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Five Industry Trends & How They Are Shaping Media Deal Making

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The media industry has changed profoundly over the last decade with a revolution in how content is produced, distributed and monetised. 2022 has seen two of the greatest agents of change – streaming platforms and social networks – reassess their core business models, with corresponding effects on most media sectors. And all against the backdrop of global political turbulence, high inflation and rising interest rates.

We highlight 5 industry trends and draw out the ways in which they are shaping media deal making.

Five industry trends going into 2023

Encouraging sector resilience to date

While forecasts for global ad spend (growth of >10% in FY22 and in FY23) and digital transformation probably do need to be pared back, the signs are that corporates are reflecting on the experience of 2020 where knee jerk cuts to advertising and technology spend left them unprepared for the post pandemic bounce back in activity. Trading updates from bellwethers in the industry are currently cautiously optimistic, highlighting no drop off in client spend up to Q3 and ongoing tailwinds from a bounce back in spend on events and out of home media. Performance marketing and optimisation spend will prove more resilient than brand marketing budgets.

Social platforms are under pressure, but agile players in the ecosystem are well placed to ride it out

Slowing user growth and reduced efficacy of social ad spend due to Apple's privacy policy changes have seen investors desert social platforms in 2022, a trend that accelerated in response to Q3 trading updates from Facebook and Snap. Social publishers who enjoyed very strong growth in 2020/21 as social AVOD CPMs and fill rates climbed will have found 2022 tough, but many midmarket players have diversified revenue streams well placed to benefit from the ongoing rapid growth in influencer marketing (+18.8%), social commerce (+16.8%) and the robust performance of owned and operated websites (34% of online ad spend coming from online display). The value of these businesses lies in their mass audiences and engaging content, with fluctuations in the fortunes of social platforms likely only short term headwinds.

A new focus on first party data

With 90% of browser traffic becoming untrackable in 2022, the sun appears to be setting on the third-party cookie, once the bedrock of digital adverting. Couple this with Apple's iOS privacy update, and it's clear why developing a robust, first-party dataset is at the forefront of organisations' future marketing strategies - 88% of marketers say it is now a priority. Brands adopting first-party data for key marketing functions achieve up to a 2.9X revenue uplift and a 1.5X increase in cost savings, driven by the cultivation of unique data insights and long-term measurement. In a recessionary macro environment, efficient targeting of new and existing customers is mission critical to enhancing ROI and reducing churn.

The shake out in streaming will be a key theme in media in the medium term

Streaming platforms have seen dramatic share price falls in 2022 (down >50% year to date) reflecting negative subscriber trends and concerns around the sustainability of high levels of investment into content. In response, the major platforms will launch advertising funded propositions to offset churn and attract new users (Netflix launched in November 2022 with Disney to follow in December), driving overall growth in digital video advertising spend and presenting an alternative to social video advertising for brands and agencies. Longer term platforms may look to rationalise their content spend (with Amazon's coolly received Lord of the Rings series potentially a high-water mark) and diversify into genres other than drama.

Innovation and engagement essential to buck declining trend in consumer spend

With UK inflation expected to run at 7-10% in the next 12 months and an estimated 1m fixed rate mortgages coming to an end over the same period, 2023 will see a recession in consumer spend. Media is a discretionary category and companies will need to work hard to convince consumers to part with their smaller amounts of spare cash. This will feed the focus on e-commerce across global marketing and consultancy groups, as their clients look to provide consumers with an ever more seamless and connected buying journey. Consumers will also retrench towards their real passions, potentially underpinning ongoing growth in digital and physical products sold directly by creators.

Media deal making outlook

Return of the old guard

Trade acquirers represented a historic low share of digital services deals in 2021 (47% across Europe and the US) with the big six advertising holding companies accounting for only 3% of transactions. 2022 is seeing a return of trade appetite, reflecting the robust and diversified foundations many global businesses have rebuilt over the last half decade. PE investment into new platforms in the space has also declined year to date, reflecting a level of saturation and a focus on bolt-ons to existing platforms – existing PE backed consolidators remain the leading category of acquirer.

Specialism is at a premium

In recent years, the proportion of digital services deals featuring specialist targets (as opposed to full service or diversified) companies has increased to 56%. This shows a move away from acquisitions of broad digital capability to a focus on strategically valuable niche expertise in key battlegrounds such as innovation/growth consultancy, e-commerce, AI and machine learning, digital brand activation and social media. As trade acquirers return it is the pure play specialists who stand to be in high demand.

Commerce (and monetisation) is king

E-commerce capabilities are often cited as the top priority for trade acquisitions, reflecting client demand as business transformation continues to be driven by hybrid work and the irreversible pandemic step up in digital adoption. The pandemic also saw a jump in online audiences for digital and social content – the signs are that monetisation of these audiences is still catching up, with innovative midmarket businesses leading the way.

Value in contrarian investment at this stage of the cycle

Ad tech has been the worst performing public market industry segment in 2022, down >70% vs a market off by closer to 20%, as investors focus on reduced advertising spend and changes to privacy policies by Apple and Google. Many midmarket businesses were formed post the introduction of GDPR (or shaped by it) with an emphasis on privacy, while a tighter rein on ad spend should encourage the use of tools which extract greater ROI. More broadly across marketing current resilience combined with lower valuations makes assets potentially attractive.

