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H1 2020

MEDIA*talk*

FLEXIBLE, VERSATILE, RESILIENT

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FLEXIBLE, VERSATILE, RESILIENT

A WORD FROM ANDY VINER

GLOBAL HEAD OF MEDIA AND ENTERTAINMENT

If 'uncertainty' was last year's term of choice for pundits, the run of events in the first half of this year have seen it replaced by 'unprecedented'. Certainly, unfolding economic fallout from the COVID-19 pandemic appears to fit the bill. This year has posed immense difficulties, and the unhappy truth is that there are more challenges ahead.

After all, let's not forget the upcoming conclusion to the long-running Brexit drama that has all but been forgotten in some quarters amidst serious health concerns. However, these times can also bring surprising opportunities.

We have already seen the beginning of a significant transformation. The pandemic and subsequent lockdowns across the world have heightened the need to adapt to new realities and accelerated pre-existing trends of introducing technological solutions, increasing efficiency, and modifying delivery.

The lasting impact on consumer behaviour could also be profound, but the form of this change will take time to realise. On the route to recovery, some basic assumptions will need to be re-examined but companies with access to good behavioural data, analytic capabilities and a little foresight will be well placed to take advantage of this large-scale, real-time experiment.

A WORD FROM ANDY VINER
CONTINUED

The pandemic had a notable and predictable impact on media M&A. Global M&A values for media tipped the scales at just over USD $40 billion in the first half of 2020, and both downside risks in the economy and pressure on companies will mean that deal closure could remain a challenge through the remainder of the year. Continuing at the current pace might mean that we see the year end with a decline of almost 25% compared to last year's global media M&A values.

With logistical complications adding to the usual complexities of deal-making, across the globe domestic deals accounted for almost three-quarters of all media deals in the first half, as compared to c. 66% of deals in the prior year. On the other hand, deals that stretched beyond macro-regions fell as a proportion. Private equity, however, remained steadfast contributing to a marginally higher proportion of deals globally than in FY2019 and acted as a buyer in approximately 40% of all UK deals. Risk is not new to this tranche of investors, and private equity firms as a group demonstrated both persistence in seeking opportunities to invest though exit volumes were notably muted. The media industry was not immune to the extraordinary disruption caused by COVID-19. But what separates media from many other sectors is that it is uniquely placed to confront the challenges ahead. Even live event organisers who sit amongst the hardest hit have shown remarkable adaptability by converting to virtual events, keeping their audiences engaged.

Advertising is undergoing a notable shift in spending but the first half also highlighted the vulnerability of ad pricing to social and political issues. Undoubtedly, publishers, broadcasters, content producers, and advertisers all face real struggles but opportunities will abound for those willing to take a risk and look to the future.

I hope you enjoy this issue

Andy

ANDY VINER

Partner


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GLOBAL MEDIA M&A
CONTINUED

The number of global media M&A deals declined by a whopping 72% in H1 2020 when compared with the same period in 2019.

Across all sectors M&A activity was harshly curtailed as a result of the pandemic, however the precise timing of the decline varied by country depending on the extent and planning of pandemic-related lockdowns. While February was a highpoint for media deals this year, seeing roughly similar activity as in 2019, April marked a predictable low.

This trend was replicated across all regions with the slight exception of the Asia Pacific, which saw a quiet January in terms of M&A. There was already scepticism leading into 2020 with some commentators raising the persistent fear of a coming economic downturn. Founded on a cyclical conviction, the relatively long and unperturbed period of growth experienced around the world over the decade leading into this year raised the possibility of a recession, even without the shock of COVID-19 for amplification.

In some ways, the pandemic will have sucked the air out of deal making, but PE could be in a place to resuscitate activity over coming months.

Somewhat in contrast to the perception of risk capital, the longer commitment in holding periods may mean that PE offers stability and relatively lower levels of unpredictability such as that being witnessed in public markets at the moment. The much publicised levels of dry powder available to PE firms (estimated to be somewhere in the range of USD $.5 trillion in January) means they could be well-placed to play a counter-cyclical role. However, the longer the exit window remains closed for IPOs and limited for cash strapped trade buyers, the more pressure limited partners will be placing on general partners to return money, a factor that could drive secondary buyout activity.

The pandemic made for a very complex environment for deal-making and the impact was clear in the lower deal volumes and relative lack of big deals. US broadcaster Tegna, received some interest from PE and trade buyers late in Q1. The Gannett spinout, which reaches around 39% of the US television market through 62 stations, announced that it had received identically valued USD $8.5 billion offers from both Gray Television and Apollo Global Management. Both bidders, however, dropped their respective in response to the prevailing market disruption. The collapse is a stark reminder of the impact that the pandemic is having on advertising revenues, which threaten traditional media as consumption patterns shift.

As high streets emptied, the outdoor advertising market, which has seen a relatively busy couple of years, went quiet in H1 2020. Early in the year, reports surfaced around a potential sale of Clear Channel's European assets as the Texas-based firm began to explore ways to alleviate its debt burden. In the past, outdoor leader JC Decaux expressed interest in acquiring Clear Channel either in whole or specific regional assets making a break-up of the company along regional lines one possibility.

Another avenue may come in the form of a take private offer, though obvious difficulties in the market will be a restraining factor for either option.

However, every crisis also yields opportunities. At-home entertainment boomed during the COVID-19 pandemic, and streaming frontrunner Netflix recorded massive global subscriber increases of almost 16 million in Q1 and almost another 11 million in Q2, more than doubling expected growth prior to lockdown.

Some of this increase could be ‘pull-forward’ of interest, which might lead to slightly slower growth in future months but the evidence is clear, consumers re-directed their spending to online platforms to keep themselves entertained while restricted to their homes.

While production of new material will have been halted over the last several months, availability of good content and having a fruitful pipeline of shows ready to go have been more important than ever.

The straight-to-release philosophy underpinning Netflix’s programming means that there is no concern with filming additional episodes in the middle of running. But while in a better position than traditional broadcasters, the temporary pause in production will still cause some delay to future releases.

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In the United States, Amazon and Roku are dominating the over-the-top (OTT) streaming device market but that has not dissuaded broadcasters from attempting to compete by leveraging their own content and branding. As paid television viewing hours have declined, so has the value of television advertising. For broadcasters, this has made the development of a bespoke OTT service more of an appealing prospect. However, the battle also demonstrates the difficulty of operating an ad-dependent service in such an environment.

In the US, NBCUniversal is looking to follow HBO in debuting its own streaming service, Peacock, abounding with reams of popular content including shows such as The Office. But success will rely on reaching as many eyeballs as possible in order to generate ad-revenue, and NBCUniversal has yet to secure deals with major providers across the US market.

Reaching the market is a problem that HBO Max is also facing, which is still not available on Roku or Amazon Fire TV.

The United States sat atop the list of regions for both targets and acquisitions again in H1 2020, but its share of overall deals has been trending downwards since 2018 when the country saw 39% of all deals as a target region. In H1 2020, 29% of global buy-side deals were led by American companies, with the United States also securing 29% of all deals as a target region.

All deals, including either an American buyer or seller, were down by almost 50%, but the caution was not limited to Media M&A. The North American VC market was also hit by a 10% decline in deal values, according to Crunchbase, and an even more marked decline in the volume of early and late stage funding rounds completed. The economic effects from COVID-19 hit sharply in Q2 when the US VC market also saw some drop-off across sectors.

GLOBAL MEDIA M&A
CONTINUED

However the impact was felt most sharply in the sub USD $100 million deal category, whereas larger deals remained fairly consistent year-on-year.

Even risk capital is not immune to the heightened uncertainty that has arisen because of the pandemic and this may have unduly affected start-ups and seed rounds, but with larger rounds remaining consistent investors clearly have not shied away from offering funds for support, development and expansion.

In contrast, the Asia Pacific continued to improve its share of global deal volumes. Sitting in second place as both a target and acquirer region, the Asia-Pacific saw its share of global deal volumes increase by 3% as a target region (26%) and 1% as an acquirer region (28%) when compared to 2019. That said, the region saw primarily domestic deals, with some intra-regional activity but little engagement beyond. Only 7% of acquisitions by Asia-Pacific companies were made beyond the region.

South Korea and Japan, two countries that were hailed for their ability to quickly rollout impressive test and trace systems limiting the impact of COVID-19 on their populations, also saw the highest levels of M&A activity.

