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H1 2023

MEDIAtalk

Reality starts to bite

A word from Andy Viner

Global Head of Media and Entertainment

There is no getting away from the shocking fall in media deals this year. The first six months of 2023 saw $31bn in transactions globally, a significant drop on the $90bn in deals disclosed over the same period in 2022.

The disparity between these periods is underscored by the fact that the first six months of 2022 saw a deal - Elon Musk's acquisition of social media platform Twitter - that exceeded all the disclosed value changing hands from January to July 2023.

Taking such megadeals out of the picture, the average deal size in the first half of 2023 was up 12% on the same period in 2022, but that is hardly consolation as volume was down 22% and private equity, which has been playing a growing role in the sector, has been unsurprisingly more cautious.

It is not hard to spot the reason for the slump. In January 2022, the Federal Reserve base rate was 0.08% and the US Ten-Year Bond yield was 1.08%. Roll on to June 2023 and the Fed rate was 5.25% while the ten-year rate stood at 3.95%. These rates are a consequence of a surge in inflation which at least seems to have passed its peak in the US and UK, the two biggest markets for media deals. And some things have not changed since 2022, with appetite remaining strong for digital media companies and in particular those involved in gaming.

Corporate buyers have stepped up to fill some of the space left by private equity but the market's true return to form will depend on the macroeconomic outlook, which could be improving but remains hard to judge.

I hope you get value from our analysis of the year so far.

Andy

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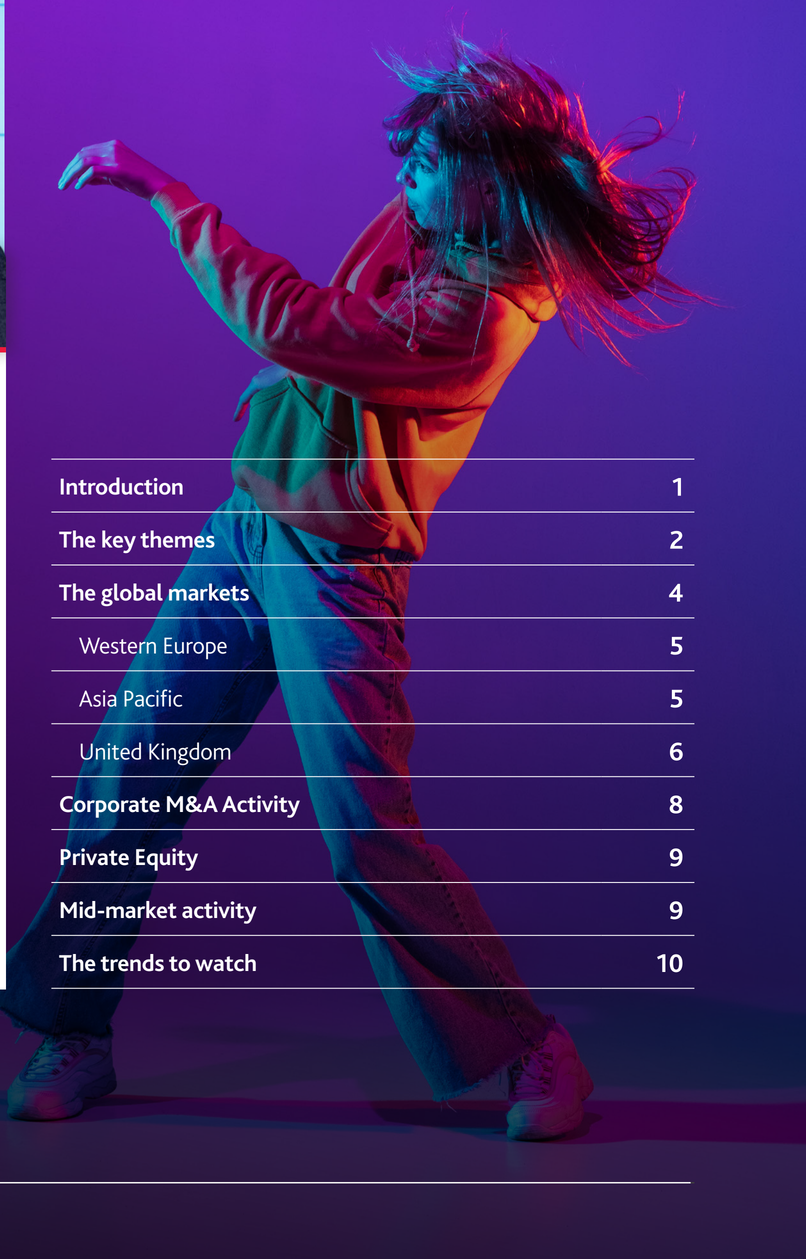


H1 2023

MEDIA*talk*

The key themes

Crushing inflation in many major media markets has seen consumer spending under strain, putting strain on media subscriptions.

