



Solganick & Co.



Digital Media M&A Update

Q2 2016

July 21th, 2016

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Sources for our research and data include: MergerMarket, Wall Street Journal, 451 Research, S&P Capital IQ, Company Websites, SEC Filings, Bloomberg

M&A Market Brief

Digital Media M&A Activity Surges in Q2 2016

Worldwide

- **Global M&A activity during the second quarter of 2016 improved slightly over that of the first quarter.** After 2015's surge of M&A activity, deals are adjusting back to a sustainable level.
- Deal value for Q2 2016 rose to \$689 billion from \$633 billion in Q1 2016.
- Global M&A deal value in H1 2016 was down 26.6% compared to that of H1 2015.
- Political uncertainties such as the UK's Brexit and the United States election cycle have contributed to the M&A cooldown, and they will continue to do so.
- **The drama surrounding the UK's referendum caused many firms to postpone deals.** This was a major reason why deal value for Q2 2016 in the United Kingdom fell 50.5% compared to that of Q1 2016. We expect to see an uptick in UK deal volume in the coming months as the deals that were postponed are revisited.
- China is relaxing its regulations on bidding for acquisitions, which will allow the country to better compete with the United States and Europe.

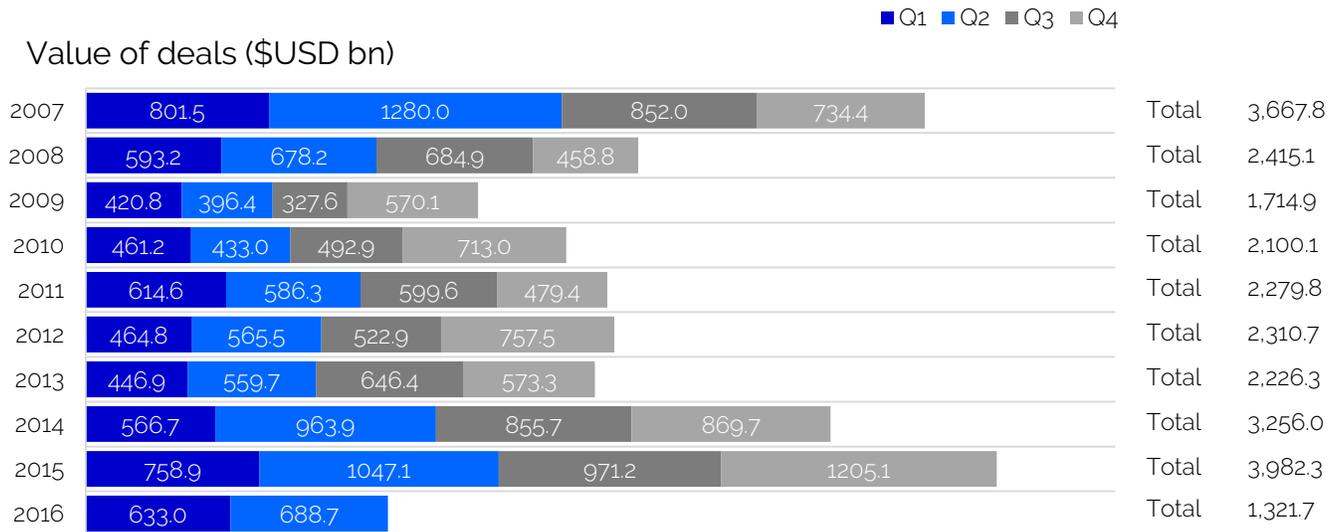
United States

- **The M&A climate in the United States is in the process of rebalancing after a record-setting year.** Nonetheless, US deal activity in the second quarter remained stable.
- In Q2 2016, deal value totaled \$313.2 billion, compared to \$248.8 billion in Q1 2016.
- In H1 2016, United States M&A deal value totaled \$563 billion, with 2,242 transactions. This represents a 31% drop in value from H1 2015.
- The uncertainty resulting from the United Kingdom's departure from the EU lead to a 27% drop in US outbound activity into the UK. Outbound activity into the UK will remain low until the outcomes of the post-exit negotiations become clearer.
- **The M&A environment for the US technology industry remained robust despite the global M&A downturn.** In H1 2016, technology deal value rose to \$81 billion compared to \$65 billion in H1 2015, with deal volume increasing 4%.

