are eyeing this space continue to grapple with valuations and other issues. For those that can choose their advisers wisely, however, there could be significant opportunities ahead.

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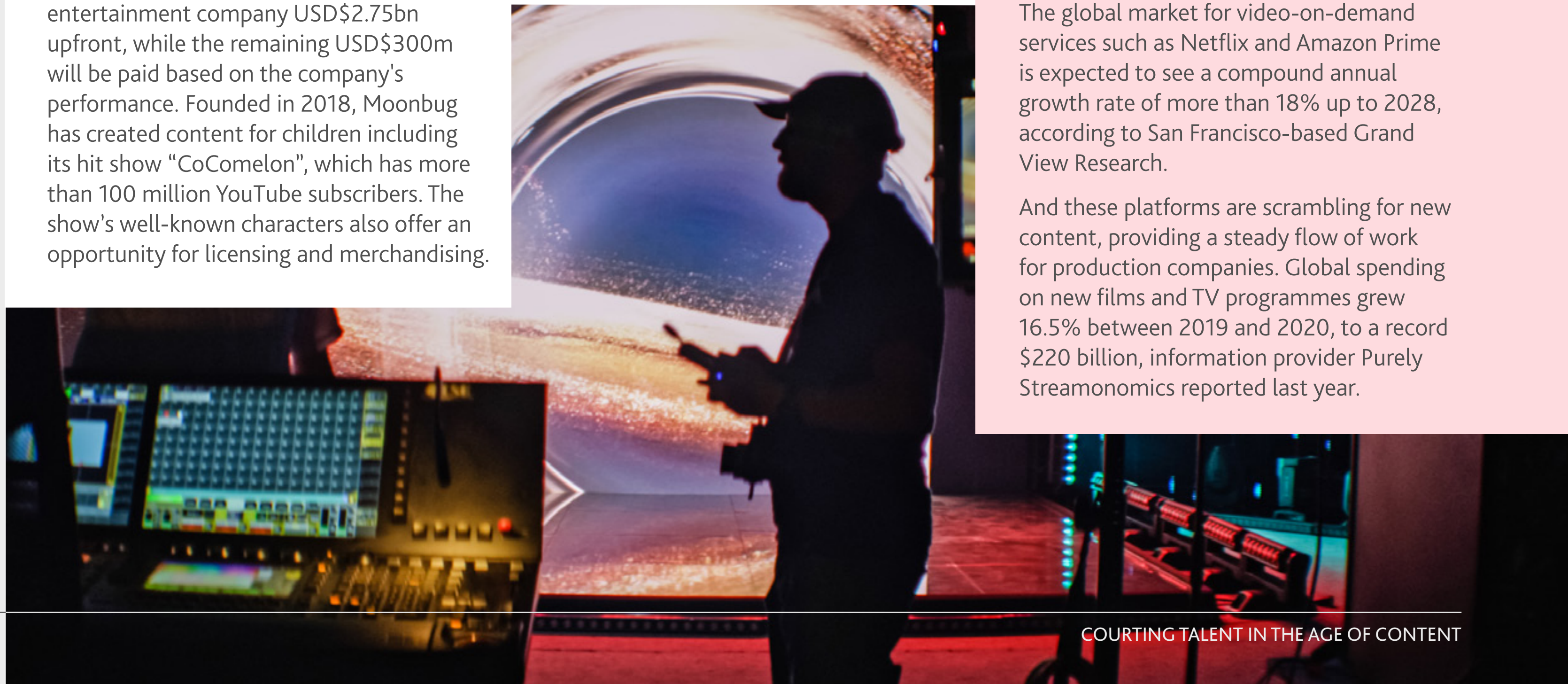
26% OF DEALS - BROADCASTING & CONTENT

This subsector saw the second largest number of media transactions in H2 2021. The rise in global demand for high-quality content across platforms has created significant opportunities in the broadcast and content market. US-based PE firm Blackstone Group entered into a definitive agreement to acquire UK-based producer and distributor of children's movies Moonbug Entertainment in a notable deal worth USD$3bn in November. Under the terms of the proposed deal, the Blackstone-led deal will pay the children's entertainment company USD$2.75bn upfront, while the remaining USD$300m will be paid based on the company's performance. Founded in 2018, Moonbug has created content for children including its hit show "CoComelon", which has more than 100 million YouTube subscribers. The show's well-known characters also offer an opportunity for licensing and merchandising.

Meanwhile, in August, UK-based PE firm Novator Capital Advisors invested USD$250m in DNEG, a leading visual effects and animation studio engaged in the creation of feature films, television and multiplatform content. DNEG's works have won five of the last seven Oscars awarded in the visual effects category. With its investment in DNEG, Novator is well positioned to capitalise on the high demand for visual effects services in the content creation market.



TAKING CARE OF TALENT IN FILM AND TV

The film and TV industries are booming. But companies face a challenge in making sure that success does not walk out the door.

The last two years have been tough on cinemas and live entertainment venues, with box office takings falling off a cliff under the impact of coronavirus lockdowns. But in other respects, the film and TV industries are booming. Disney+ couldn't have been released at a better time as stuck-at-home consumers turned to streaming platforms in their droves.