This has hit streaming companies, with Netflix's share price ending the half year 38% down on its November 2021 all-time high – although still much better than a year previous, following almost 12 months of cooling inflation in the US.

Nevertheless, subscription services are still having to compete fiercely for consumer attention and spending, so knowing where money is going online has become a precious asset.

Accordingly, companies that can provide customer insights and measure the success of advertising and marketing efforts have been a focus for deals.

Such companies featured in 27% of global deals in the half-year, with a prime example being Omnicom's sale of insights agency Communispace Corporation to Escalent in April.

A hunger for advertising services targets, while still present in the offline segment, was particularly evident among online players optimising and personalising customer journeys within an e-commerce environment.

But the real stars of the first half have been digital media businesses, which made up 39% and $12bn of disclosed deal value. Of these, $8bn in deals, almost a quarter of the period's deal value, involved software and game-related companies.

Gaming seems resilient to economic headwinds, with continuing appetite for new products leading some studios to develop titles for mobile and computer platforms simultaneously.

In parallel, there was continuing interest in artificial intelligence (AI), non-fungible token (NFT) and Web3-related ventures.

The key themes

This interest has diminished somewhat compared to previous periods, likely in anticipation of a new wave of development, but led to notable games and experience development deals including:

- Japanese business-to-business chatbot developer Kakao Piccoma paying $16m in January for Volithru, which produces AI-based real-time translation and production services for streaming platforms including Amazon Prime, Disney+ and Netflix
- US-based VideoVerse, formerly known as Toch Inc, buying Reely.ai, a social media distribution company that uses AI to spot memorable moments in sports and e-sports events, for an undisclosed sum in April
- Tanla Platforms of India buying ValueFirst Digital Media from Twillo Inc for $42m in June.

Another important trend in the first half of 2023 was a growing focus on products and services aimed at minorities, diverse audiences and under-represented voices.

In May, for example, a private equity consortium led by Fortress Investment Group bought Vice Media, media and entertainment platform focused on women and underrepresented voices, for $350m.

Similarly, tello LLC paid an undisclosed amount for DIVA Box Office, a streaming platform for the LGBTQ+ community.

Elsewhere, generation Z audiences continued to lead growth in consumption of podcasts and audiobooks. Research indicates 64% of Americans now listen to podcasts, up from 55% in 2022, and 13% do so every day.

Reflecting this growth, at least 11 deals in the first half of 2023 involved audiobook and podcast producers.

The largest of these, in terms of disclosed value at least, was Global Tech Industries Group's $100m-plus acquisition of Creatd Inc, which helps creators publish, market and commercialise content for television, film, print, podcasts and the web.

Elsewhere on the audio front, ARN Media paid $25m for an almost 15% equity stake in troubled Australian radio station network operator Southern Cross Media.

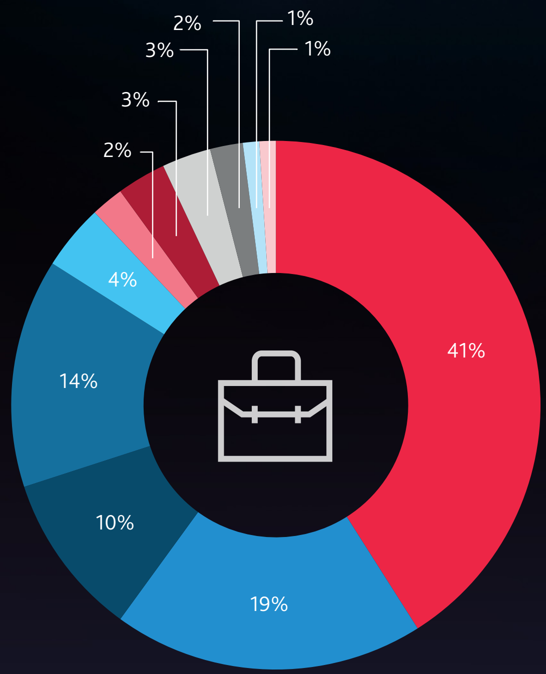
Private equity, responsible for a fifth of all deals in the first half of 2022, halved its level of activity to 10%.