Both countries came close to rivalling the UK for overall volumes, but with an almost exclusively domestic bent. While China saw relatively few deals, Chinese investors were not side-lined. STX Financing, an entertainment company known for medium-budget, star driven content, has found some success with projects including Molly's Game, Bad Moms and The Upside, amongst other film and TV productions.

In April, existing investors in STX Financing, including TPG Capital, Liberty Global, Hony Capital and Tencent Holdings, announced a deal for a 15% stake in Eros International in an all-stock deal worth USD $125 million. Eros International, a UK-based Indian film production company, has a strong foundation in the Indian film market, but has also faced some struggles of late.

The merged company will be publicly listed on the New York Stock Exchange (NYSE) as Eros STX Global Corporation, with the intention of straddling two major film markets in Hollywood and Bollywood. In addition, the company will hope to leverage Eros' streaming capabilities.

Eros Now, the first Indian service to be available on Apple TV to the Indian market, already boasts more than 188 million subscribers and more than 26 million paid subscribers.

GLOBAL MEDIA M&A
CONTINUED

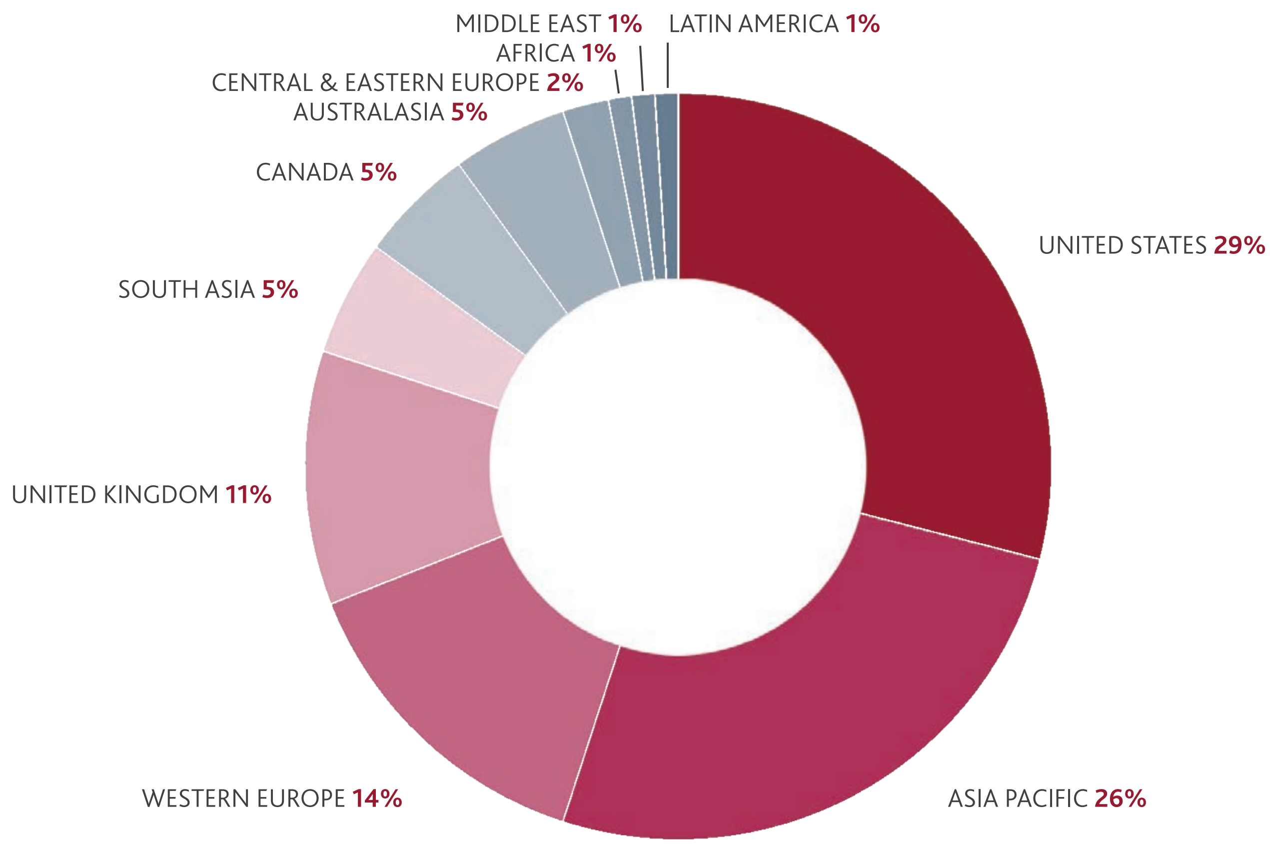
After a relatively eventful 2019, Western Europe (excluding the UK) saw 14% of deals on the buy-side with its share of deals as a target region falling slightly, by 4%, as compared to 2019. Similarly, its share as an acquirer region also fell back towards 2018 levels, finishing H1 with 15% of global deals by volume.

Comparable to other regions, M&A activity in Western Europe centred on domestic deal-making, but did see more cross-border transactions with the majority falling inside the boundaries of Western Europe.

Germany led the way as a target region, managing to draw interest from UK and US-based businesses. France, on the other hand, led Western Europe in terms of acquisitions focused domestically.

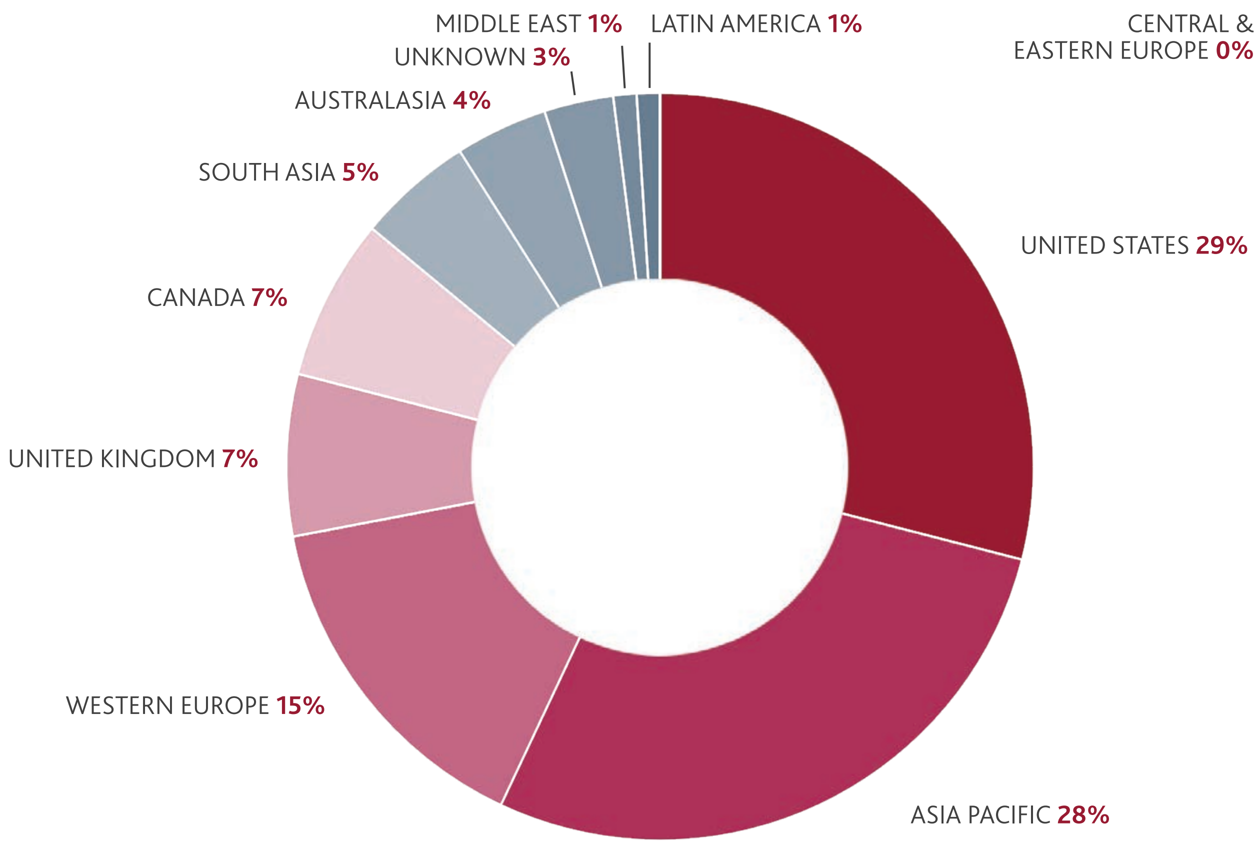
In H1, the UK saw its share of global deals remain consistent on the previous year. With 11% of all deals as a target region, however, the UK market continues to attract interest from buyers in the United States and Western Europe, primarily.

