H1 2022

MEDIA*talk*

ADAPTING, EVOLVING AND STANDING STRONG

BDO

H1 2022

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A WORD FROM ANDY VINER

GLOBAL HEAD OF MEDIA AND ENTERTAINMENT

ON REFLECTION THERE HAVE BEEN FEW EASY MONTHS SINCE THE BEGINNING OF 2020. LIKE A ROLLERCOASTER, WE HAVE RIDDEN THROUGH DIPS AND DIVES PUNCTUATED BY MOMENTS OF EXHILARATION AS OPPORTUNITIES TO SHARE EXPERIENCES HAVE BEEN REINVENTED.

At the time of writing, there is no doubt that the global economy is heading into some fairly unfavourable winds that could threaten to stifle cross-border activity while interest rates around the world begin to rise. Amid all of this, the shortage of key skills and personnel remains a constant.

But the talk of headwinds had relatively little impact on the size of media M&A in the first half of the year. While deal volumes fell ever-so-slightly (2%) on H1 last year, announced deal values tell a different story topping GBP£195bn globally.

Notably, the pace of private equity (PE) deal-making accelerated this year with buyouts representing almost a fifth of all global media deals. Taking advantage of existing liquidity, the phrase 'making hay while the sun shines' would be an apt metaphor if there was any clear endpoint in sight. Appetite for future deals appears to remain strong amongst PE investors.

There were signals of change as well. Almost three-quarters of all deals were domestic in nature. The proportion of domestic versus cross-border deals has been rising of late and the most recent figures are likely to reflect the halting effect of volatility in global markets.

The fact is media will always be at the forefront of thrilling and unsettling change. From *Wordle* and *Heardle* to the ongoing competition for good data and intelligence, media M&A is set for another strong year despite the unsettled backdrop, with a steady flow of announcements likely in the final months of 2022.

I hope you enjoy reading this edition!

Andy

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GLOBAL TRENDS

Over recent years it has become increasingly difficult to separate large parts of the media and technology sectors. From years of tech disruption, the media sector has taken an evolutionary step towards being more thoroughly tech-enabled and suffused with digital capabilities and tailored data skills. Content and creativity remain indispensable, of course, but even these must cross the threshold of customer and behavioural insights. It will not come as a surprise, then, that the story of media M&A this year reflects this characteristic trend.

Of course, the high-flying media market produced plenty of intrigue as well. Netflix recorded its first-ever drop in subscribers this year, as the impact of the pandemic on demand waned and amidst rising competition in the streaming space. Budgets for content production are certain to expand further in that context, which means production studios, visual effects (VFX), and content creators will all remain heady targets. Moreover, as the streaming world changes there may be new opportunities for advertisers to jump aboard with speculation that Netflix and other platforms may be considering lower-priced, ad-supported subscriptions to help maintain market share.

Subscription services are also changing more widely. The global digital publishing market, increasingly defined by flourishing mobile applications, digitization, and integration of social platforms, is also seeing a focus on bundling of popular content to boost subscriptions. The New York Times acquisition of sports publisher The Athletic early in January for a sum of USD$550m is just one example of a publisher adding complementary content to increase the desirability of existing subscriptions.

The economic environment will also have played a role in how the year-to-date shaped out. PE-related deals were rampant in the period, making up a quarter (25%) of all deals reviewed. Debt-funded deals more generally may have been accelerated by fears over rising interest rates as central banks attempt to control surging inflation. The outlook, however, looks even more challenging and there are signs that corporate buyers could be cautious about forthcoming M&A. There may be more reason to be positive about the state-of-play for PE firms, who remain more bullish as they look to put record levels of cash into action, and combine with buy and build, and consolidation.

GLOBAL TRENDS

FIGURE 1

H1 2022 GLOBAL MEDIA M&A DEALS BY TOP TARGET REGIONS

As a target region, the US held position with 32% of announced global media deals. Both the Asia Pacific and Western Europe saw their share of global sell-side M&A decline, by 2% and 6% respectively. The UK market share remains very significant.