This dip was somewhat compensated for by an uptick in corporate transactions as cash-rich purchasers used acquisitions to boost growth in new markets and consumer segments.

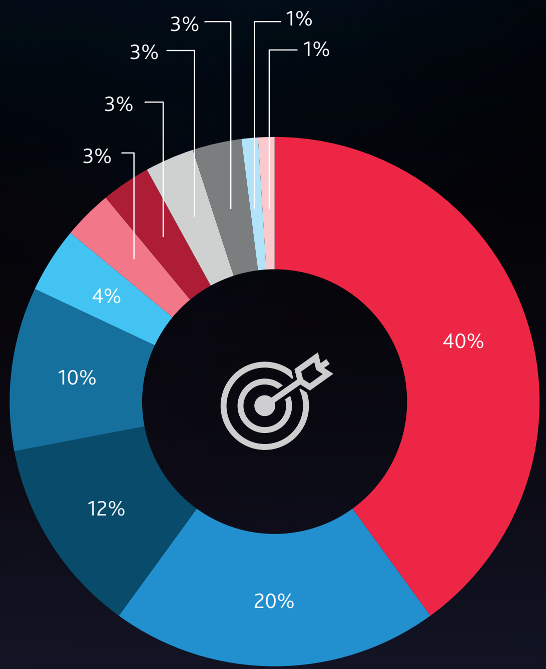
The global markets

As befits the home of Disney, Hollywood and Netflix, the US was the main driver of global media M&A in the first half of 2023, with a volume and value of deals that dwarfed that of other markets despite the global slowdown in spending.

H1 2023 Global Media M&A: Top Acquiror Regions



H1 2023 Global Media M&A: Top Target Regions



- United states
- United Kingdom
- Central and Eastern Europe
- Middle East
- Western Europe
- Canada
- South Asia
- Africa
- Asia Pacific
- Australasia
- Latin America

Two out of every five deals in the half year involved US targets and these transactions made up more than 60% of all reported value in the period. US companies were also on the acquiring side of 41% of deals worldwide.

The market also saw the largest disclosed deal in the half when The Endeavor Group Holdings bought World Wrestling Entertainment (WWE) for $9.3bn.

WWE pulled in the top valuation after managing to capture wrestling, e-sport and mainstream sport audiences across a range of media, from traditional cable and TV channels and streaming platforms to websites and e-commerce sites.

The company has even branched into filmmaking, with a production arm called WWE Studios acting as a vehicle for wrestling personalities to branch out into film and television.

The global markets

Western Europe

Outside the US, the biggest single market for media deals was the UK - although Western Europe, treated as one entity for the purposes of our analysis, beat it with around a fifth of all transactions in terms of acquirors and targets.

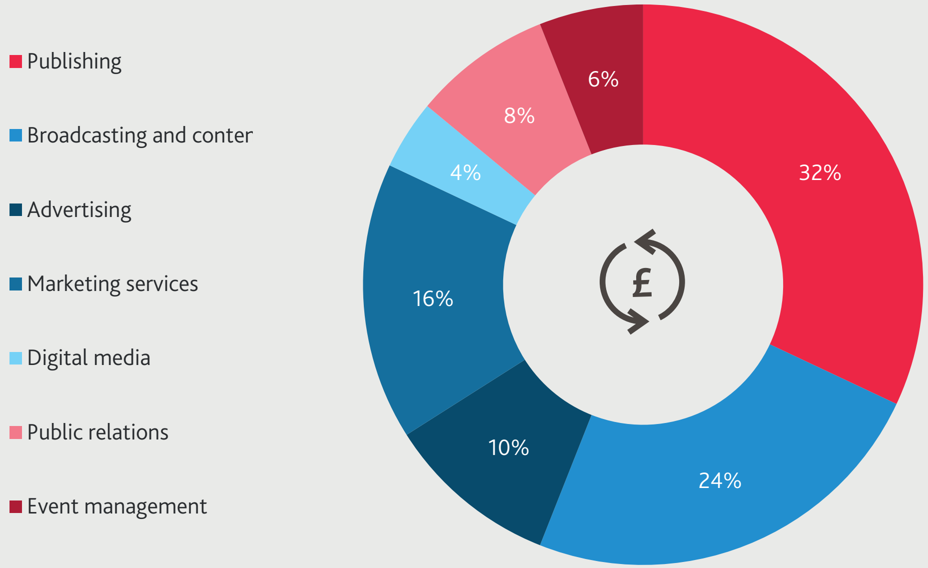
Most activity in Western Europe involved advertising or marketing services sector companies, but the standout deal in the half year related to Finnish game developer Rovio Entertainment.