FIGURE 1: GLOBAL MEDIA M&A DEALS BY TOP TARGET REGION IN H1 2020



IN H1 2020 THE US SAW ITS SHARE OF DEALS REDUCED TO 29%. THE ASIA PACIFIC CONTINUED ITS TREND FROM 2019 OF IMPROVING ITS OWN SHARE OF MEDIA DEALS, WHILE WESTERN EUROPE SAW ITS SHARE FALL AND THE UK REMAINED CONSISTENT AS A TARGET REGION.

FIGURE 2: GLOBAL MEDIA M&A DEALS BY TOP ACQUIRER REGION IN H1 2020



THE US SAW THE LARGEST SHARE OF DEALS ON THE BUY-SIDE, BUT WITNESSED ANOTHER RELATIVE DECLINE AT THE HANDS OF THE ASIA PACIFIC. WESTERN EUROPE SAW A FALL IN DEAL SHARE BUT CANADA SAW GOOD ACTIVITY IN THE FIRST HALF OF THE YEAR.

Existing pipelines and weak Pound Sterling may have provided some boost beyond the immediate inertia. Buy-side deals, where the UK recorded 7% of all deals by volume, targeted domestic or US-based companies. While the UK remains an attractive market, it has not managed to regain the levels of acquisitiveness last witnessed in 2017 (12%).

While PE played a crucial role in supporting media deals, especially in advertising, investors across sectors were clearly searching for the confidence to make decisive moves through H1 with the year seeing a big drop in the number of exits and a practical disappearance of IPOs. Contrary to the US, UK VC has had a blockbuster year-to-date, according to PitchBook. Improving on last year's record results, VC deal values across all sectors hit €6.8 billion in H1 2020.

The average deal value also edged up with almost 65% of all UK & Ireland deals over €25 million. Fundraising by VC also looks to be unaffected across Europe.

GLOBAL MEDIA M&A
CONTINUED

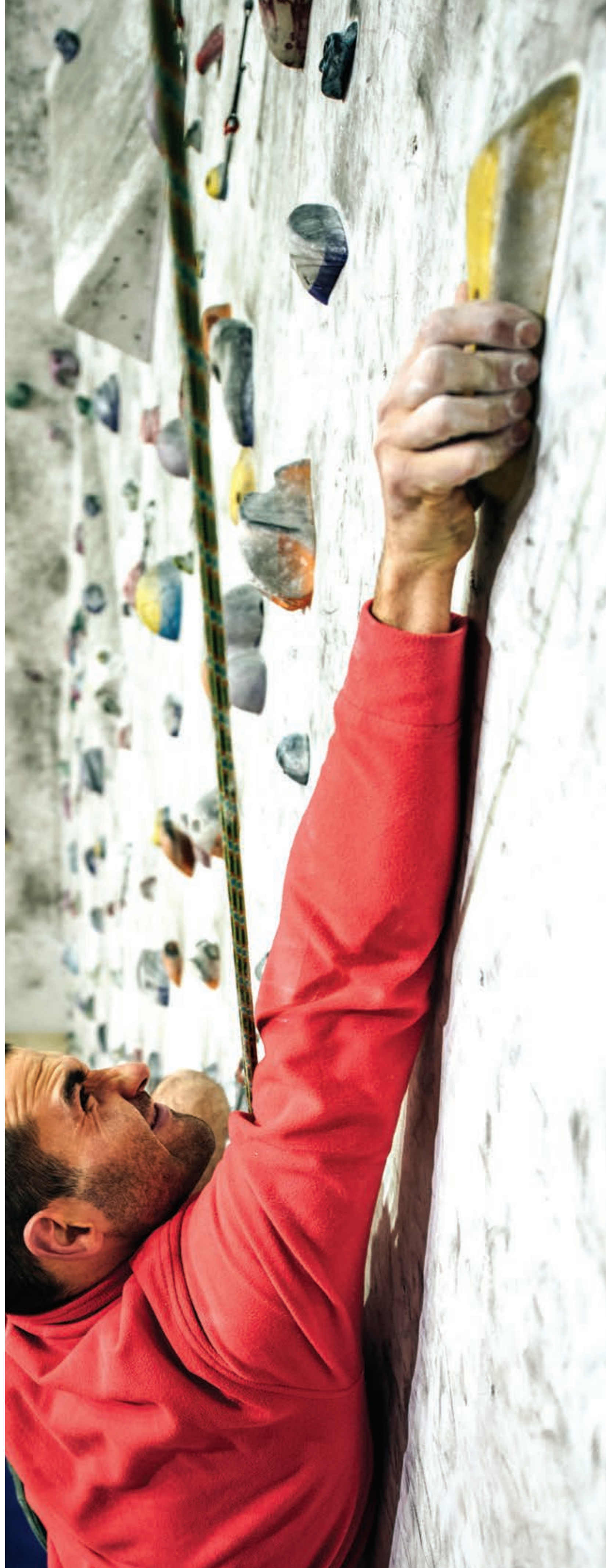
Sector drivers may have influenced deal values with R&D heavy sectors soaking up larger amounts of investment. Equally, there will be an incentive to follow market trends and businesses will continue to seek funds in order to adapt their businesses to emerging opportunities.

The biggest deal of the first half brought together Liberty Global and Telefónica in a deal to merge their respective UK telecoms operations, O2 and Virgin Media. The deal, which values the joint venture at GBP £31.4 billion, is set to disrupt the broadband and mobile market in the UK by bringing together the second-largest broadband network with the largest mobile network. The two owners have also committed to additional investment of around GBP £10 billion over the next five years as they realise synergies by, for example, shifting Virgin Media's mobile clients away from EE and onto O2's mobile network. The merger will have stirred competitors, including leading rival British Telecom (BT), who will be exploring their options in response.

Canada managed to push slightly ahead of South Asia – including India and Pakistan – in terms of global deal volumes in H1 2020. As a target region, Canada lifted its share of deals by 3% in H1 2020, ending up with 5% of global deals by volume. Similarly, the country saw a 3% increase in its share of deals as an acquirer region (7%). The market has seen notable activity in publishing and TV/film production.

Canada has long sought to protect its own cultural industries from being subsumed by its larger neighbour, the US, by establishing a minimum requirement for Canadian broadcasters to air Canadian-owned content. The swelling popularity of streaming services in Canada, which are not bound by the same rules, led to the creation of a panel in 2018 to assess the impact and potential regulatory changes.

The initial report, which was released in January this year, may well have implications for television advertising, broadcasting and content producers in addition to OTT streaming services.