Digital Media

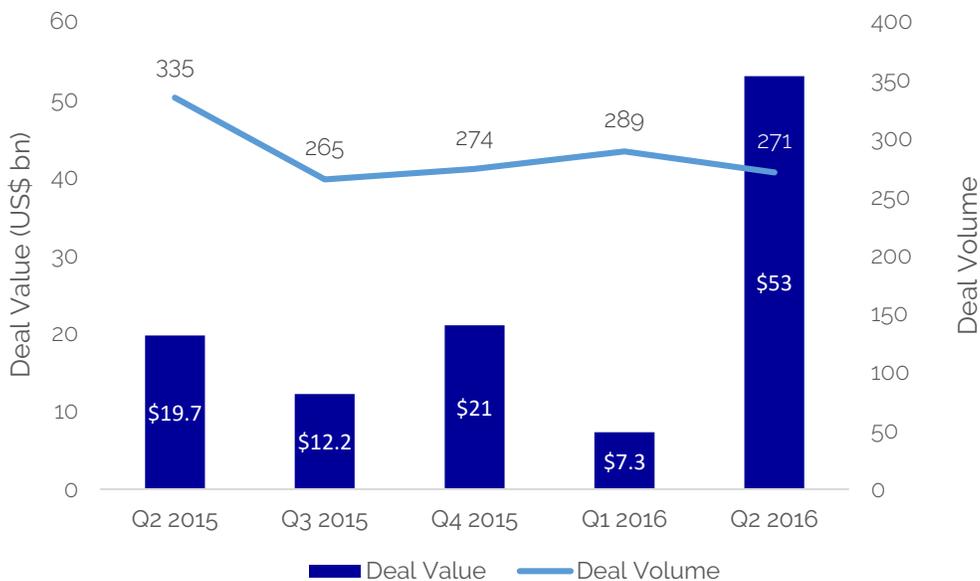
- **The digital media sector saw high deal activity in the second quarter of 2016.** Deal volume in Q2 2016 decreased marginally to 271 from 289 in Q1 2016, but deal value increased to \$53 billion from \$7.3 billion in Q1 2016.
- If the acquisitions of LinkedIn by Microsoft for \$26.2 billion and Supercell by Tencent for \$10.2 billion are excluded, deal value for Q2 2016 amounts to \$16.6 billion, which still represents a 127% increase from Q1 2016's deal value of \$7.3 billion.
- Deal volume increased in 1H 2016 to 560 from 539 in 2H 2015, and **deal value increased in 1H 2016 to \$60.3 billion, representing a 82% improvement over 2H 2015's deal value of \$33.2 billion.**
- **Strategic acquirers accounted for 95% of deal value** and 88% of deal volume in 1H 2016.
- The **median revenue multiple** in 1H 2016 was **2.0x**, compared to 1.7x in 2H 2015 for digital marketing and agencies. The **median EBITDA multiple** rose from 8.8x in 2H 2015 to **11.1x** in 1H 2016. Internet / eCommerce was substantially higher at 6.6x EV/Revenue and 33.4x EV/EBITDA.

Global M&A Deal Value – Quarterly Comparison



Source: MergerMarket

Digital Media M&A Activity – Quarterly Comparison



Source: Petsy Prunier

Digital Media M&A Drivers 2016

Location-based Advertising: The advertising technology sector experienced high deal activity in the second quarter of 2016, and the industry will continue to see high deal flow as mobile audience modeling is becoming more sophisticated. Location-based advertising technologies track the physical locations of consumers through their mobile devices and perform analytics to select which advertisements consumers might take interest in. For example, if the technology notices that a person visits the gym frequently and eats at healthy restaurants often, it will show advertisements for products and services that will help the person further his or her healthy living. The technology also covers capabilities for displaying advertisements to mobile users who have entered specified areas. Location-based advertising technologies hinge on the ability to sift through large amounts of location data to choose a set of personalized advertisements based on assumed consumer interests.