This was the company that arguably pioneered monetised mobile gaming with Angry Birds, a game that had been downloaded more than 5 billion times by April 2022.

In January, Israel's Playtika Holding Corp offered $832.8m for the business, in a bid that lapsed in March. This paved the way for games giant Sega Europe to pick up Rovi in April for a reported $775m.

United Kingdom

UK Media M&A Transaction by subsector H1 2023



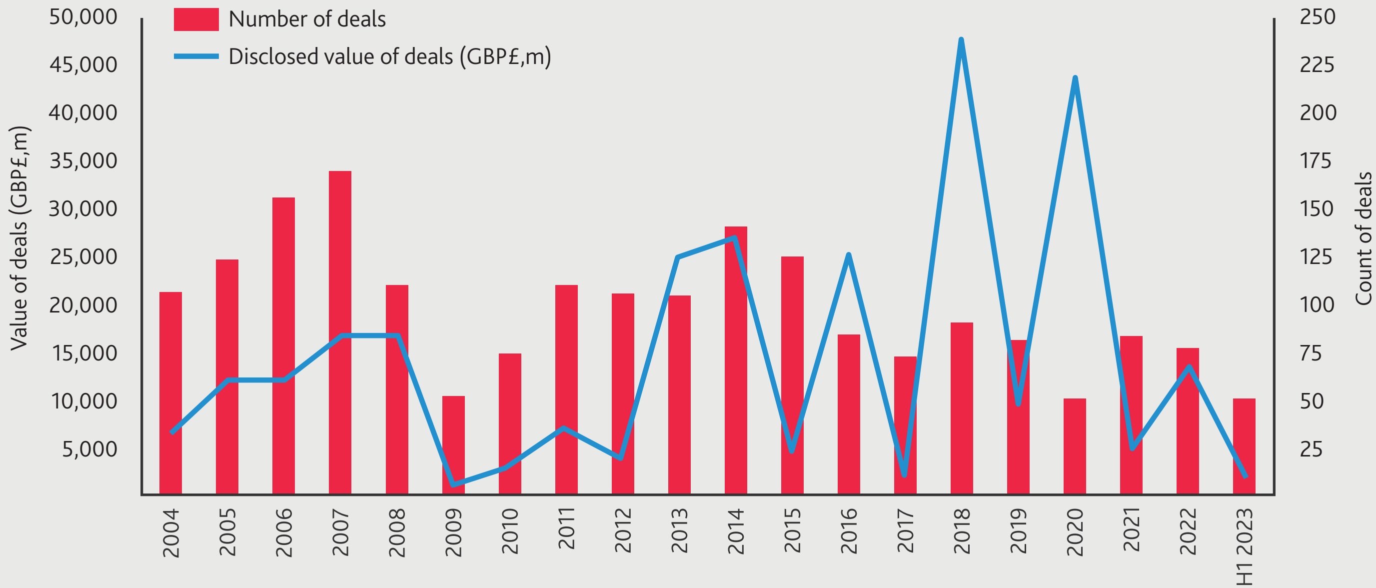
In the UK, which boasted 10% of targets and 14% of acquirors in the first half of the year, the focus was on events management, which accounted for 32% of disclosed deal value, and publishing and broadcasting, accounting for 24%.

One of the most eagerly watched transactions was Orfium's purchase of music technology company Soundmouse for an undisclosed sum in January.

This was followed in March by US-based licencing platform Songtradr's acquisition of 7digital, a supplier of audio content and production software to the radio industry, for $23.4m.

Another hot area for UK deals was software and games production, an industry that the United Kingdom Interactive Entertainment trade association says delivered £5.26bn in gross value add to the national economy in 2022, through more than 2,600 companies.