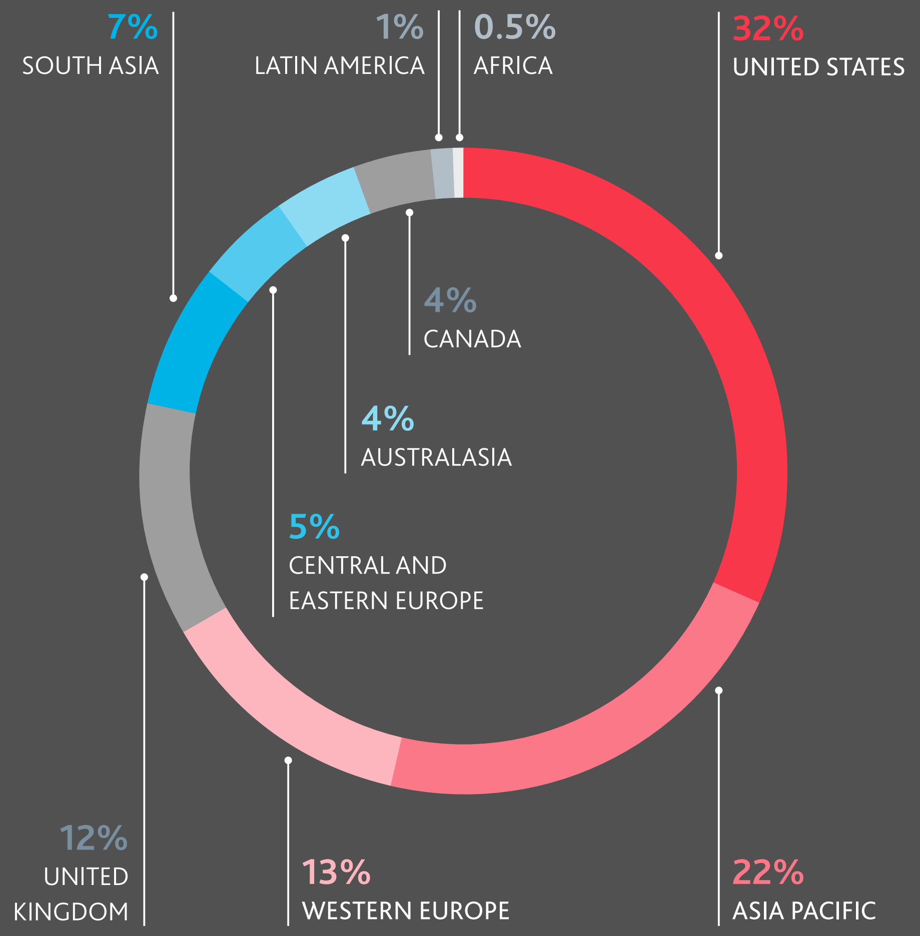
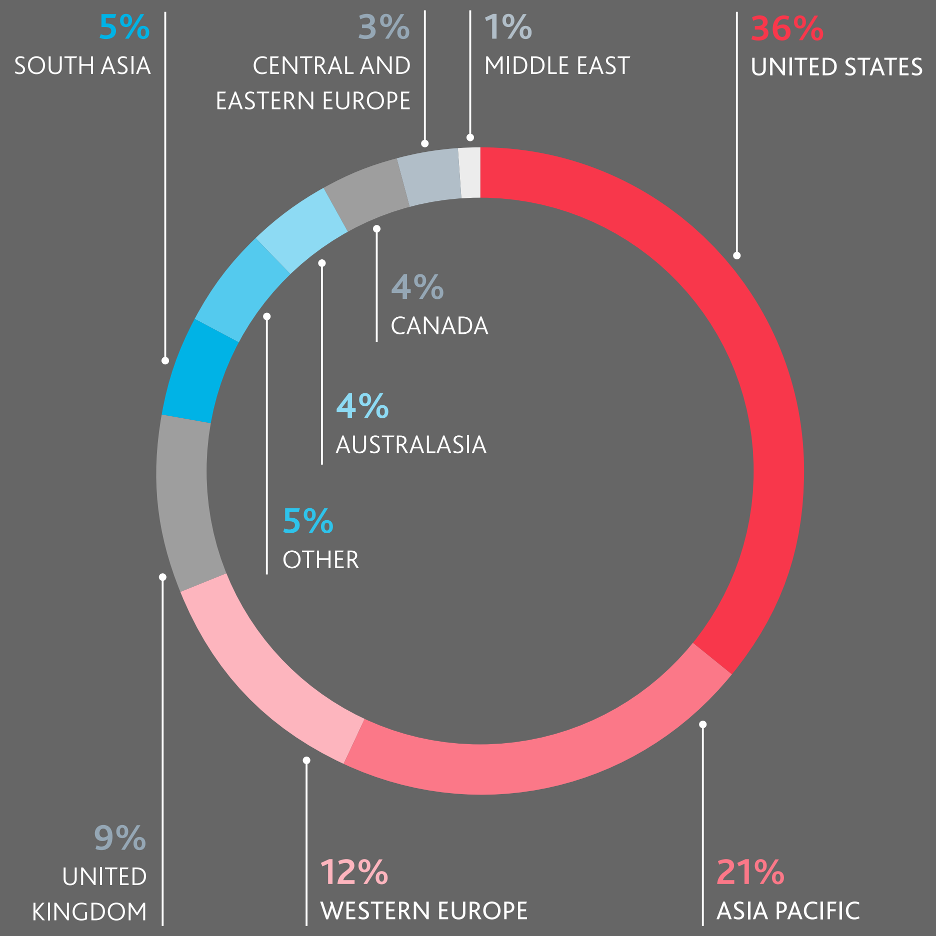


FIGURE 2

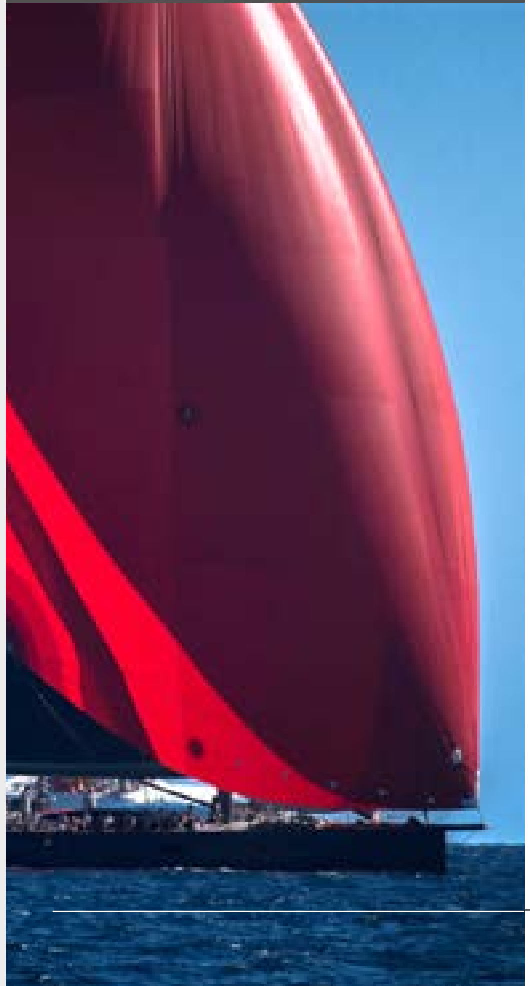
HI 2022 GLOBAL MEDIA M&A DEALS BY TOP ACQUIROR REGION

The dominant US market increased its share of buy-side deals to 36%. Again, the Asia Pacific and Western Europe saw falling shares of global media acquisitions (by 3% and 8%, respectively) with higher levels of activity across less conventional regions. The global appeal of UK media is obvious by comparing the two charts.