Location-based advertisement platforms are already minimizing operational costs for companies in the retail, automotive, logistics and food processing industries. These industries will likely see increased M&A activity in the near future. We expect location-based technologies to continue to gain traction in other industries, especially as the expenses for location data analytics decrease and smartphones increasingly penetrate the global market. According to Hampton Partners, the location-based advertising industry in the first half of 2016 saw its highest EBITDA multiples since the second half of 2014. One of the biggest deals yet in the industry was Gannett's acquisition of ReachLocal, a company with a location-based advertising offering that was awarded Bronze in the 2016 American Business Awards competition.

Native Advertising: Native advertising is a method of presenting advertisements to consumers by integrating the advertisements into the user experience so that they are disguised and flow seamlessly with digital content. Smaller brands are beginning to join large corporations in the search to incorporate native advertising into their marketing campaigns. Native advertising will soon be part of most marketing strategies, as it focuses on presenting advertisements tastefully, as opposed to the ubiquitous eye-sore advertisements that we are accustomed to. The trend will continue to reshape the media marketing landscape and will prompt businesses to engage in M&A activities to better meet market demands.

Notable Digital Media M&A Transactions, Q2 2016

Date	Target	Acquirer	Target Description	Deal Size (\$USD mm)
6/27/2016	ReachLocal	Gannett Company	Provider of online advertising services	156
6/23/2016	HDMI Digital Media	8020 Connect	Provider of digital media production services	NA
6/14/2016	Forensiq	Impact Radius	Provider of software for protection against high-risk traffic sources	NA
6/14/2016	One Kings Lane	Bed Bath & Beyond	Provider of an online retail site for home and lifestyle merchandise.	NA
6/9/2016	Intellio	Aroluxe	Operator of a digital creative advertising agency	NA
6/9/2016	Two Nil	Blackwood Seven	A strategic marketing agency that optimizes customer acquisition	NA
6/9/2016	TRANZACT	Clayton, Dubilier & Rice	Provider of sales and marketing services	85
6/9/2016	Studiosfm	Digital Domain Holdings	Developer of virtual reality video games	NA
6/6/2016	Saffron Digital	NeuLion	Provider of multi-platform digital video services	NA
6/3/2016	AdGear	Samsung Electronics Co.	Operator of a digital advertising technology company	NA
6/2/2016	Team Chaos	Zynga	Developer of online video games	NA
5/31/2016	ZoomSpring	Relequent	Provider of digital marketing services	NA
5/27/2016	Fame House	Universal Music Group	Provider of digital marketing services	14
5/25/2016	OutOfTheBlue Advertising	rbb Communications	Provider of advertising and marketing agency services	NA
5/23/2016	Muhtayzik Hoffer	VCCP Media	Operator of a full-service advertising agency	NA
5/19/2016	Knetik	CIMA Group	Provider of a cloud based technology platform for media delivery.	NA

Notable Digital Media M&A Transactions, Q2 2016 (cont.)

Date	Target	Acquirer	Target Description	Deal Size (\$USD mm)
5/19/2016	Combustion	Archer Malmö	The company operates an advertising and design agency	NA
5/18/2016	Ad-builder	Local Search Association	Provider of advertising services	NA
5/16/2016	Forza Marketing	Northlich	Provider of marketing services	NA
5/12/2016	Brando	In the Company of the Huskies	Provider of advertising services	NA
5/10/2016	Livefyre	Adobe Systems	Provider of content marketing and engagement platform	NA
5/9/2016	StickyADS.tv	FreeWheel Media	Provider of a multi-screen advertising network	113.1
5/4/2016	GreenLight Media and Marketing	Live Nation Entertainment	Operator of a branded entertainment agency	13.3
4/29/2016	Tapad	Telenor Group	Provider of cross-platform advertising services.	360
4/28/2016	Freefall	Sacunas Integrated Communications	Operator of an advertising agency	NA
4/28/2016	DreamWorks Animation SKG	NBCUniversal	Producer of computer animated feature films	3800
4/26/2016	Cranberry Radio	Cranberry	Provider of digital advertising services	NA
4/20/2016	McNeill Communications	Steinreich Communications	Provider of advertising services	NA
4/18/2016	Pathful	Mobify	Provider of content marketing services	NA
4/11/2016	360ideas	RSA Marketing Services	Provider of digital marketing services	NA
4/6/2016	Carnival (Mobile)	Sailthru	Developer of a mobile marketing platform	NA
4/4/2016	OUTFRONT Media	JC Decaux	Provider of advertising services	77.43