Multiple ways to ride the high-end content wave

The global boom in investment in content will continue ($230bn expected to be spent on content production globally by the end of 2022 driven by SVOD platforms) with the UK well placed to take a disproportionate share. Backing content producers is not the only way to harness this – there is a burgeoning ecosystem of studio owners and operators and content service providers set for accelerating growth, meeting the needs of global SVODs, tech and media companies. Over £4bn is expected to be invested into new UK studios over the next 5 years – there is a large opportunity for sectors as diverse as VFX and post production to studio operations, content localisation to workflow optimisation.

Deloitte UK TMT team

Dedicated media and technology specialists at the centre of a global network

Chris Graves
Partner
M&A Advisory (TMT)
- 20+ years of TMT focused M&A experience
- Leads the national Deloitte TMT practice
- Market leading credentials and thought leadership in digital services, marketing technology and digital transformation sectors

Kiren Asad
Director
M&A Advisory (TMT)
- 12+ years of mid market M&A experience
- Focused on software and digital services
- Extensive track record of transactions in software, marketing technology, digital transformation and digital marketplaces

Leonid Levin
Assistant Director
M&A Advisory (TMT)
- 8+ years of mid market M&A experience
- Execution track record across tech-enabled services, marketing technology and SaaS
- Previous roles at Baird and Lincoln International

Robert Leonard
Assistant Director
M&A Advisory (TMT)
- 7+ years of M&A and Assurance experience
- Track record of M&A and equity / financing execution across public and private markets
- Previous roles at Bank of America Merrill Lynch and PwC Corporate Finance

Conor Pritchard
Manager
M&A Advisory (TMT)
- 5+ years of experience in M&A
- Focused on digital services and technology
- Previous roles at Oaklins, Grant Thornton and Palatine Private Equity

Liam Boakes
Manager
M&A Advisory (TMT)
- 6+ years of experience in Assurance and M&A
- Focused on digital services and technology
- ACA qualified Chartered Accountant

Temitope Alabi
Manager
M&A Advisory (TMT)
- 5+ years experience of M&A and Assurance
- Focused on software and digital services
- ACA and ACCA qualified Chartered Accountant

Jia Cheng
Executive
M&A Advisory (TMT)
- 4+ years of experience in M&A / Tax
- Focused on software and digital services
- Previous role in Deloitte Tax focusing on M&A due diligence
- ACA-CTA qualified Chartered Accountant

Our global TMT M&A practice

>250 deals
Completed globally in last 5 years

c.45%
Digital services and SaaS sectors

Strong momentum across media and digital

Our deep expertise spans digital, social and traditional media – anywhere engaging content creates and retains audiences and drives value

Sale of Coolabi Group to Talenthouse AG

coolabi

Talenthouse

Sale of Jungle Creations to Livingbridge

Junglecreations

LIVINGBRIDGE

Sale of Barcroft Studios to Future plc

BARCROFT STUDIOS

FUTURE

Sale of Gleam Futures to Dentsu

gleamfutures.

dentsu

Sale of Incite Group to STRAT7 Group

incite

STRAT7

Sale of Hive Health to Fishawack Health

Hive London

FISHAWACK HEALTH

Sale of Abot Hameiri to Fremantle

ABOT HAMEIRI

Fremantle

Sale of Sourcebooks Inc. to Penguin Random House

sourcebooks

Penguin Random House

Our media and technology advisory proposition

The sector expertise and client focus of a boutique combined with Deloitte's global access and rigour

Sector specialism at scale

- **Dedicated team of media and technology specialists** with a focus on advising innovative and high growth businesses
- **Landmark transactions across creative media, digital marketing, social media, software and IT services**
- Long track record of **driving premium** outcomes for **entrepreneur led** businesses

Global access that delivers results

- **Established relationships** with global media companies, advertising agencies and technology platforms
- Close co-operation across **global TMT organisation** with >**20,000 sector professionals**, including strong deal corridors into the US and Asia
- **Unrivalled PE Coverage** includes regular dialogue with **over 1,000** UK, European and **US funds**

Best-in-class deal execution

- **Bespoke approach** to structuring transactions, **building on a deep understanding** of clients' sectors and business models, and what drives value for acquirers and investors
- Specialist deal teams drive **disciplined, tailored** and **efficient processes** with a high level of **commitment to the client**
- **Proven expertise** in positioning businesses to optimize value and interest and to proactively mitigate potential challenges

All UK TMT sector coverage

- **London acts as a TMT hub** in the UK and Ireland, connecting to sector aligned corporate financiers on the ground across the regions
- **Sub-sector knowledge** is dispersed, with niches such as gaming and unified comms expertly covered out of the North and Midlands
- **All UK sector clients** benefit from the full UK network of 20+ specialists

Proven optimisation playbook for the transaction runway

- We often work with clients for **6-24 months before** a transaction, tailoring a path to the **optimal positioning** that will drive a **premium outcome**
- **Our input is wide ranging**, from strategy, to selective acquisitions, approach to data management, KPI optimisation and network building
- Selective activation of other **Deloitte service lines** where value can be added