UK MEDIA M&A

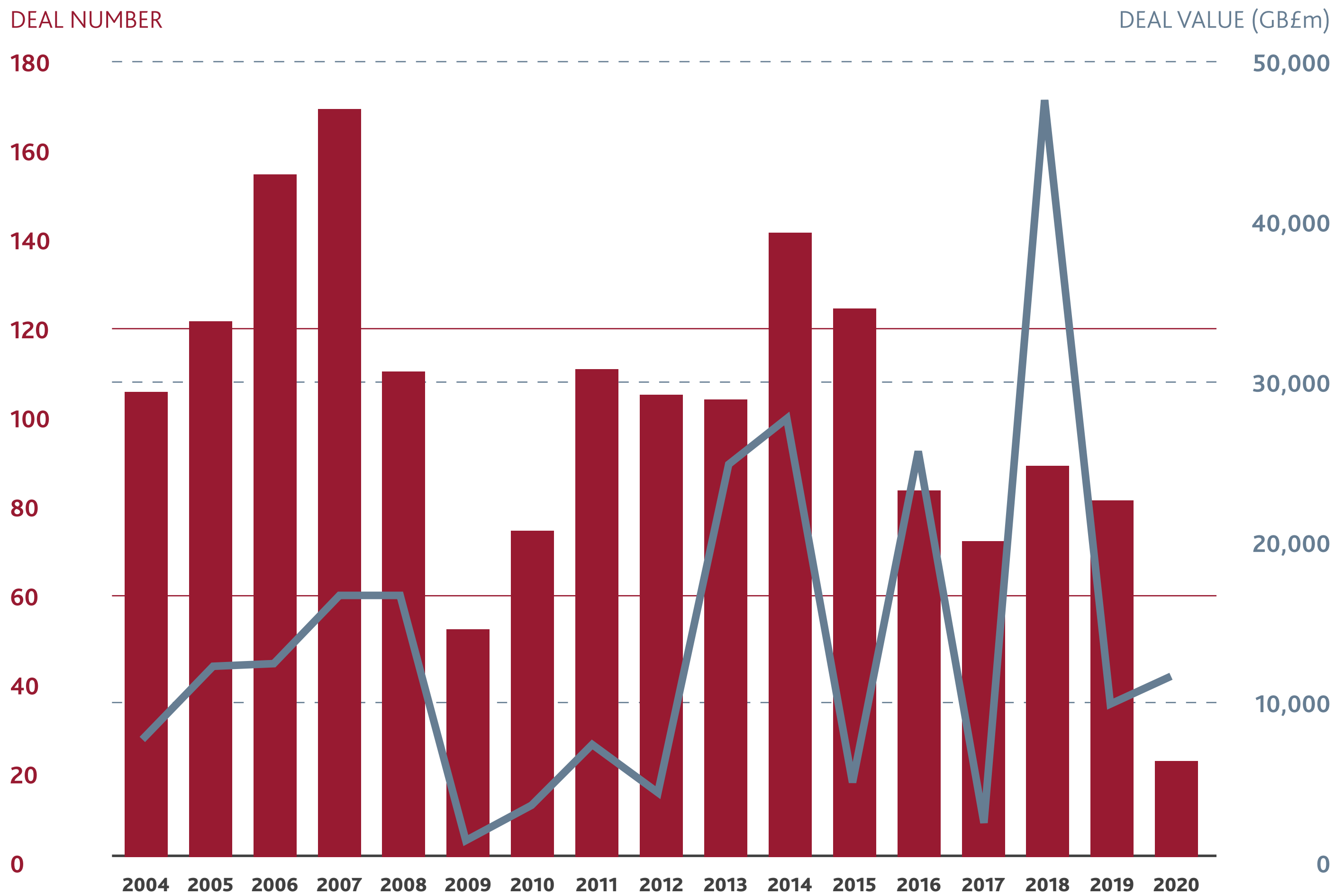
UK media transactions declined by a momentous 54% in H1 2020 when compared to H1 2019. February recorded the highest number of deals in H1 (c.36%), and while the deals did not completely evaporate in subsequent months, activity slowed considerably.

Roughly half of all UK deals were domestic in nature, in line with the long-term trend for the UK market, while the United States and Western Europe were the two dominant sources of inbound deals. PE, a regular catalyst for deals in the media market, played a leading role supporting c.40% of all acquisitions of UK media targets.

The significant proportion of deals supported by PE not only represents relative consistency in PE buyout activity over the period, but also suggests that trade buyers have been more cautious over the first half of the year, focusing on their own business resilience and largely switching off M&A activity.

THE VOLUME OF TRANSACTIONS SAW A SIGNIFICANT DECLINE IN THE MIDST OF AN HISTORIC LOCKDOWN AND VOLATILITY IN THE MARKETS.

FIGURE 3: UK M&A VOLUMES AND VALUES (MEDIA SECTOR 2004-H1 2020)



UK MEDIA M&A

The COVID-19 pandemic has brought health to the fore, and it is not surprising to see a vibrant healthcare communications market as a result. The sector has been forced to quickly adapt to problems of limited accessibility and communication, by adopting digital mechanisms to communicate with patients and even in the provision of health needs. This rapid shift towards digitalisation will be a boon for understanding patient needs, and the amount and quality of data will also serve to improve marketing strategies.

In one of the more significant deals struck in H1, the US-based PE firm Clayton, Dubilier and Rice (CDR) announced a take-private offer for Huntsworth Plc, a healthcare communications group, in March valuing the public company's entire equity at GBP £399.7 million. The cash offer, which placed close to a 50% premium on the company's share price at the time, was recommended by Huntsworth's board and completed in May after passing the critical hurdle of getting approval from the High Court of Justice.

CDR already holds stakes in a number of healthcare-focused marketing services businesses and is likely to view Huntsworth as a strong platform to expand this presence.

PE also played a supporting role in the management buyout (MBO) of Fishawack Group, a medical communications agency headquartered in Knutsford, UK. In a deal that completed in April, London-based Bridgepoint Advisers announced that it was undertaking the MBO in conjunction with the existing management of Fishawack for a total consideration of GBP £240 million.

The company was acquired from LDC who exited Fishawack after backing an MBO in 2017 for GBP £38 million, a relationship which bore considerable fruit in terms of acquisitions and growth.

The transaction will allow Fishawack to pursue further growth and market access, with the company making an immediate move to acquire US-based consulting firm Skysis.

Several factors are likely to affect UK M&A in the near future. The impending reality of Brexit is only now beginning to take form as it undecidedly approaches on the horizon.

The odds of anything but a relatively limited agreement covering critical areas of trade, and leaving significant negotiations to carry on into the year ahead, are being reduced by the week. In addition, the pandemic has led to a raft of activity as the government explores options to shore up its own finances following their substantial stimulus measures.

Investors in the UK will be monitoring the outcome of Chancellor Rishi Sunak's surprise review of Capital Gains Tax (CGT).

Carried interest is likely to be considered, as are a variety of alternative measures, all of which will make the review of interest to PE and other investors, but even a simple change in the level of CGT could have direct bearing on M&A.

UK MEDIA M&A: HOT SECTORS

The economic disruption wrought through the first half of the year served to focus activity with M&A limited to a handful of core sub-sectors. The shutdown in activity put the brakes on investment activity into areas that rely on large, in-person audiences with live entertainment and hospitality taking a direct hit.

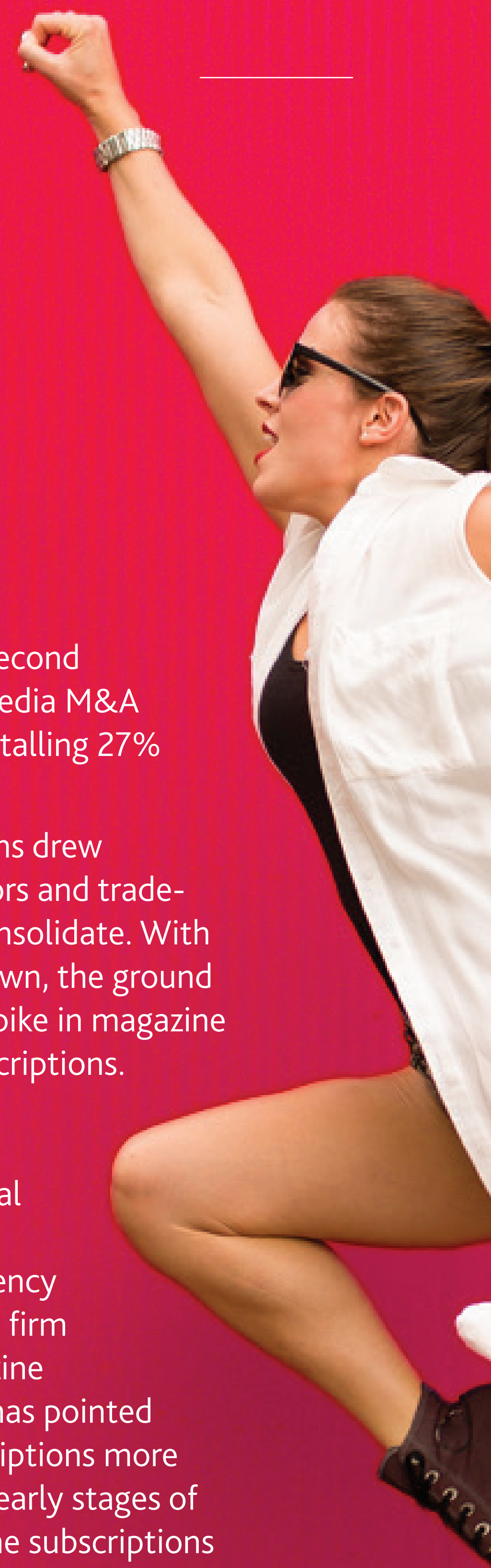
The impact on these areas, which are still subject to some light regulation, is likely to be felt well into next year. The recovery of consumer confidence, not just in terms of spending, but also in terms of the resumption of pre-COVID social habits will be critical for events management, which saw deals dry up in the year to date. In the world of advertising and marketing services, companies will be keen to shore up their offering in a way that raises the level of transparency, especially around effectiveness and value for clientele. Agility will also be at the forefront of consideration and that means being able to shift with client demand.