Source: Solganick & Co. Analysis, Pitchbook

Publicly Traded Digital Media Firms Valuation Table

Digital Media/Advertising	Ticker	Stock Price	Market Cap (\$USD mm)	EV/Revenue	EV/EBITDA
Interpublic Group of Companies	IPG	\$23.10	\$9,367	1.3x	9.6x
Omnicom Group Inc.	OMC	\$81.49	\$19,769	1.5x	10.1x
Publicis Groupe SA	PUB.PA	\$68.04	\$294	1.7x	9.6x
WPP plc	WPPGY	\$22.10	\$28,482	1.9x	11.5x
			Average	1.6x	10.2x
Diversified Media	Ticker	Stock Price	Market Cap (\$USD mm)	EV/Revenue	EV/EBITDA
CBS Corporation	CBS	\$54.44	\$25,832	2.5x	13.0x
Comcast Corporation	CMCSA	\$65.19	\$160,628	2.9x	8.8x
News Corporation	NWS	\$11.35	\$6,597	0.6x	5.7x
The Walt Disney Company	DIS	\$97.82	\$162,919	3.5x	11.8x
Time Warner Inc.	TWX	\$73.54	\$59,216	2.9x	11.0x
Twenty-First Century Fox, Inc.	FOXA	\$27.05	\$53,681	2.4x	10.4x
			Average	2.4x	10.1x

Internet	Ticker	Stock Price	Market Cap (\$USD mm)	EV/Revenue	EV/EBITDA
Alibaba Group	BABA	\$79.53	\$195,485	12.9x	36.3x
Amazon	AMZN	\$715.62	\$334,963	3.1x	39.4x
Apple	AAPL	\$95.60	\$564,505	2.5x	7.0x
Baidu	BIDU	\$165.15	\$57,461	5.1x	19.4x
eBay	EBAY	\$23.41	\$27,952	3.4x	10.1x
Facebook	FB	\$114.28	\$322,013	17.2x	37.7x
Alphabet Inc.	GOOG	\$703.53	\$482,816	5.6x	17.2x
IAC/InterActiveCorp	IACI	\$56.30	\$4,650	1.7x	14.8x
Netflix	NFLX	\$91.48	\$39,062	5.9x	108.6x
Yahoo	YHOO	\$37.56	\$35,377	6.2x	N/A
			Average	6.4x	32.3x

M&A Spotlight



NBCUniversal acquires DreamWorks Animation for \$3.8 billion

April 28, 2016 – NBCUniversal, a division of Comcast Corporation (NASDAQ: CMCSA), today announced the acquisition of DreamWorks Animation (NASDAQ: DWA). DreamWorks Animation, one of the world's most admired family brands, creates animated feature films, television series and specials, live entertainment and related consumer products. The DreamWorks studio will now become part of the Universal Filmed Entertainment Group, which includes Universal Pictures, Fandango, and NBCUniversal Brand Development.

Under the terms of the agreement, DreamWorks Animation has an equity value of approximately \$3.8 billion. DreamWorks Animation stockholders will receive \$41 cash for each share of DreamWorks Animation common stock. The transaction is expected to close by the end of 2016, subject to antitrust approvals in the U.S. and abroad, as well as other customary closing conditions.