UK MediaSector: All M&A Deal Volumes and Values (2004-2023)



The UK saw more than ten interactive media-related deals in the first half of 2023, six of which involved developers of games and interactive technologies. These included:

- Canadian interactive game studio Behaviour Interactive's February acquisition of mobile application developer SockMonkey Studios for an undisclosed sum. The purchase, from Mercia Fund Managers LLP, was Behaviour's first European investment
- French video game developer Focus Entertainment's acquisition of RailSimulator.com, trading as Dovetail Games, from UK private equity firm Alcun Capital for an undisclosed amount in April
- Tourbillon Group's acquisition of Athlos Game Technologies, a tournament-based multiplayer games platform developer, from Gfinity plc.

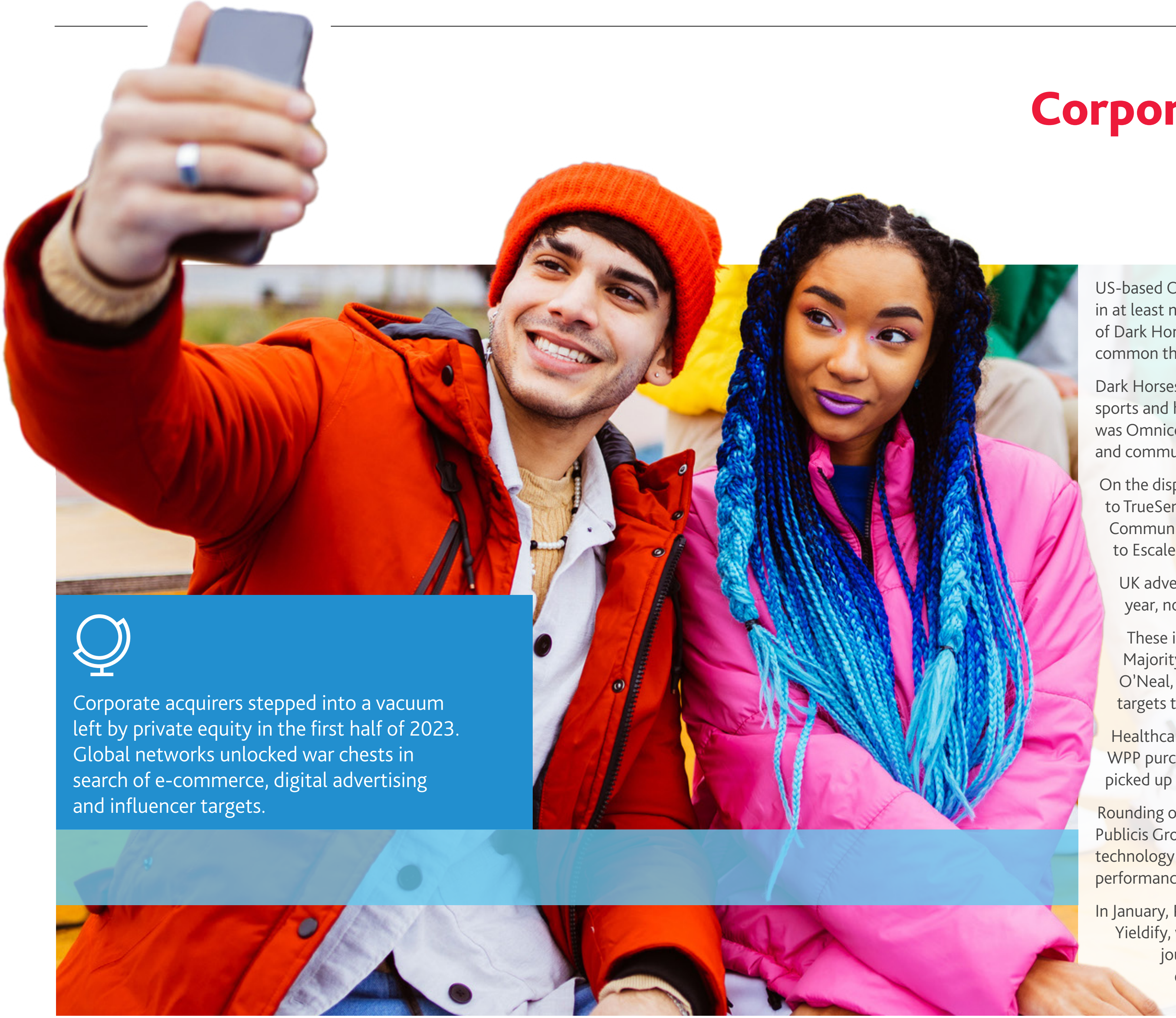
The global markets

Asia Pacific

Away from Europe, Asia Pacific's deal landscape was dominated by Kakao Corporation's March purchase of SM Entertainment for a reported $963m. SM Entertainment has a track record in creating and popularising stars in K-pop, Asia's top music trend.