On the latter, H2 could see deals emerge in the world of social media or influencer marketing, which were quiet in the first half of the year.

Nevertheless there remained steady interest in the worlds of Marketing Services and Advertising, accounting for 55% of all transactions in H1 2020. The drop in wider activity saw these sub-sectors, combined, record a notably higher proportion of all deals than the 30% shared between the two sub-sectors in 2019.

Following last year's spinout from WPP, Kantar announced the acquisition of digital marketing and analytics company Mavens of London for an undisclosed sum in March. The deal is intended to enhance Kantar's marketing performance by improving the ability to analyse trends, customer needs, and optimise digital strategies.

UK MEDIA M&A: HOT SECTORS



Advertising giant WPP sold 60% of its holding in Kantar to Bain Capital last summer. The latter also committed an additional investment for WPP's remaining stake in a deal that valued Kantar at close to USD $4 billion.

In May, MSQ Partners, an international marketing communications group, secured a cash investment from London-based PE house LDC valuing the company at almost GBP £38 million. The declared intent of the investment was to aid MSQ in its ambition to expand outside the London market and pursue further growth opportunities for its agencies. Towards the end of June, MSQ took a step in this direction by announcing that it had approached publicly-listed advertising company Be Heard Group. The offer puts a value of GBP £6.2 million on Be Heard's equity with the deal establishing a combined group consisting of more than 750 staff across the UK, US, and Asia capable of establishing scale in the London market and rolling out enhanced digital and analytical capabilities across MSQ's global offices.

S4 Capital continued to build out its programmatic wing under the aegis of the MightyHive brand, adding to a couple of notable acquisitions in 2019. MightyHive furthered its presence in the Latin American market by completing the acquisition of Digodat, an Argentinian web analytics firm, in May for an undisclosed consideration.

However, shortly into the second half of the year, MightyHive announced another couple of deals to further its digital consultancy services including Australian Lens10 and US-based Orca Pacific. During H1, S4 Capital also added to its content wing in the early stages of 2020 with the acquisition of Mexican digital advertising firm Circus Marketing, which completed in March.

S4 Capital has continued to press ahead with its two-pillared model – programmatic and content - that should put it in a good position to satisfy the growing need for digital-first solutions.

Publishing saw the second largest number of media M&A through H1 2020, totalling 27% of all UK deals.

Specialist publications drew interest from investors and trade-buyers looking to consolidate. With consumers in lockdown, the ground proved fertile for a spike in magazine and newspaper subscriptions. Perhaps surprisingly, this interest has not been limited to digital editions. UK-based digital marketing agency Jellyfish, which has a firm footing in the magazine subscription world, has pointed out that print subscriptions more than doubled in the early stages of lockdown, with online subscriptions increasing as well, though at a lower rate.

Moreover, data from Jellyfish owned magazine.co.uk and pocketmags.com show that specific categories have benefitted at a much higher rate including those focused on children, women's interest, household and gardening, and tech and gaming to mention a few.

It is fitting, then, that publishing M&A has been largely focused on specialist publications.

While parents sought new ways to educate and entertain their own youngsters, H1 saw a spate of deals in the children's publishing space and while the boost in print subscriptions will be a welcome sign for many in May, HarperCollins, whose UK arm is the third largest publisher in the country based on sales value, acquired UK-based children's publisher Egmont Books UK for an undisclosed consideration.

The deal, which will establish one of the largest children's publishers in the UK, will see Egmont run as an autonomous publishing entity in the UK while Egmont Group's Polish and German businesses, Egmont Polska and Schneiderbuch, which are also included in the deal will be incorporated under HarperCollins' Polish and German operations.

Adding to its teeming portfolio of children's content, Trustbridge Global Media (TGM), owned by US-based PE group Trustbridge Partners, announced the acquisition of publisher Walker Books in May for an undisclosed sum. The long-independent publisher, consisting of four companies spanning the UK, US, and Australia, will have secured its future in a trading environment that was facing difficulties well before the pandemic put additional pressure on cash flows.

UK MEDIA M&A: **HOT SECTORS**

FLEXIBLE, VERSATI

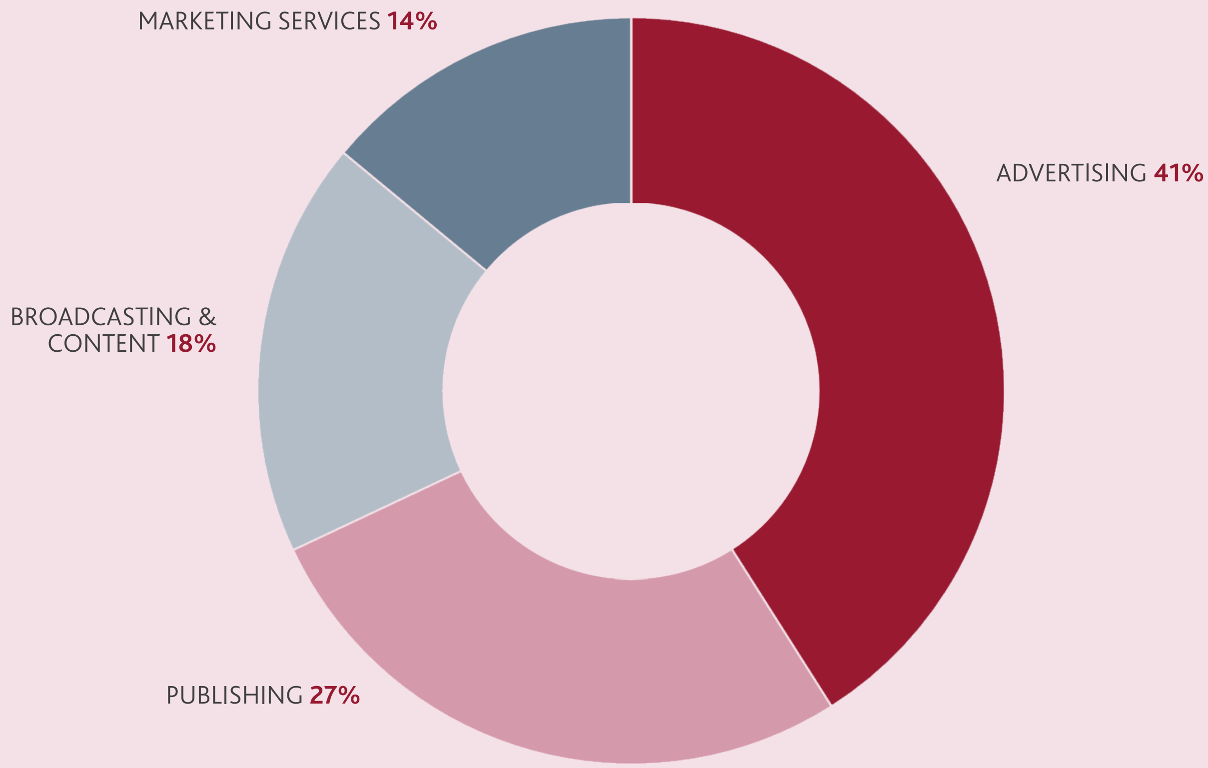
In H1 2020 Broadcasting and Content was the third most active subsector in terms of transaction volume with 18% of deals. In February, Fremantle, the content and distribution powerhouse headquartered in London, completed the acquisition of Naked Television.

The financials of the deal were undisclosed, but the acquisition will mark the conclusion of a process that began with Fremantle taking a 25% stake in 2015.

Known for developing indie content and including shows produced for BBC Three and Channel 4, Naked Television will add to an already stacked line-up of content that includes the virtually universal 'Got Talent' series that now exists across 69 markets.

With this sort of success already at hand in terms of linear TV shows, Fremantle has set out to conquer new realms by leveraging branded content and social avenues for media ownership.

FIGURE 4: UK MEDIA M&A TRANSACTIONS BY SUBSECTOR H1 2020



MARKETING SERVICES AND ADVERTISING COMBINED TO RECORD THE VAST MAJORITY OF DEALS IN H1 2020 AS COMPANIES GRAPPLED WITH SHIFTING CONSUMPTION HABITS. PUBLIHSING FELL TO SECOND, BEHIND ADVERTISING, AFTER RECORDING THE LARGEST SHARE OF DEALS FOR THE PAST COUPLE OF YEARS. BROADCASTING AND CONTENT MOVED INTO THIRD POSITION AS COMPARED TO 2019.