GLOBAL TRENDS

THIS MAP HIGHLIGHTS THE HEADLINE GLOBAL TRENDS AND ANALYSIS FOR THE FOUR MOST ACQUISITIVE REGIONS IN 2022. AN APPENDIX OF OTHER NOTABLE DEALS CAN BE SEEN ON PAGE 14.



UNITED STATES

The world's largest media and entertainment market remained a major source of global media M&A in 2022. US-based companies played acquiror on 36% of global media (vs 34% in H1 2021) and 32% of global media deals as a target region (vs 32% in H1 2021). Just over a quarter of US acquisitions targeted non-US companies, predominantly in the UK and European markets.

Publishing deals were significant among US deals in H1 2022. Apollo Global Management attempted to take Pearson, one of the world's largest publishing companies, private in a deal estimated at GBP£7.2bn, including debt. The offer was subsequently withdrawn after being rejected by Pearson's board which is focused on growing its digital learning ecosystem.

Boston-based EdTech and learning services provider Houghton Mifflin Harcourt was acquired by PE firm Veritas Capital for approximately USD$2.8bn in April. The deals reflect growing PE interest in educational publishing as well as the wider world of digital media and publishing.

WESTERN EUROPE

Western Europe accounted for 12% of global media deals on the acquiror side (vs 20% in H2 2021) and 13% of media deals as a (vs 19% in H1 2021), making it the third most active region in terms of combined M&A activity. The top acquirors among Western European markets were France, Spain, Switzerland, Italy, the Netherlands.

France-based media conglomerate Vivendi SE in May boosted its ownership stake in French publishing company Lagardere for approximately USD$412m, paving the way for a takeover bid. In Italy, Milan-headquartered commercial TV firm MediaForEurope (MFE) made a move in March to acquire the remaining 44% stake in Spanish broadcaster and streaming giant Mediaset Espana, raising its stake in the business to 83%, in a deal worth USD$276m. The deal demonstrates MFE's objective to create a continental force and is another example of cross-border consolidation that continues on the continent.

UK

The UK market recorded 9% of global media M&A as an acquiror region (vs 7% in H1 2021), and 12% of media deals as a target (vs 11% in H1 2021). UK deals for the first half of 2022 were predominantly focused on UK-based targets, though 30% of deals were initiated by acquirors from other parts of the world, led by US-based companies. The vast majority of UK-led acquisitions were domestic, with a small number of deals targeting European, US and Singapore-based companies.

S4 Capital, via its unitary brand Media. Monks, made a couple of acquisitions that reached across the Atlantic to bolster its technology services pillar. Early in the year, S4 acquired 4 Mile Analytics, a preferred partner of Google for its business intelligence platform, Looker. The deal will enhance S4's partnerships and analytics capabilities. In May, S4 completed the acquisition of US-based TheoremOne. Folding into Media.Monks, TheoremOne provides advanced engineering and design expertise for digital products and services. The terms of both deals were undisclosed.

ASIA PACIFIC

The Asia Pacific region accounted for 21% of global media deals as an acquiror region (vs 24% in H1 2021) and 22% as a target region (vs 24% in H1 2021). South Korea and Japan recorded the most deals, but Chinese acquirors were not far behind during the first half of 2022. Unsurprisingly, the vast majority of deals were domestic in scope. While 85% of acquisitions targeted a company within the region, there were some exceptions including a substantial USD $200m investment from Chinese cryptocurrency firm Binance in Forbes in February.

In December, South Korean sports broadcasting company Éclat Media announced a USD$£41.9m investment from SG Private Equity. Éclat, the owner of an expanding pan-Asian sporting platform, has recently acquired rights to Golf's British Open adding to a line-up of top-tier sports leagues including the Premier League, NBA, and MLB. The platform appears well positioned to take over from the previously dominant pan-Asian sports network, Fox Sports Asia, following Disney's decision to close the venture in 2021.

GLOBAL TRENDS

GLOBAL 1 TREND

AUDIENCE POWER

By putting technology first, consumer needs are being served with greater nuance, depth, and proactivity. Indeed, consumer habits have never been more thoroughly analysed. As a result, communities of consumers have also never been more influential from programming to content to messaging.

In May, Candle Media announced its acquisition of ATTN:, a creative storytelling company with social purpose at its heart, for c. USD$100 million. Candle Media, run by former Disney executives Kevin Mayer and Tom Stagg and backed by Blackstone, has made a run of acquisitions over the last couple of years focusing on high-profile creators and visibility across platforms. In addition to accessing a young, socially conscious audience, the deal will help Candle build a stronger social media presence with ATTN:'s expertise in viral campaigns as well as their newly created TikTok Studio intended to empower brands and influencers.

Socially and environmentally-savvy audiences are demanding ever more attention online and at live events. The challenge for businesses will be to show that they can engage with those concerns in a meaningful way.

GLOBAL 2 TREND

DIGITAL INFLUENCERS

While cinema and out-of-home (OOH) advertising took a hit through the pandemic, revenues are expected to see a healthy bounce-back in 2022, according to Enders Analysis. The embedding of OOH options and displays into newly developed urban areas, such as along the recently opened Elizabeth line in London, will help support that growth. At the same time, however, consumers remain glued to mobile screens.

With the ability to access both niche and broader markets, influencer marketing is able to feed into the zeitgeist in an innately more targeted fashion trading on that most sought-after quality, trust. It is no wonder that this has been one of the fastest growing segments within digital marketing, and investments have grown substantially over recent years.

In January, US-based digital marketer New Engen announced its acquisition of influencer marketing agency Acorn Influence. The deal, which completed in the same month for an undisclosed sum, brings together Acorn's network of influencers, content, and technology platform with New Engen's focus on creativity and analytics.

Across the pond, UK-based digital marketing agency Brain Labs also delved into the world of influencer marketing in May. Brainlabs, a portfolio company of PE-firm Livingbridge, completed the acquisition of Fanbytes for an undisclosed consideration. Sharing a data-led approach, the deal forges strong cross-platform expertise with the addition of Fanbytes' proprietary dataset containing more than three million influencers and ongoing projects across TikTok, Instagram, YouTube and Snapchat.