After the completion of the transaction, DreamWorks Animation CEO and co-founder Jeffrey Katzenberg will become Chairman of DreamWorks New Media, which is comprised of the company's ownership interests in Awesomeness TV and NOVA. Katzenberg says, "Having spent the past two decades working together with our team to build DreamWorks Animation into one of the world's most beloved brands, I am proud to say that NBCUniversal is the perfect home for our company: a home that will embrace the legacy of our storytelling and grow our businesses to their fullest potential."

The acquisition gives NBCUniversal a broader reach to a host of new audiences in the highly competitive kids and family entertainment space, in both TV and film. Additionally, DreamWorks Classics, a large library of classic characters, will become part of the NBCUniversal portfolio, along with a successful consumer products business.

Source: <http://money.cnn.com/2016/04/28/media/comcast-dreamworks-nbcuniversal/>

GANNETT



Gannett to acquire ReachLocal for \$156 million

June 27, 2016 – Gannett Co., Inc. GCI, a multi-platform news and information company, entered into a deal to acquire ReachLocal, Inc. in order to provide a boost to its digital offerings. Newspaper publishing companies are focusing on diversifying their revenue streams, and they are endeavoring to expand their digital offerings to lower dependence on the soft print media business and traditional advertising. Gannett's motion to acquire ReachLocal abides by this trend.

Under the terms of the transaction, Gannett will acquire each of ReachLocal's shares at \$4.60 per share, reflecting a 188% premium to ReachLocal's closing price last Friday. The enterprise value for ReachLocal is \$156 million. This represents -4.6x EV/EBITDA multiple and 0.4x EV/Revenue multiple. This acquisition is anticipated to be neutral to earnings per share in the first full year, but will be modestly accretive to earnings in its second full year.

Gannett CEO Robert Dickey states that the acquisition of ReachLocal will help enhance its digital revenue by approximately 50% initially. ReachLocal has over 16,000 customers in markets throughout North America, Latin America, Europe and the Asia/Pacific, and provides services in the home, healthcare, automotive and professional space.

Source: <http://www.usatoday.com/story/money/business/2016/06/27/gannett-buys-online-marketing-firm-reachlocal/86444682/>



Telenor Group acquires ad-tech firm Tapad for \$360 million

April 29, 2016 – Telenor Group, a Norwegian multinational telecommunications company headquartered in Fornebu, acquires Tapad for \$360 million on a debt and cash-free 100% basis. Tapad is a New York-based startup that was established in 2010 by Norwegian entrepreneur Are Traasdahl.

Tapad is a market leader in the U.S. and specializes in cross-device advertising and content delivery that gives publishers, marketers and technology providers a holistic view of consumers across devices and screens. It is best known for its innovative device management solution, the Tapad Device Graph™. The Tapad Device Graph™ assimilates billions of data points from different devices and helps customers recognize, measure, and monetize their audience across all of their internet connected devices. Are Traasdahl, CEO and founder of Tapad, says, “We are thrilled to join the Telenor family. With more than 200 million mobile subscribers in 13 markets, Telenor is one of the largest and most successful telecom companies globally. This will accelerate our vision to become the world’s leading provider of unified digital marketing solutions.”

With the acquisition of Tapad, Telenor will be able to increase its market base in advertising technology and secure competence within the digital marketing and analytics space. Sigve Brekke, CEO of Telenor Group mentions that, “I believe significant value can be created from applying marketing technology to improve the digital capabilities of our core telecom business. This will improve our understanding of customer behavior, and supports building a platform for other business areas.”

Source: <https://techcrunch.com/2016/02/01/telenor-jumps-into-ad-tech-acquires-tapad-for-360m/>

About Solganick

Solganick & Co., Inc. is an independent investment banking and M&A advisory firm focused exclusively on the global Software, IT Services and Digital Media industry sectors. We advise buyers and sellers of companies and efficiently execute M&A transactions that help increase shareholder value. Our professionals have advised on \$20+ billion in M&A transactions to date and have current clients and relationships globally with entrepreneurs, companies and leading private equity firms within the sectors we cover.

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