The indie approach and lifestyle-focus of Naked's content may well contribute an important arrow to the quiver.

Broadcasters will be dealing with a significant slowdown in their content pipelines with many having resorted to playing archival material in order to maintain programming during lockdown, or generate creative solutions to keep shows running.

More than ever, having the ability to own and produce good content will be at the forefront of concern and as restrictions ease there will be a push to resume production.

SPOTLIGHT LATIN AMERICA

Latin American countries and media companies are feeling the full brunt of COVID-19. Simultaneously, media across the region continue wrestling with the on-going move towards digital solutions, and how to realign their business models to futureproof operations and revenues. In some cases, the optimal route is proving to be M&A.

THE MEDIA SECTOR'S NEW COMPETITORS

In many ways, Costa Rica is a microcosmos representation of events throughout the Latin American media industry. After years of consolidation in print, radio and TV, digital solutions have upended the traditional landscape. Here, as elsewhere, it has led to increased pressure to reinvent business models and finding ways of competing with technology companies.

Print media is moving from analogue to digital and from ad revenue-based to subscription-based business models. The same dynamics apply elsewhere and integrating new solutions to engage increasingly digital media consumers is a top priority. However, many are playing a game of catch-up with technology-driven first-movers.

TV is, perhaps, the best example. According to Statista, Netflix had nearly 31.4 million paying streaming subscribers in Latin America in 2019, generating $2.8 billion in revenue. The number is projected to increase to 42.49 million by 2025. In comparison, the multichannel subscriber base shrunk by around half a million households in 2019.

CHANGING BUSINESS MODELS DOMINATE

After decades with up to 80% of traditional media revenues generated by advertising, there is a need to identify a new primary source of income. Subscription-based business models, as well as cross-selling secondary and tertiary services and products, are gaining ground, as traditional industry silos fall. Today, it is far from unusual to see media companies acquire, for example, a travel agency to complement the services and revenue generated by existing travel media outlets.

Specialist and niche media are generally finding the transition less challenging – to some degree due to lower production costs, smaller newsrooms, and more well-defined, specialised audiences. However, we have seen some omnibus newspapers have success and continuously grow online subscription numbers.

The pandemic has further speeded up the process – in part because advertising spend has continued to change during 2020.

ADVERTISING KEEPS GOING DIGITAL

An eMarketer report describes how digital advertising spend in Latin America has doubled to $9.33 billion in just five years. In 2020, digital will account for nearly 40% of the ad market. 57% of total digital ad spending will be used on display ads, focused on video and social media. Consumers are often viewing media content via mobile devices, and mobile digital ad spending growth will account for nearly three-quarters (73.7%).

Much advertising spend resides with big international companies like Facebook and Google. Ad, marketing, and media companies competing with the tech behemoths for advertising revenue and eyeballs are, in some instances, turning to M&A.

Digital solutions like programmatic ad buying (for example, MightyHive's acquisition of ProgMedia) and digital agencies (S4 Capital's acquisition of Circus Marketing) have seen their share of activity, as companies in the region, as well as globally, look to build out service portfolios and digital capabilities. The trend will likely continue in the coming years, as Latin American media companies look to expand into more use of big data and perhaps also AI-powered solutions to engage with users and advertisers.

M&A ACTIVITY DROPS SHARPLY

As is the case elsewhere, deal activity in the region plummeted due to COVID-19. Mergermarket reports a total of 199 mergers and acquisitions worth $8.1 billion during the first six months of the year, down from 316 deals worth $35 billion the year before. The 77% decline in deal value is the worst on record.

Domestic activity within the region (120 deals worth USD 3.5bn in 1H20) dropped 75% by deal value in the first half of 2020 compared to the same period last year (178 deals worth USD 13.9bn in 1H19). The TMT sectors have seen comparable developments. Japan-based Softbank has driven much TMT activity, making 13 acquisitions worth a combined USD 2.7bn in the region since 2017.

The drop in activity will likely be temporary, as more high-quality distressed targets are available due to COVID-19, as well as increased focus on digital transformation. This also applies to the media space, and the likes of big data analytics, and digital advertising solutions will be high on companies' wish lists.

CONTENT RULES AS KING

Apart from a few outliers, media remains a locally based business model. In Latin America, M&A in media often happens because of synergies and savings generated by consolidating backend functions. However, without locally relevant, high-quality content, consolidation efforts will struggle.

Google and Facebook remain dominant forces in advertising spend. However, their struggles with manipulation, conspiracy theories and fake news may end up with the pendulum swinging back toward traditional media outlets. Thanks to their fact-checking pedigree, their gravitas as purveyors of trusted information remains stronger.

Time will tell whether consumers, because of such issues, will prefer subscriptions and traditional media over the likes of YouTube and Facebook – and if advertising will follow suit. This will, for many media companies, be what decides their future fate.

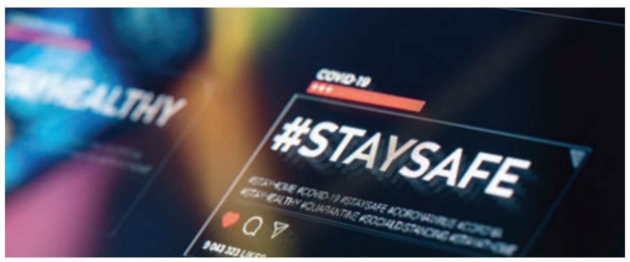
MEDIA SECTOR TRENDS AND ANALYSIS

H1 2020 is destined to be remembered for the pandemic that pressed the pause button on entire economies around the world.

As governments and societies grapple with the peculiar apprehension unique to a post-COVID environment, the challenges ahead are only gradually taking form. It is without doubt that the foreseeable future will be shaped by the medium and longer-term impacts from this crisis.

It would also be a significant lapse to overlook other important stories of 2020 so far.

Images of George Floyd's arrest and the graphic video displaying his maltreatment and death at the hands of Minneapolis police officers spread around the world and gave further impetus to the Black Lives Matter movement.



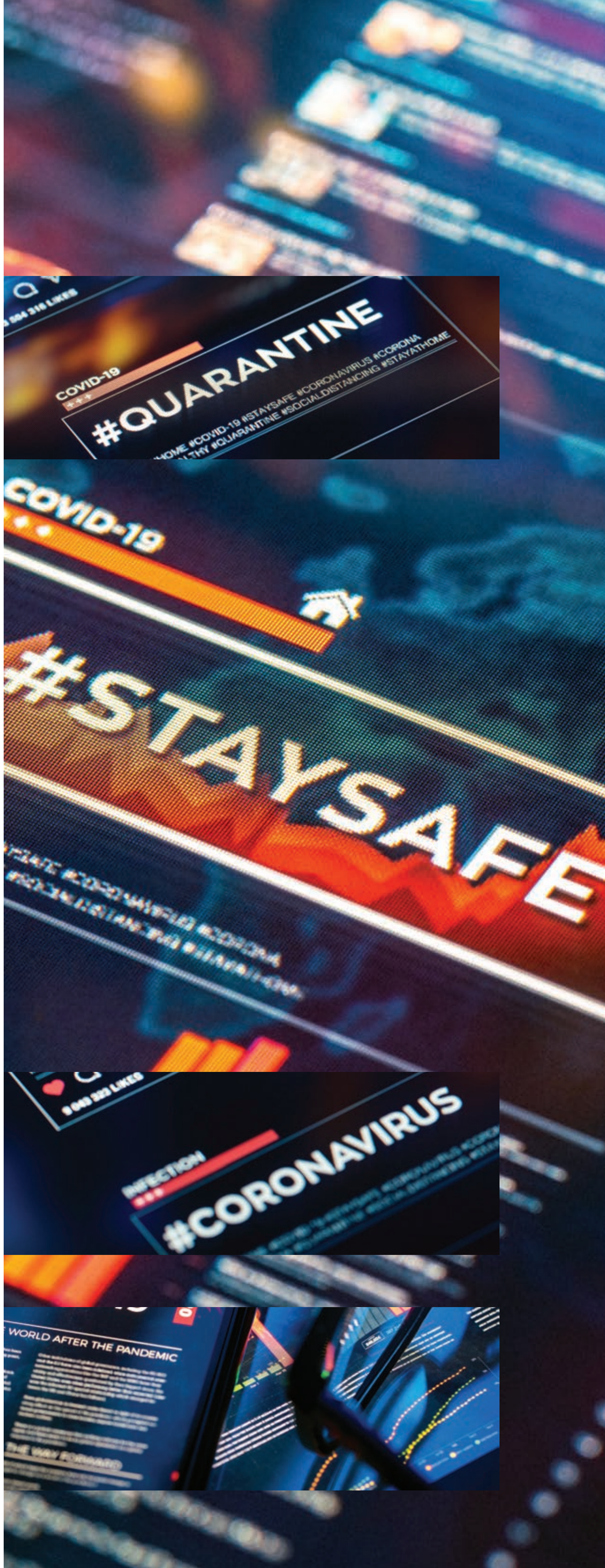
The images stoked protests which gathered in cities across the United States and spread across the Atlantic into the UK.