Influencer marketing has quickly emerged as a vital component of digital marketing with its ability to precisely target audiences across a wide range of social media platforms.

GLOBAL 3 TREND

GLOBAL FX

As streaming platforms proliferate, local content production has become global business. As the phenomena of Squid Game and Money Heist demonstrate, the popularity of regional content has exploded along with demand for visual effects (VFX) studios.

In January, London-based film streaming platform Mubi acquired the sales and production arms of Match Factory for an undisclosed amount. While Mubi has recently focused on acquiring indie titles by scouring film festivals, the acquisition of Germany-based Match Factory pushes forward in-house production capabilities. The combination of sales and streaming expertise will also help Mubi attract other arthouse directors through their global distribution capabilities. In April, Maum Studio, a subsidiary of Silicon Valley-based investment firm Maum Capital Group (MCG), injected USD$108.4m into Seoul-based film production and distribution company Showbox. In a bid to expand its K-content offering, the deal presents Showbox with a chance to enhance content creation and develop IP that can be expanded to multiple formats, including series, games, webtoons and web novels.

Following the strongest ever year for special purpose acquisition companies (SPAC) in 2021, the year opened on a familiar note. US-based SPAC Sports Ventures Acquisition Corp took UK-based VFX and animation company DNEG public in a deal valued at USD$1.6bn. In the same month, DNEG, producer of global sensation Avengers: Endgame, received a USD$400m minority investment from the film and TV division of Japanese video game publisher Nexon. Both companies have strong experience in VFX for global film and gaming audiences. The deal is intended to support the development of immersive universes appealing to global audiences via games and virtual world experiences.

With an insatiable appetite for content and the globalisation of production, the ability to create content that transcends borders will continue to create avenues for M&A.

GLOBAL TRENDS

SPOTLIGHT ON THE US

U.S. MARKET OVERVIEW

The global media sector set new records for M&A during 2021, a trend driven largely by U.S. target companies. Since then, the deal landscape has shifted due to macroeconomic forces — including inflation, rising interest rates, tightening monetary policy, supply chain disruption and geopolitical tensions — that have impacted cross-border activity and dragged down valuations. Despite some deal parties facing costlier debt financing, more difficult divestment and lower near-term ROI, however, the outlook for media M&A remains positive.

New business models like the creator economy, a rapidly developing metaverse and the proliferation of non-fungible tokens (NFTs) have disrupted traditional media, advertising and entertainment. Although current volatility has temporarily disrupted some of this newer activity, the true market size remains to be seen. Legacy companies and newer entrants alike will need to recalibrate their objectives to sustain growth in this changing environment.

Media companies should examine three business pillars that support success: content, distribution and user experience (UX). These keys can unlock consumer value with higher engagement and loyalty in a competitive environment, and they're also critical value drivers for deals.

STREAMING SHAKES UP ADVERTISING

In recent years, the streaming space has become more crowded than ever, prompting a reimagination of advertising and distribution. With so many streaming options available — and so much content to choose from — consumers may feel they're oversubscribed. Factoring in less discretionary income during an economic downturn, subscription saturation is already prompting some consumers to trim their streaming options.

In the short term, advertisers will struggle to navigate these choppy waters, and ad revenues will likely decline. Lifetime customer value and customer retention are key focus areas for streamers: a long-term customer base shows advertisers a strong foundation, and a foundational following help attract new audiences.

As a result, investment in content is changing dramatically across the media landscape. The proliferation of streaming options has undercut the dominance of cable and TV networks and led to more "cord-cutting." The push to consolidate the space for leverage in carriage fees is moot if more customers are canceling cable.

For example, live sports have long been a lure to keep fans subscribing to more expensive cable packages. Now, more sports leagues are moving to streaming, and advertisers will follow:

- Apple has deals to stream Major League Soccer (MLS) and some Major League Baseball (MLB) games
- Amazon has deals to stream National Football League (NFL) Thursday Night Football, some MLB games and some Premier League matches
- NFL commissioner Roger Goodell indicated the Sunday Ticket option to access all games will likely move to a streaming service next season.

At the same time, Disney (which owns ESPN and ABC) has pushed to expand its market share in live sports through both television and streaming rights. It signed a seven-year deal with the National Hockey League (NHL) last year and a three-year agreement with Formula 1 this year. F1 had drawn substantial interest from dedicated streaming platforms, including Netflix, and there will be heavy competition when Disney's deal expires.

Multiple models for advertising have emerged in the streaming space, with advertising video-on-demand (AVOD) growing in popularity as an over-the-top (OTT) revenue model. Such services are typically low-cost or free, and ad tech companies will likely see increased deal activity in media.

After Netflix's CEO repeatedly said the company would not host ads on the platform, there is speculation to introduce an ad-supported subscription tier at a lower price point in 2023, as the company seeks to increase revenue and reverse recent subscriber momentum. Netflix chose Microsoft — which does not have a competing video platform, unlike other major ad tech players Google and Comcast — to build out the ad-backed subscription.

CONSOLIDATION AND SIMPLIFICATION WITH CUSTOMISATION FOR AUDIENCES

Looking to the future, entertainment will see more simplification and consolidation, which will continue to fuel deal activity. Customization will be an important tool for driving engagement — a dynamic most evident in community-driven new media, where authenticity breeds trust and habit.

Advertisers and media companies alike should examine demographics to better understand the specific audiences that consume community-driven media. By focusing on audience segments, companies can tailor content to increase engagement and revenue.

Many media and social platforms cater to multiple, hyper-focused audience demographics, including TikTok, Twitch, Substack, podcasts and more. Facing stiff competition, dominant players are scrambling to retain market share, such as Instagram's efforts to stem competitive pressure from TikTok.