Expect more deals in this area. K-pop revenues are said to make up around 3% of South Korea's gross domestic product and the global market is expected to hit $20bn by 2031, up from $8.1bn in 2021, according to Allied Market Research.

Corporate M&A activity



Corporate acquirers stepped into a vacuum left by private equity in the first half of 2023. Global networks unlocked war chests in search of e-commerce, digital advertising and influencer targets.

US-based Omnicom led the charge, acting as buyer or seller in at least nine disclosed deals. One of these, the acquisition of Dark Horses Sports Marketing, in April, addressed two common themes so far in 2023: sports and diversity.

Dark Horses covers both bases by targeting the women's sports and health sectors. A more traditional purchase was Omnicom's acquisition of New York advertising and communications agency adam&eveNYC.

On the disposal side, Omnicom sold One & All Inc to TrueSense Marketing and Hall & Partners plus Communispace Corporation – trading as C Space – to Escalent in April.

UK advertising behemoth WPP plc also had a busy half year, notching up at least six publicised acquisitions.

These included diversity-focused creative agency Majority, co-founded by basketball legend Shaquille O'Neal, and influencer marketing shop Obviously, which targets the healthcare and pharmaceutical industries.

Healthcare and pharma were also the aim of another WPP purchase, Germany's 3K Agentur für Kommunikation, picked up in March for an undisclosed amount.

Rounding off the list of most active corporates was France's Publicis Groupe, which was on the hunt for marketing technology companies and ad agencies such as Bulgarian performance marketing shop Advertise BG.

In January, Publicis pounced on UK marketing tech startup Yieldify, which personalises e-commerce customer journeys. And in May the group picked up global e-commerce site developer Corra.

Private equity

The first half of 2023 saw the rising cost of debt putting the dampers on private equity's growing presence in the media and marketing mergers and acquisitions scene.

Private equity houses were involved in less than 10% of deals and disclosed deal value over the period, compared to 20% in the first half of 2022.

Still, private equity did manage to drive some stand-out transactions in the first six months of 2023, including Providence Equity LLP's $582m acquisition of UK events management company Hyve Group in January.

In April, Golden Gate Capital sold a 29% stake in public relations agency FGS Global to KKR & Co Inc, for more than $400m. Apollo Global Management meanwhile paid $403m for Cengage Learning Holdings, an educational course materials provider.

Reflecting the diversity theme seen elsewhere, Fortress Investment Group, Soros Fund Management and Monroe Capital LLC bought diversity-focused Vice Media for $350m.

As the outlook for acquisitions soured, the half year was also marked by private equity divestments, either in the form of trade sales to corporates or as secondary buyouts to other investment firms.

One of the highest-ticket examples was when a consortium led by Battery Ventures and Highland Capital Partners handed mobile video game developer Scopely over to Savvy Games Group in May, for $4.9bn.

Separately, Charterhouse Capital Partners realised $940m with the sale of events management company Tarsus Group to Informa plc.

The outlook for private equity in media and marketing remains uncertain, with some predicting that the rising cost of debt could put an end to a 40-year run on dealmaking.

However, private equity is good at adapting and innovating, and used to taking a pragmatic long view when it comes to quality targets. The next six months will be interesting to watch.

Mid-market activity

About 7% of disclosed deals in the first half were mid-market transactions with a value of between £10m and £300m.

The activity in this segment was broadly reflective of the wider market, with about 20% of deals involving games, software development and AI and three being acquisitions of podcast and audiobook-related companies, now a $23.7bn global industry.

Typical of the gaming deals was Atari's March $20m acquisition of Night Dive Studios, which specialises in adapting old video games to run on modern platforms.