The incident also had knock-on effects in the advertising world with some outlets recording a drop in ad prices across many digital publications as many companies sought to avoid placing ads next to sensitive content.

Keywords and potential blocklists are now important considerations for companies advertising digitally and digital advertisers need the capability to effectively match a client's risk threshold to appropriate digital content.

Digital ad revenue will depend on getting this mix right, and the problem is likely to become more challenging.

The example of George Floyd may be rather simple compared to dealing with polarising content appearing in the midst of a hard-fought election or striking the right tone amidst a pervasive threat to health.



ADVERTISING REVENUE UNDER THREAT

While consumers turned to online avenues for news and entertainment, the flood of new views did not necessarily produce a corresponding increase in ad revenue. In fact, the first half of the year proved challenging for advertisers faced with a reduction in spending and a cautious clientele in the context of difficult stories. This testing configuration was labelled by Adweek as a 'publisher's paradox' and the remedy will need time.

Data released by the Interactive Advertising Bureau put the challenge in perspective: c.24% of media buyers put a halt on spending during the first and second quarters this year and almost half (46%) of all respondents suggested that they planned to adjust their spending over that time period. The recovery of key sectors will be essential to lifting advertising numbers as a whole when 74% of media buyers and brands expect the pandemic to have had a deeper negative impact than the 2008 financial crisis.

Paris-based Advertising giant Publicis Groupe has also warned that this year is likely to see an historic decline in spending on advertising due to the lack of activity from automotive, food, travel and retail. And the difficulties are not over.

The reduction in spending has been widespread, but spending through digital platforms has remained relatively flat in comparative terms suggesting that the latter will be better placed to recover post-COVID. Most important will be the access to behavioural data that digital platforms have collected over this time period, which will be a huge competitive advantage for digital. After all, advertising must shift with consumer habits. So, in addition to compiling such data, analytics will be needed to sift through and distinguish the changes that are likely to prove long-lasting from those that may just be temporary adaptations.

Approaches will also need to change. Brand-sponsored content, for example, has long been a part of the advertising repertoire of big brands.

From branded giveaways on gameshows to sponsored events, there is nothing new to the concept of sponsored content. But the variety of opportunities is certainly new, and there is more opportunity for brands to display their identity and to offer natural, in-program demonstrations than ever before.

Recent research conducted by Channel 4, which explored academic studies mixing both statistical evidence and qualitative insights, has suggested that this form of advertising is also more effective than spot ads, consisting of a 29% uplift.

The research also suggested that almost half of all respondents in a linked survey reported a more positive image of a brand when associated with programming, a phenomenon dubbed 'brand rub'. This method of advertising is not easy though and requires a coherent fit between the brand and the content.

But this sort of creativity is exactly what advertisers need to explore in order to make the biggest impact in difficult times.