Microsoft's $69 billion bid for Activision Blizzard this year indicates potential for significant growth in the metaverse and gaming spaces. Amazon's 2014 acquisition of the video game live-streaming platform Twitch has proved prescient, as has Google's 2006 acquisition of YouTube, which has evolved to serve both individual content creators and legacy media.

Content creators are like incubators, nimble and keenly attuned to their audiences. Much like Big Pharma needs small life sciences companies to help drive innovation, new advances in media will be driven by smaller players who understand what their audience wants to watch. That's where content, distribution and good UX converge.

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NETFLIX AND TWITTER JITTERS WON'T PUT PE OFF MEDIA

CASE STUDY

IT IS NOT OFTEN THAT MEDIA DEAL HEADLINES MAKE IT FROM THE BUSINESS PAGES TO THE FRONT PAGE. BUT ELON MUSK'S WILL-HE, WON'T-HE TAKE-PRIVATE MOVES ON TWITTER, THE HIGH-PROFILE SOCIAL MEDIA PLATFORM, HAVE BECOME A NEWS AGENDA MAINSTAY IN 2022.

The whole affair, mired in legal action as MEDIAtalk went to press, hardly paints a rosy picture for media investors. And it follows trouble at former stock market darling Netflix, which lost almost a million subscribers between April and July.

Will these headline-grabbing setbacks put private equity off the media sector? Don't count on it.

Private equity houses have been circling the industry with increasing interest in recent years, with the number of buyouts targeting UK media businesses growing 300% in the first half of 2021, and 15% in 2022, compared to the same periods in the previous years.

This activity, mostly focused on marketing services and advertising companies, represents a third of all deals since the beginning of 2021 and is against a backdrop of generally static deal volumes overall, suggesting private equity has propped up media mergers and acquisitions in recent years.

And current macroeconomic conditions might add to dealmaking appetite in parts of the sector. Yes, it's true that the big picture is not heartening. Inflation is at levels not seen in decades and there are well-founded fears that a recession could be around the corner.

Yet private equity houses need to put their investors' money to work. They are working hard to invest the dry powder accumulated in recent years, and the pool of attractive industry sectors is dwindling. Media in 2022 looks like a sound bet for investors, with little or no exposure to the supply chain problems that are hobbling other industries.

Private equity still favours the more programmatic, technology-led end of the media spectrum. In March, UK based CTI Group, a fast-growing digital agency, secured a £25m minority investment from mid-market private equity firm LDC, to support the next stage of its international growth plans.

Companies with spreadsheet-friendly business models, such as platform providers that make revenues from subscriptions, will be preferred over creative ventures where revenue is tied to talent that can walk out the door at any time.

That said, many private equity investors now have a better understanding of media industry dynamics and may be comfortable investing in creative agencies, production houses and other businesses that are more focused on people than platforms. For example, mid-market American based private equity firm Abry Partners announced a USD$100m investment in HartBeat Productions, the digital media company started by world-famous comedian Kevin Hart, in April.

These investors also have a growing appreciation of the opportunities emerging in the sector. The nonstop growth of gaming, for example, is creating attractive niches such as in-game advertising and games as a service.

Streaming services, meanwhile, remain interesting despite the loss of subscribers at Netflix and rival platforms.

Private equity will be looking for opportunities with marketing businesses that can monetise their expertise as these media giants tweak their business models to include advertising and other revenue-shoring measures.

There may not be many companies that can target such opportunities effectively, so competition for high-quality investment targets will be as high as ever, supporting valuations for businesses that can demonstrate resilience to bear markets.

But this window of opportunity may have a limited life. Interest rates are increasing, there are concerns about the global economy and some debt funders are less keen to lend to businesses with exposure to consumer spending. All of this will contribute to downward pressure on valuations.

At the same time, languishing stock markets may tempt some investors to go down the take-private route—hopefully with more chances of success than billionaire Musk has achieved at Twitter.

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UK MEDIA SECTOR TRENDS

UK MEDIA M&A FELL BY 21% WHEN COMPARED WITH THE FIRST HALF OF LAST YEAR, AND 3% WHEN COMPARED WITH THE LAST SIX MONTHS OF 2021.

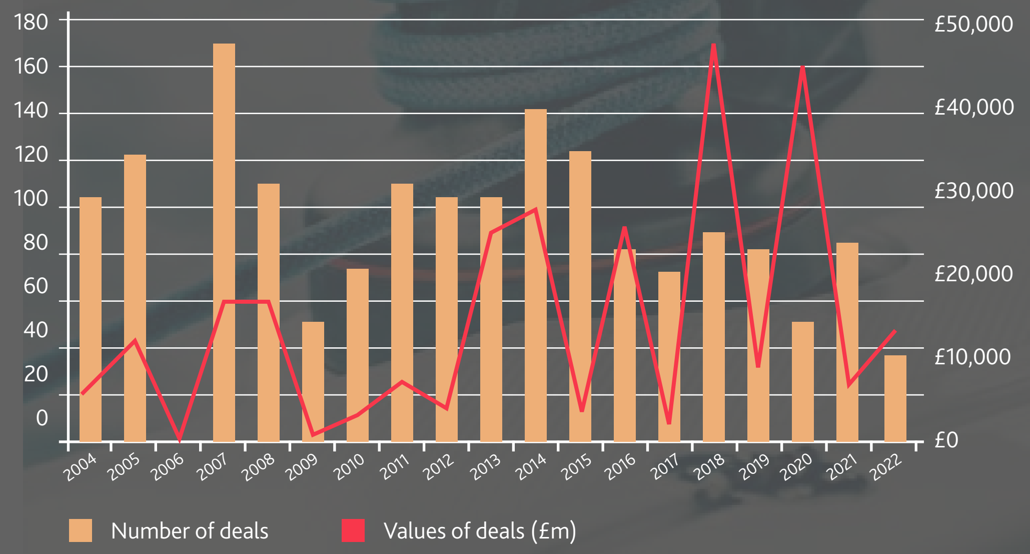
Of course, it is a difficult comparison that should be understood in context. Following a year of stalled activity, H1 2021 witnessed a flood of deals as lockdown constraints lifted. H1 2022 started comparatively rosy but witnessed a deluge of troubling geopolitical and economic headlines that threaten further disruption and uncertainty in H2 and beyond.