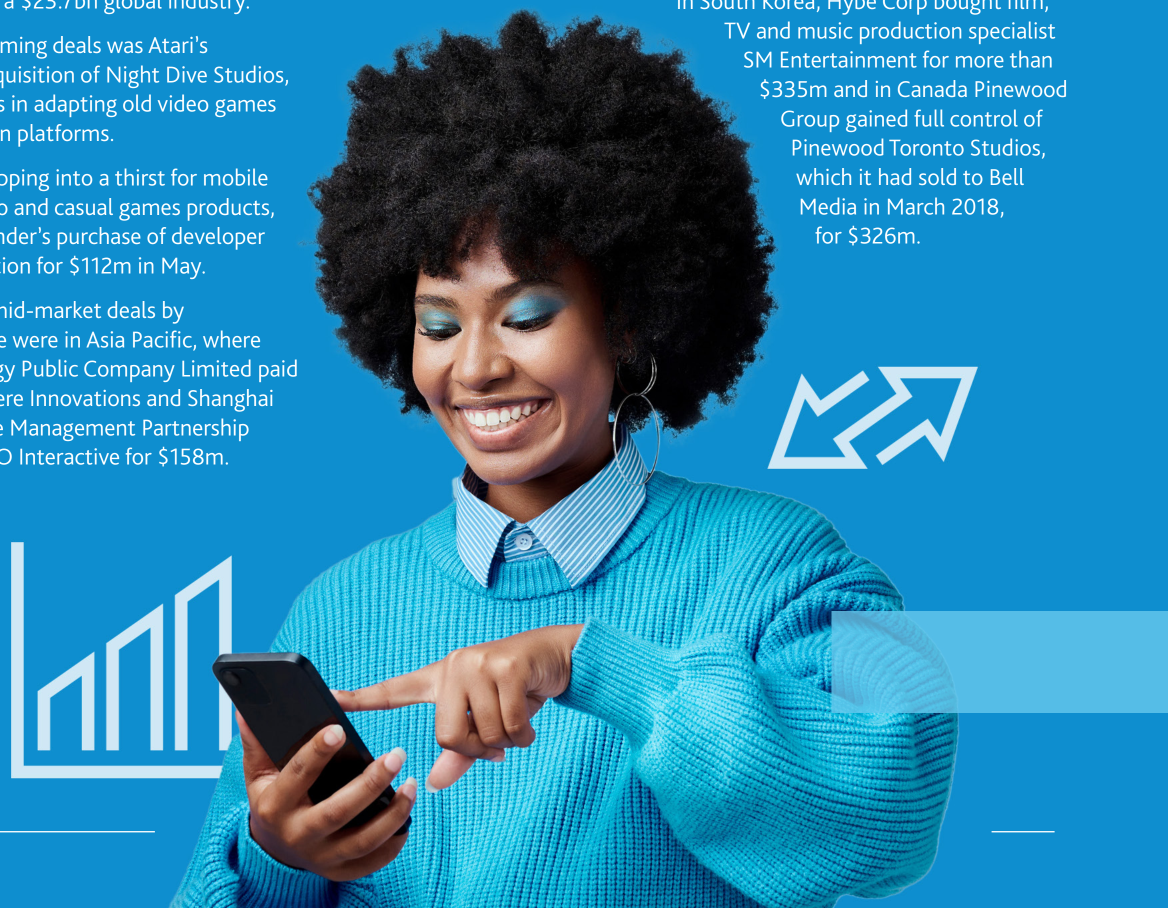
Another deal, tapping into a thirst for mobile and online casino and casual games products, was Light & Wonder's purchase of developer SciPlay Corporation for $112m in May.