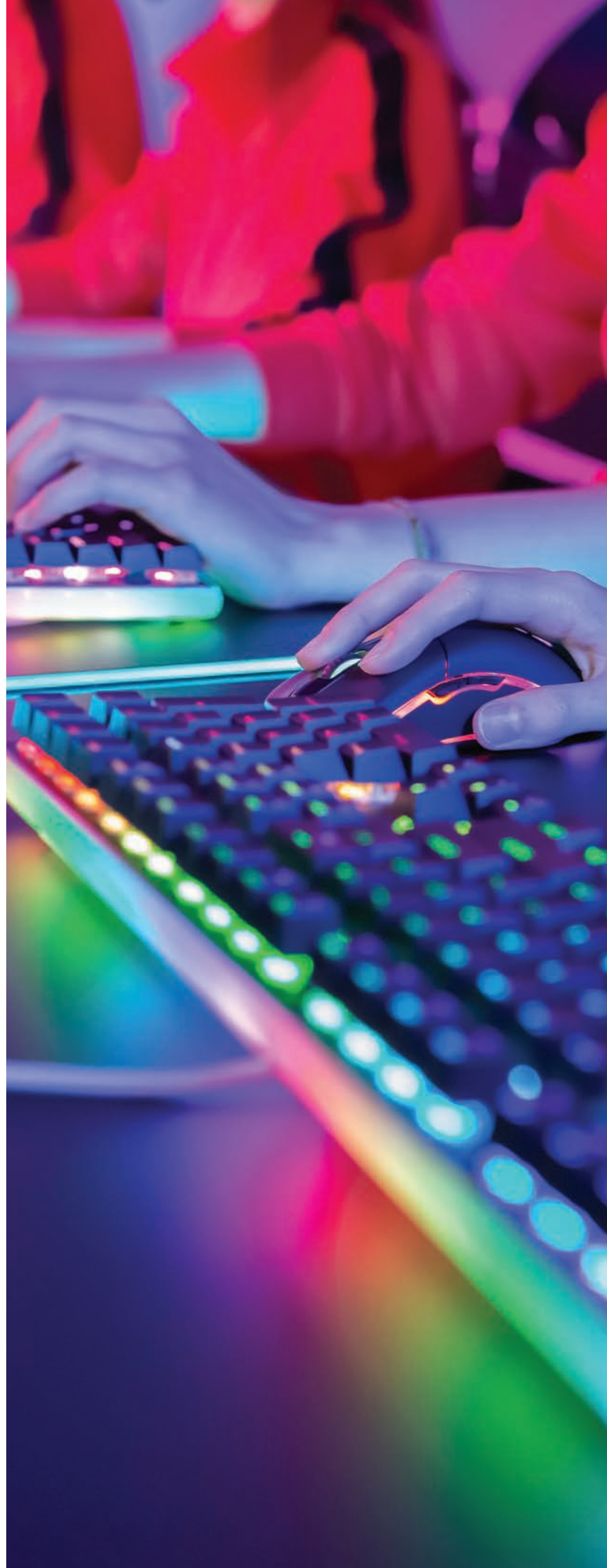
NEW VIRTUAL WORLDS

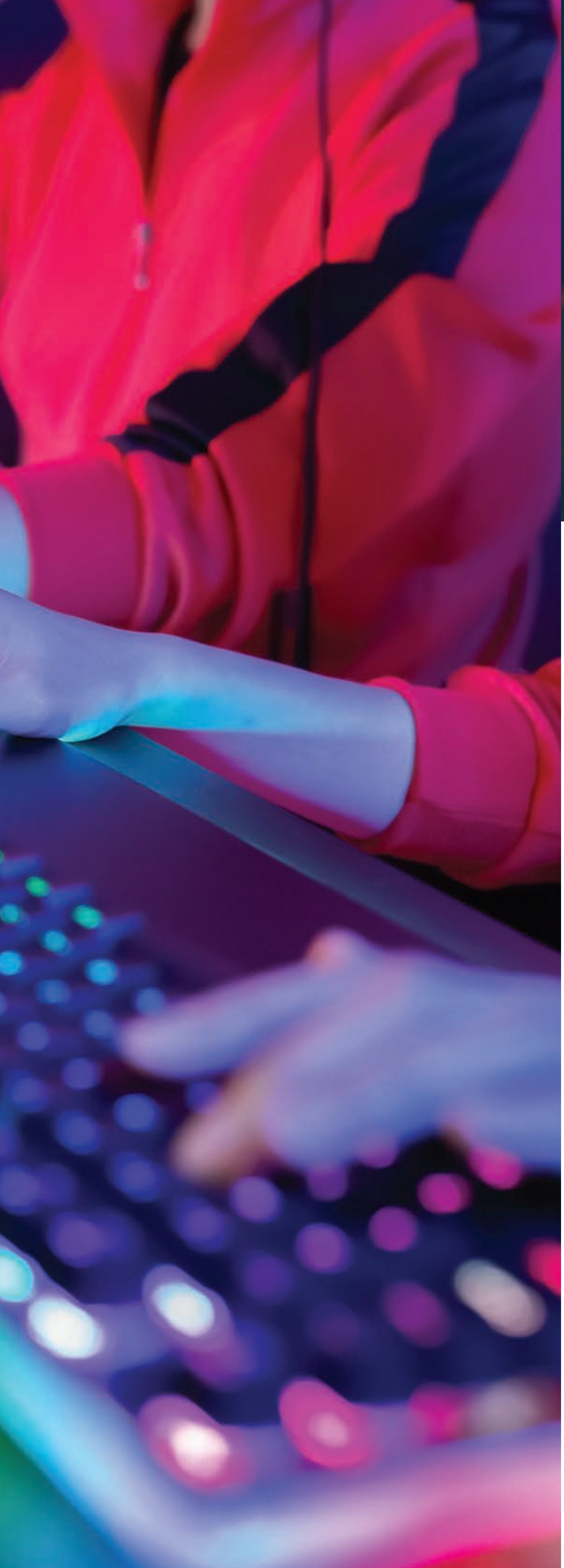
With live events on hold, some events organisers found virtual routes to keep their audience engaged. Cannes Film Festival launched on online portal through which it was able to hold screenings for buyers and media in place of the usual live screenings and surrounding festivities; Glastonbury held a virtual festival airing performances from past events; and Formula One, owned by Liberty Media, held a virtual Grand Prix series after cancelling the opening of its season.

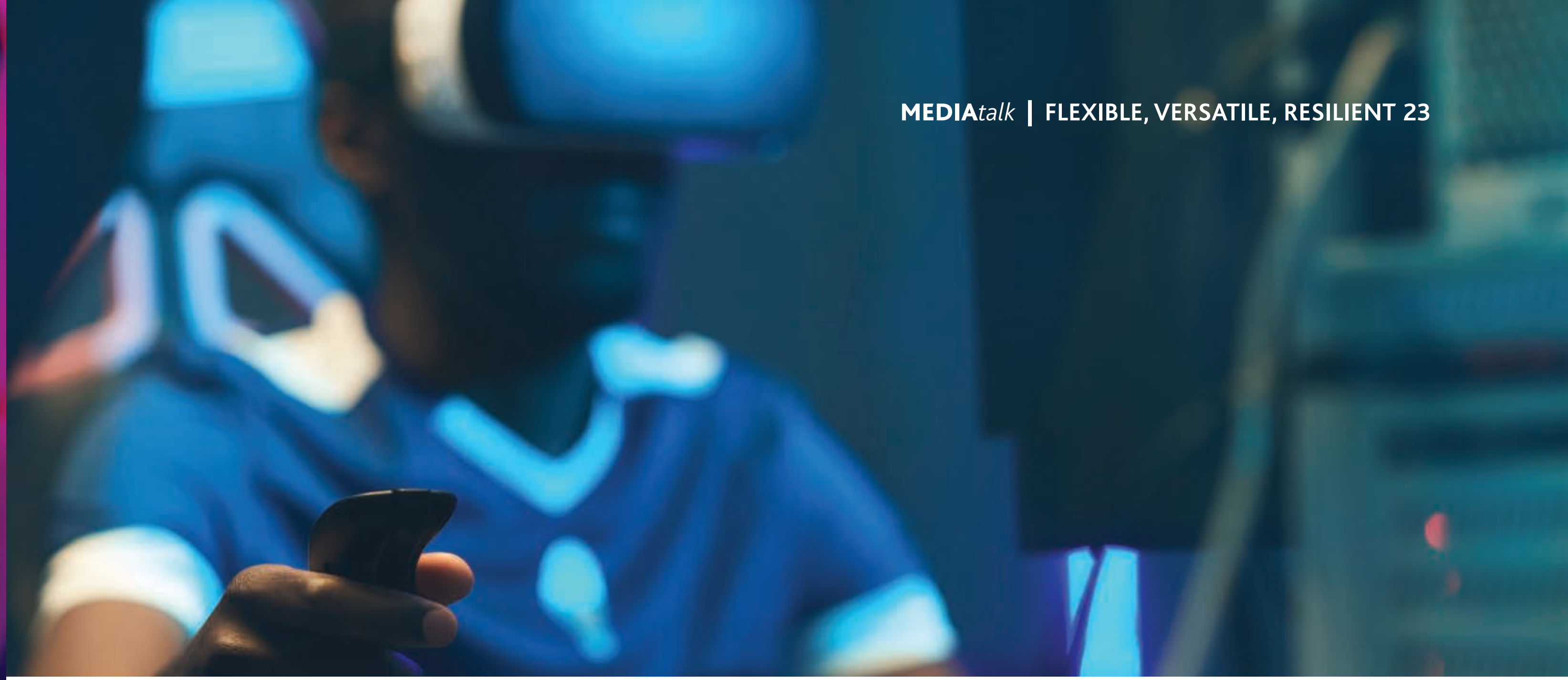
The latter brought together Formula One drivers, professional athletes from other fields, musicians and professional gamers to compete in races during lockdown. Over the period, the series achieved an impressive 30 million views across TV and digital platforms demonstrating not only the loyalty of Formula One fans, but also the growing popularity of e-sports. The e-sports market is forecast to be valued around USD $1 billion in 2020.

With traditional fans turning to e-sports while their favoured sport remained side-lined one by-product could be a faster rate of normalisation for the virtual alternative.

But e-sports is only a tiny fraction of the market. According to the World Economic Forum, the global gaming market is estimated to be worth approximately USD $159 billion this year, dwarfing the revenue made from box office sales or music revenues. The spread of this revenue is not geographically even, with the Asia-Pacific making up for roughly half of all gaming revenue and the US making up another quarter, but other markets are growing. In the UK Computer games and consoles were amongst the few contributors to a marginal increase in inflation in June.







The industry has also seen a variety of changes to the delivery as well. Improvements to handsets and bandwidth mean that almost half of global gaming revenues are now coming from mobile. Augmenting markets for subscription-based and free-to-play options, even some blockbuster titles have seen mobile-targeted releases to complement console or computer sales. According to data from Streamlabs, streaming platforms like Twitch, YouTube Gaming, and Facebook Gaming saw an almost 20% increase in usage hours during lockdown.

Taking the aforementioned trend towards branded content as an example, brands and advertisers can never be sure that a TV show's audience will not be distracted by other tasks such that they are able to pick up on passing references made within the program. With video games, on the other hand, there is a much higher level of attention as gamers attend to the details in order to pass needed objectives or explore vast, intricate virtual environments.

In addition to this, the gaming environment uniquely lends itself to collaboration with other media. For example, Sony has put together a team in order to explore the development of an immersive environment bringing together music and gaming.

There are almost unparalleled opportunities and with an increasingly social and uniquely engaged audience, gaming is an expanding realm for advertising. Brands such as Nike may have already revealed some of the potential in the collaboration with games.

In preparation for this year's SuperBowl, Nike, the official NFL outfitter, and EA Sports released an exclusive trainer and hoodie available to the Madden NFL 19 gaming community.

Beyond the development of collaborative products, advertisers need to look into the vast possibilities that exist in transferring messaging from real to virtual worlds.

CONCLUSION

The media industry is at the forefront of change. Consumers have made a more concerted shift towards digital solutions and it is likely that some of the residual effects of the pandemic will be long-lasting. These behavioural changes will take time to fully understand.

In the meantime, companies will have renewed impetus to examine typical costs associated with production and supply chains. Things like direct-to-consumer may well become more prevalent, cost-effective offerings for content producers. Financial pressures will mean that greater transparency is sought in adtech where inefficiencies in the programmatic supply chain have raised some doubts around value.

These forms of disruption are not new, meaning that those companies who were in the process of innovating prior to the pandemic will find themselves in a relatively advantageous position. But we are likely to see some surprises as well.

For example, e-commerce dropped the first bombshell in July with Adevinta becoming the world's largest online classified's company following the acquisition of Ebay's classified ad business for USD $9.2 billion.

So while the second half of 2020 may not see a return to the same volume of deals as last year, it will not be short on intrigue.

FLEXIBLE, VERSATILE, RESILIENT

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