Nonetheless, compared to the average volume of first-half media deals in the three years before the pandemic, 2022 has maintained a steady buzz of activity. For example, towards the conclusion of H1 a private equity consortium including Epiris and Astorg Partners announced a significant take private offer for Euromoney Institutional Investor in a deal estimated at GBP£1.6bn. It is reported that the listed digital content company will be split up between the investors with Epiris retaining the Euromoney business, including the popular Euromoney magazine, while Astorg acquires the commodity-pricing platform Fastmarkets.

FIGURE 3

UK M&A VOLUMES AND VALUES (MEDIA SECTOR 2004-H1 2022)

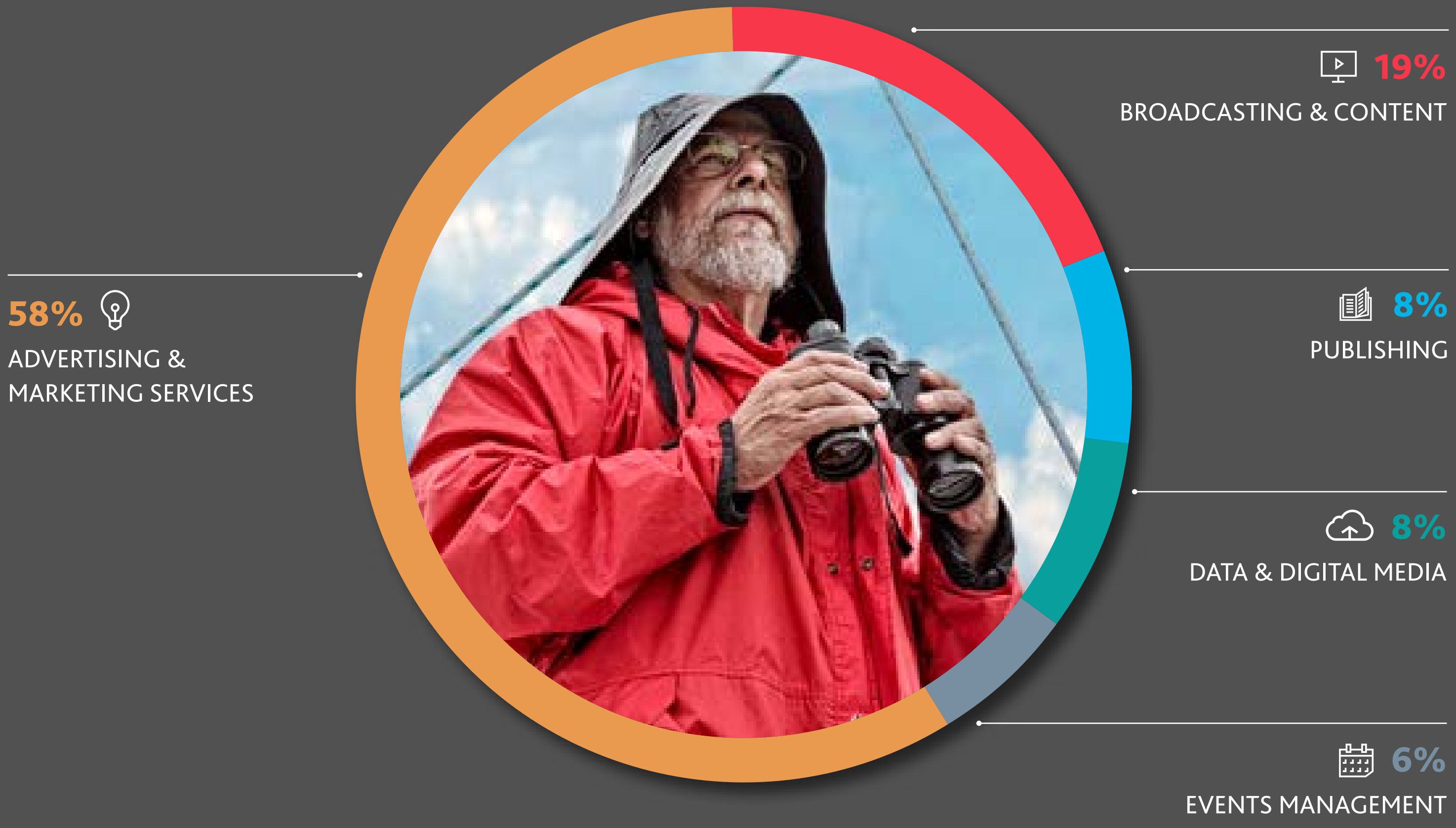
THE VOLUME OF TRANSACTIONS IN H1 2022 FELL SHARPLY COMPARED TO H1 2021. ANNOUNCED DEAL VALUES, ON THE OTHER HAND, WERE SUBSTANTIALLY HIGHER ELEVATED IN PART BY THE NOW WITHDRAWN TAKE PRIVATE BID BY APOLLO GLOBAL MANAGEMENT FOR LISTED PUBLISHING GIANT, PEARSON.



UK MEDIA SECTOR TRENDS

UK MEDIA M&A BY SECTOR IN H1 2022

FIGURE 4
UK MEDIA M&A TRANSACTIONS BY SUBSECTOR H1 2022



58%
ADVERTISING & MARKETING SERVICES

The subsectors combined accounted for more than half of all UK media M&A in H1 2022. Marketing Services made up 39%, while Advertising contributed another 19% of media deals. Despite a difficult pandemic, advertising revenues rebounded quite significantly in 2021. Looking ahead, revenue growth could be bounded by under-strain advertising budgets. Released in early 2022, however, the Institute of Practitioners in Advertising (IPA) Bellwether report suggested that advertising budgets could still rise by c.5.2% in 2022. Moreover, a balance of over 34% of companies surveyed for the report indicated that they would expand their advertising budget in the 22/23 financial year. Of course, more targeted and strategic campaigns will be the order of the day, and this will define in-demand capabilities. Agencies and businesses with the know-how to implement digital transformation strategies for brand building and consumer interaction continue to be the focus of attention.