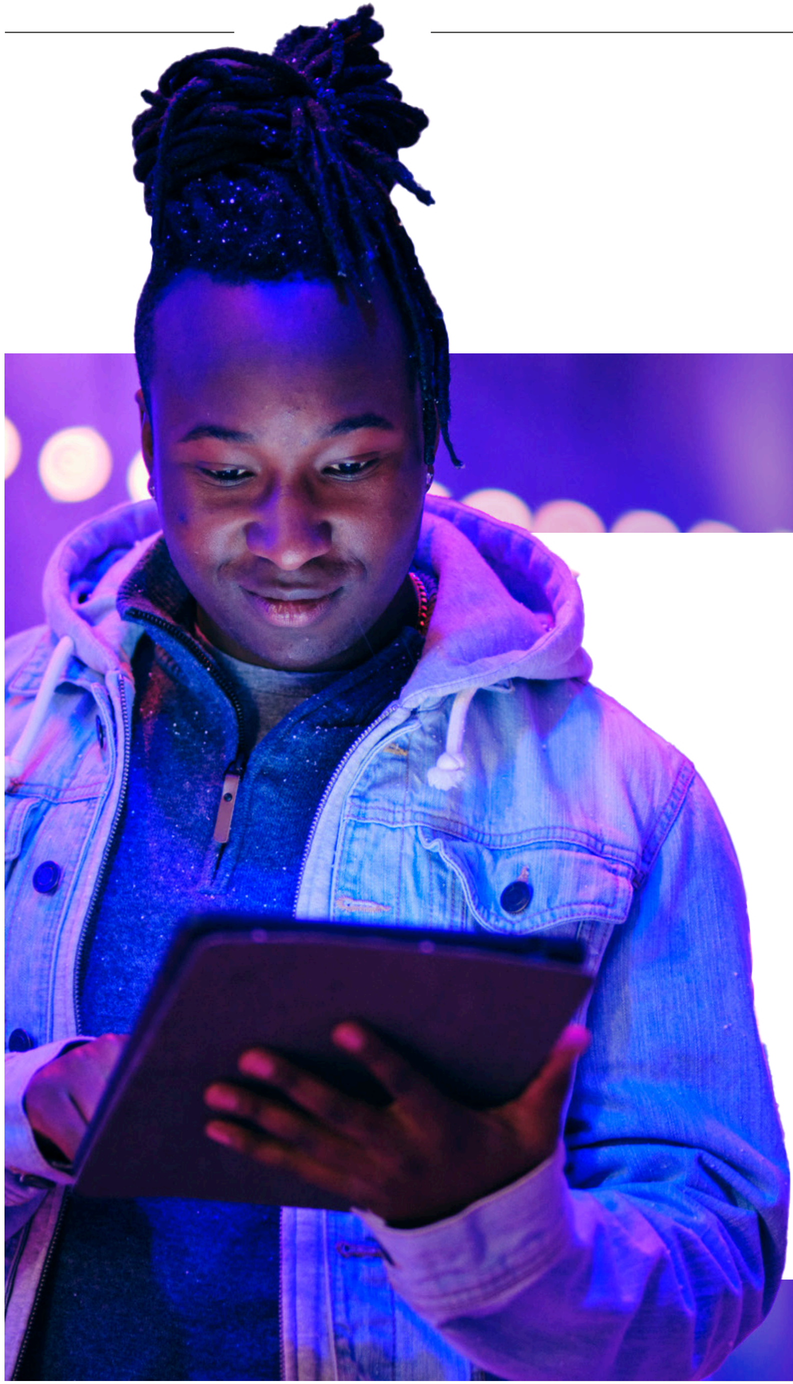
But the largest mid-market deals by transaction value were in Asia Pacific, where Sabuy Technology Public Company Limited paid $210m for Asphere Innovations and Shanghai Jiayou Enterprise Management Partnership bought YOOZOO Interactive for $158m.

Both targets were gaming companies, with YOOZOO focusing on the currently hot massively multiplayer online role-playing game segment through titles such as League of Angels and Game of Thrones – Winter is Coming.

The real star of the mid-market, however, was broadcasting, which accounted for $1.5bn in deal value and saw transactions spanning studios, cinema, television and radio.

In South Korea, Hybe Corp bought film, TV and music production specialist SM Entertainment for more than $335m and in Canada Pinewood Group gained full control of Pinewood Toronto Studios, which it had sold to Bell Media in March 2018, for $326m.





The trends to watch

There is hope the macroeconomic headwinds that battered media and marketing M&A in the first half of 2023 may now be subsiding, with inflation seemingly having peaked in key global markets. Here is what else to look out for.

Private equity will bounce back (somewhat)

The volume of dry powder held by private equity houses means they could continue to be active in media and marketing, with deal volumes likely edging back towards the 20% level seen in 2022.

However, the cost of debt should also create more space in auction processes, decreasing competition for quality targets. This could offer cash-rich corporates more scope to grow through acquisitions, while giving private equity a fertile exit route for divestments.

AI monetisation of social media will grow

One notable trend in the first half of 2023 was interest in tools introducing AI and augmented reality into social media networks such as Instagram and TikTok.

This suggests a potential drive towards cross-channel engagement and monetisation of social media videos and other user generated content.

Sports and entertainment will seek new platforms

While games, events, broadcasting and digital advertising look set to continue being key sectors for mergers and acquisitions, the WWE deal hints at a growing need for sports and entertainment media to capture viewer attention across multiple platforms.

Experiences will get more personal

Interest in marketing insight targets in the first half of 2023 suggests a growing focus through to 2024 on companies that use AI and customer data mining to provide personalised experiences online.

Micro influencers will be popular

Micro or even nano influencers targeting discrete audiences are likely to be of growing interest as social media engagement taps into niche markets based on minority groups and diverse communities.

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