The global market for video-on-demand services such as Netflix and Amazon Prime is expected to see a compound annual growth rate of more than 18% up to 2028, according to San Francisco-based Grand View Research.

And these platforms are scrambling for new content, providing a steady flow of work for production companies. Global spending on new films and TV programmes grew 16.5% between 2019 and 2020, to a record $220 billion, information provider Purely Streamonomics reported last year.

UK MEDIA M&A BY SECTOR IN H2 2021

TAKING CARE OF TALENT IN FILM AND TV *CONTINUATION*

This would seem like an ideal time for production company owners to cash in on their success and seek a bountiful exit. But selling a business is not easy when it is built purely on talent that can walk out the door anytime.

That is the challenge facing many players on the creative side of the TV and film industries. And the talent problem is not restricted to big-name actors and presenters, who can pick and choose the media entities they work with.

Behind the scenes, 'talent' extends to the host of supporting staff, from script writers to make-up artists, that it takes to produce a winning screen product. The extent to which all these people can be said to belong to a company depends on often labyrinthine contractual arrangements.

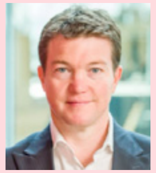
Given the industry's reliance on contractors and sub-contractors, the number of actual employees in a production business may be minimal, giving the company only limited allure as an asset. To demonstrate value, production company owners can adopt one of two strategies.

The first is to rationalise employment arrangements with captive collaborators.

Turning full-time freelancers into employees is fraught with behavioural issues (freelancers tend to enjoy the freelancer label, even if they are working full time, each week, every week). However, it may produce benefits from a loyalty perspective and will generally aid compliance with legal considerations including tax.

The second option is to create assets that cannot walk: technology platforms, apps, media brands and so on.

This may be difficult for companies that specialise in delivering something as intangible as entertainment, but the raw ingredients are basically the same — imagination plus smart people to turn an idea into reality.



PETER SMITHSON
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SPECIALISING
IN FILM & TV

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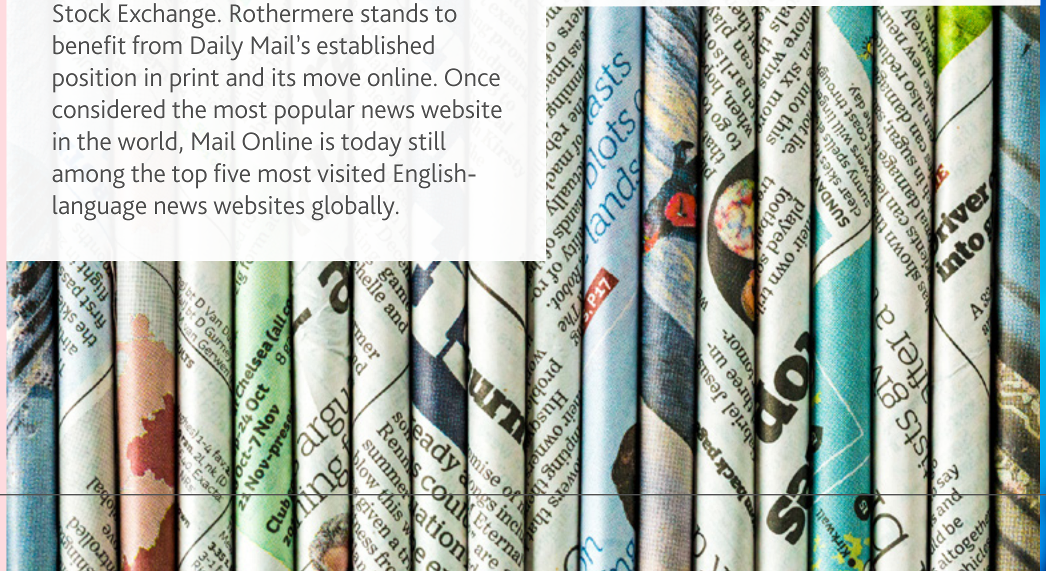
17% OF DEALS - PUBLISHING

While print news consumption has declined in recent years due to the advent of digital media, online publishing is waxing strongly with 17% of deals in H2 2021. A 2020 Ofcom report on news consumption established that 72% of people in the UK get their news primarily from online sources, second only to television at 79%. In this context it is no surprise to see digitally enabled publishers fetch strong valuations. In July, Rothermere Continuation Limited announced its intention to acquire a majority stake in Daily Mail and General Trust (DMGT). The deal, estimated to be worth upwards of GBP£3bn including debts and investor pay-outs, would give Rothermere the power to take DMGT private, ending a long run on the London Stock Exchange. Rothermere stands to benefit from Daily Mail's established position in print and its move online. Once considered the most popular news website in the world, Mail Online is today still among the top five most visited English-language news websites globally.