In March, UK-based PR agency Next Fifteen Communications acquired the advertising agency Engine UK, from US PE firm Lake Capital Partners for an enterprise value of GBP£77.5m. Engine UK is a digital transformation, communications and creative business whose client base includes notable corporate and public sector clients, including AstraZeneca, E-ON, Sky, and the Home Office. In Q2 2022, there were rumours of Next Fifteen making a takeover approach for M&C Saatchi plc with a proposal tabled, and at publication, latest press information suggests negotiations are ongoing.

Also in March, Havas, a subsidiary of France-based media conglomerate Vivendi SE, acquired Leeds-headquartered digital marketing services company Search Laboratory for an undisclosed amount. Havas and its clients stand to benefit from Search's expertise in delivering data-driven digital and performance marketing to get strategic value from their first party data. This will be critical as the digital marketing industry moves towards a future in which restrictions on third-party cookies require in-house collection capacities.

19%
BROADCASTING & CONTENT

Broadcasting and Content accounted for 19% of media deals in H1 2022, with a quest for talent, evolving business models, and integrating innovative technologies like AI and blockchain-based offerings.

Strong demand for fresh content is propelling companies to build their content library or pursue new revenue streams or joint ventures to maximise market opportunities. For example, in June, UK broadcaster ITV agreed to acquire a majority stake in independent television production firm Plimsoll Productions in a GBP£103.5m cash deal. UK PE firm Lloyds Development Capital (LDC), who initially acquired a minority stake in Plimsoll in 2019, exited its investment. The award-winning producer of natural history programmes will contribute to ITV's strategy of expanding its content business and further diversify its production base.

In May, American global media and entertainment company Warner Bros Discovery (WBD) struck a 50-50 joint venture (JV) deal with UK-based BT Group worth as much as GBP£633m.

The deal will merge BT Sport and WBD's subsidiary Eurosport UK to create an expansive subscription offering. It will bring together sports content including the Premier League, the Champions League, the Olympics, Premiership Rugby, Ultimate Fighting Champion (UFC), tennis Grand Slams and cycling Grand Tours.

On the mid-market front, UK-based film production company Sister acquired a minority stake in London-based independent film producer Dorothy Street Pictures from Sunbird Media Ltd in a deal with undisclosed terms. The deal will enable Dorothy Street to expand its scripted production in TV and feature content, while remaining fully independent.

Strong demand for visual and gaming content is also raising the stature of animation and visual effects (VFX) studios. For example, in March PE firm Key Capital Partners completed a minority investment into Brixton-based Jellyfish Pictures, whose clients include Netflix, DreamWorks, Disney+, Apple TV, HBO, Sky, BBC, and Amazon.

8%
PUBLISHING

The publishing space continues to be unsettled by the fundamental transformation from traditional publishing models towards the distribution of digital content across increasingly differentiated audiences. In this environment, subscription content targeting specialist verticals is a sought-after asset.

Back in January, UK-based publisher of newspapers and books Claverley Group acquired beauty and cosmetics publisher HPCi Media for an undisclosed amount. It is the third such acquisition by Claverley Group since 2018 following deals to acquire children's magazine publisher, Kennedy Publishing, and creative design and print management business, Cubiquity.

8%
DATA AND DIGITAL MEDIA

Digital media contributed 8% of media deals in the first half of 2022, driven by the quest for consolidation of data and intelligence assets. For example, in June, NielsenIQ enhanced its coverage of consumer behaviours by announcing the acquisition of UK-based food and drinks insight company, CGA Group, for an undisclosed consideration.

Earlier in the year, Kantar Public was acquired by PE firm Trilantic Europe for an undisclosed sum. Initially part of the UK-based market data and analytics company Kantar Group, the provider of research, insight and consultancy solution, Kantar Public will establish itself as an independent evidence and public policy advisory company for government and public sector organisations.

6%
EVENTS MANAGEMENT

Live events sprang back this year. As audiences returned en masse to major festivals, sporting events, cinemas, and other experiences M&A activity also sprang back into action.

In April, US-based live entertainment company RWS Entertainment, acquired UK-based live production and leisure experience company The Experience Department (Ted) for an undisclosed sum. The deal aims to boost Ted's 360-degree experience design and audio-visual solutions offering and will also expand its services to include new Halloween and seasonal holiday experiences complete with design, fabrication and installation.

In the same month, American entertainment management and content company Wasserman Music acquired the live music business and touring operations of UK-based talent agency Paradigm for an undisclosed amount. Wasserman completed the deal in a bid to expand its global client roster and deepen its European footprint having already acquired the Paradigm North America live music division in 2021.

UK MEDIA SECTOR TRENDS

WHY MARKETING GROUPS NEED A DOSE OF DIGITAL RISK ADVICE

CASE STUDY

IT HAS BEEN A GOOD COUPLE OF YEARS FOR MARKETING AND MEDIA GROUPS. COMPANIES THAT HAVE HAD A WINNING RECIPE HAVE SURGED AHEAD IN TERMS OF PROFITS. THOSE THAT MAY HAVE STRUGGLED IN FORMER TIMES HAVE NOT DONE BADLY, EITHER.

This good fortune has fuelled mergers and acquisitions activity, with some of the more ambitious groups assembling quite significant portfolios. All great news, you would think. But there is a catch.

The typical marketing or media group may boast a sizeable headline turnover figure, but the way its revenues accrue is quite different to what happens in other sectors. These groups are rarely monolithic structures with unified products and processes.

Instead, they may be made up of dozens of portfolio companies, each with a unique culture and offering. This uniqueness is often the secret to success in media and marketing, so group-level boards may justifiably be keen to give their subsidiaries a measure of autonomy.

However, the diversity inherent in such groups can be a challenge for leadership teams that are often tightly focused on developing talent and nurturing client relationships rather than identifying risks and ensuring compliance.

This could result in significant exposure for unwary management teams.

To take just one example, if one of your portfolio companies is caught in serious violation of Europe's General Data Protection Regulation, your group could face a fine of €20m or up to 4% of global turnover, whichever is higher.

Even less serious violations could incur fines of up to €10m or 2% of turnover. Policing such risks is challenging even in a traditional business with standardised policies.

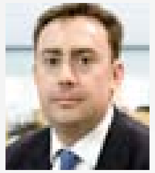
And this is just one area of risk that could crop up in a diversified marketing or media group, where subsidiaries are largely independent and there is a small central leadership team.

Other areas that could pose a challenge include the establishment of group-wide controls, accounting processes and corporate governance, which would usually require an internal audit, or the hiring out of non-core business functions, which might be helped through outsourcing advice.

Similarly, marketing group leadership teams may struggle with relatively minor affairs such as which IT systems to adopt group-wide, or big-picture items such as developing an exit or growth strategy.

Throughout the business landscape, there is a growing expectation from external stakeholders that the leadership team will utilise external advisors. These advisors are the tools which can be used to address the ongoing struggles currently faced by leadership teams.

For more information speak to:



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THE TRENDS TO WATCH

WE OFFERED 14 PREDICTIONS FOR 2022 AT THE START OF THE YEAR. SEVERAL, SUCH AS THE ONSET OF INFLATION AND A GROWING PRIVATE EQUITY PRESENCE IN THE MARKET, HAVE ALREADY COME TRUE. BUT THE MARKET IS ALREADY SHIFTING ANEW, SO HERE ARE A FURTHER 10 KEY TRENDS TO WATCH.

FOR A MORE DETAILED VIEW OF THESE AND OTHER MARKET DEVELOPMENTS, SPEAK TO OUR EXPERTS OVERLEAF.

CORPORATES WILL TRADE PORTFOLIO COMPANIES

Next Fifteen Communications' acquisition of Engine's British operations and Brandtech Group's plans to buy Jellyfish from Fimalac are just a couple of examples of recent trophy transactions in the marketing services space as groups refine their focus and purpose in the market. Expect more.

MARKETING SERVICES SHARE PRICES WILL CARRY ON FALLING

Listed marketing services companies have seen diminishing stock market returns, with mid- and small-cap firms now holding less than 60% of their June 2021 value. This trend looks set to continue, potentially giving private equity an opportunity to acquire undervalued companies.

QUALITY WILL WEIGH HEAVILY IN VALUATIONS…

As the market turns bearish there is likely to be growing reticence for acquisitions of marginally differentiated targets. But those that can demonstrate quality in areas such as the management team, diversity and inclusion, or environmental performance will still be highly sought after.

… AND DEALS WILL DIE IN DUE DILIGENCE

Conversely, a hardening attitude to risk among investors could see transactions falling through if issues crop up in due diligence. This could be particularly the case in the mid-market, where substantial sums of money are in play.

CONSULTING FIRM SPLITS MAY CREATE APPETITE FOR BOLT-ONS

EY's plan to split its audit and consulting businesses has yet to be emulated by other Big Four players. But if others do go down that route, there could be a rush to acquire marketing units as newly independent consulting firms look to bulk up their client offerings.

NEW WEAPONS WILL EMERGE IN THE FIGHT FOR TALENT

As marketing and media firms continue to struggle with staff retention, there is a growing sense that generating loyalty will require more than a good pay package. Employers may also start to lean on factors such as sustainability and diversity as a lure to keep talent on side.

THE DEFINITION OF 'GLOBAL' WILL CHANGE

In the past, having global coverage meant being in as many places as possible. Recent geopolitical events are leading to a more nuanced view, where marketing and media groups may be increasingly circumspect about operating in major markets such as Russia or China.

SUBSCRIPTION MODELS WILL COME UNDER PRESSURE

The idea that a streaming platform subscription was essential may have been true during coronavirus lockdowns, but as inflation starts to bite one of the first things that many consumers could give up is their Netflix or Prime Video memberships.

QUALITY CONTENT WILL RULE THE ROOST…

A proliferation of streaming services has led to a deluge of content—much of which is not very good. The runaway success of standout series such as Stranger Things shows how viewers are becoming more discerning in taste, forcing producers to focus on quality rather than quantity.

…AND BE OFFERED IN SMALL DOSES

In parallel, growing competition means streaming platforms will be tempted to keep viewers hooked over the long term. Hence a return to weekly instalments instead of whole-series-in-one-go packages.

APPENDIX OF ADDITIONAL DEALS

- Mid-market PE firm ABRY Partners announced a USD$100m investment in HartBeat Productions in April. HartBeat Productions is the digital media company started by world-famous comedian Kevin Hart.
- In June, marketing services giant WPP acquired a 100% stake in Australian martech firm Bower House Digital for an undisclosed consideration.
- FTSE-listed betting and gaming group Entain announced its acquisition of Netherlands-based online gaming operator BetEnt for an initial consideration of EUR€300m followed by a deferred contingent consideration capped at EUR€550m depending on performance.
- In May, Lamar Advertising consolidated its position in the OOH market by acquiring Burkhart Advertising. The terms of the deal remain undisclosed.
- The North Alliance, Norway-based marketing services firm, acquired Finland-based marketing agency Bob the Robot for an undisclosed amount in March.
- Merger of 4 Mile Analytics with Media.Monks announced another set of acquisitions in the year-to-date, including 4 Mile Analytics in January and TheoremOne in May.
- In March, Elliott Management Corp and a consortium of PE-investors expressed interest in taking Nielson Holdings private. The value of the deal for the US-listed provider of consumer insights data is estimated around USD$15bn.

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