On the book publishing front, Bonnier Books UK acquired independent Scottish publisher Black & White Publishing for an undisclosed amount in July. Founded in 1999, Black & White is one of Scotland's leading book publishers. In the same month, UK PE firm Graphite Capital acquired the children's book publisher Lostmy.name ('Wonderbly') for an undisclosed amount. A digital-first publisher of personalised children's books, Wonderbly operates in more than 150 countries and sold more than a million books in 2020 alone. The company was recognised as the Children's Publisher of the Year at the British Book Awards 2021.



7% OF DEALS - DIGITAL MEDIA

The digital media space was relatively quiet during the second half of 2021 after a flurry of deals earlier in the year. IHS Markit and S&P Global's divestments to News Corp in December added to the tally in a subsector that has seen increasing consolidation of data and intelligence assets of recent years.

CONCLUSION

DEAL ACTIVITY HAS BEEN UNDENIABLY STRONG IN H2 2021, AND THERE IS GOOD REASON TO SUGGEST THAT 2022 WILL CONTINUE TO BE BUSY.

FOR INVESTORS IN THE MEDIA SECTOR, HIGHER INTEREST RATES COULD PORTEND LOWER LEVELS OF LIQUIDITY WHICH, MIXED WITH STUBBORNLY HIGH VALUATIONS, COULD PLACE A BRAKE ON TRANSACTIONAL ACTIVITY. THOSE EFFECTS MAY PROVE TO BE SLIGHT BUT STILL SIGNIFICANT.

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 MANY COMPANIES WILL EITHER BE LOOKING TO SHORE UP THEIR ADVANTAGE OR ACQUIRE MISSING CAPABILITIES.

APPENDIX OF OTHER NOTABLE DEALS

- In August, US-media giant Fox Corporation announced its intention to acquire Studio Ramsay, the UK-based tv production company, for an undisclosed consideration
- Broadcaster RTL announced its acquisition of Gruner + Jahr's German publishing assets from Bertelsmann for EUR€230m in August
- Midmarket PE firm Livingbridge announced the acquisition of a majority stake in UK-based social media publisher Jungle Creations in August. The deal was reported to be worth GBP£30m
- In September, Paris-based PE firm Ardian announced its intention to acquire a 52% stake in listed digital marketer Artefact SA in a deal with an implied equity value of EUR€328.9. Following the acquisiton, Ardian will make a cash tender offer for the remaining stake in Artefact
- In September, Lagardère announced its acquisition of US-based children's and lifestyle publisher Workman Publishing through its subsidiary Hachette for USD$240m
- US TV-giant Nexstar announced its acquisition of The Hill, a leading Washington-focused political digital content platform, for a consideration of USD$130m in August
- OPEN Health, a portfolio company of US PE firm Amulet Partners, announced the acquisition of UK-based digital advertising agency ARK in September for a consideration of approximately GBP£14m
- In September, UK-based B2B marketing agency The Marketing Practice announced the acquisition of B2B marketer Kingpin Communications for an undisclosed consideration
- AIM-listed social media and marketing company, Brave Bison Group announced its acquisition of the digital advertising company Greenlight Digital and Greenlight Commerce in a cash and stock deal worth c. GBP£6.8m
- UK-based outdoor advertising agency, Talon Outdoor, announced its acquisition of Ireland-based out-of-home advertiser Poster Plan for an undisclosed sum in October
- In December, UK-based Bloomsbury Publishing Plc acquired American academic publisher ABC-CLIO, LLC for a consideration of USD$22.9m
- In July, Informa sold Barbour environment, health and safety intelligence software platform to Marlowe for GBP£32m
- In July, Lionsgate, a production studio, announced it had acquired a significant portion of the feature film library of Spyglass Media, for a 20% equity stake
- In August, US-based digital publisher Vox Media acquired American cocktail culture online magazine Punch from US-based publisher Penguin Random House for an undisclosed amount
- In September, US-based media and entertainment giant Fox acquired the entertainment platform TMZ from WarnerMedia for an undisclosed amount
- In October, Digital publisher Dotdash announced its acquisition of major US-based magazine publisher Meredith. The terms give the deal an enterprise value in the range of USD$2.7bn
- In December, Sony Pictures Television acquired a majority stake in Cardiff-based award-winning production company Bad Wolf Ltd for an undisclosed amount
- In December, Sony Pictures Entertainment announced the acquisition of India's Zee Entertainment for an undisclosed sum
- In September, Sweden-based PE firm EQT Public Value invested an undisclosed amount into Sweden-based Storytel AB. Storytel, listed on Nasdaq First North, is one of the world's largest subscribed audiobook and eBook streaming services, offering more than 700,000 titles across 25 markets. The investment provides Storytel financing for the production and acquisition of new intellectual property
- Eclat has acquired rights to Golf's British Open, adding to a line-up of top-tier sports leagues. The platform appears well positioned to take over from the previously dominant pan-Asian sports network Fox Sports Asia
- Tencent will buy a 6.86% stake in Kadokawa in a deal valued at USD$264m. The proceeds of the deal are expected to be invested directly into the range of new anime titles and game adaptions that have an increasingly global audience. The deal comes eight. months after Kadokawa's H1 investment from Sony and CyberAgent.

FOR MORE INFORMATION CONTACT OUR DIGITAL MEDIA EXPERTS

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