



Solganick & Co.

Technology and Digital Media
Investment Banking + M&A Advisory



Digital Media M&A Update

Q4 2016

February 1, 2017

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Solganick & Co.'s Digital Media Investment Banking group covers sub-industry sectors including marketing and ad tech, eCommerce/internet, digital and advertising agencies, video game software, digital media software, and media conglomerates.

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Sources for our research and data include: PitchBook, MergerMarket, Wall Street Journal, Company Websites, SEC Filings, Bloomberg, TechCrunch

M&A Market Brief

Mergers and acquisitions in the digital media sector is already outpacing the rate of activity as compared to 12 months ago

Worldwide

Global M&A activity during the fourth quarter of 2016 decreased significantly on the record levels achieved in 2015 (\$4.37tn). Due to the huge political uncertainty caused by Donald Trump's election victory and Brexit.

Global deal value for Q4 2016 rose to \$969 billion from \$875.9 billion in Q3 2016. Global M&A deal value YTD is up \$3.24 trillion compared to \$2.8 trillion in 2015.

- Donald Trump's surprise electoral victory in November brings with it an uncertain future for US M&A, with the President-elect pledging to clamp down on high profile acquisitions such as the AT&T/Time Warner deal announced in October. In the face of an uncertain future, M&A activity accelerated in the run up to the election, with mega-deals such as AT&T/Time Warner (US\$ 105.1bn), Level 3/CenturyLink (US\$ 34.5bn) and General Electric/ Baker Hughes (US\$ 31.6bn) all announced in the month prior to the election.

United States

• 2016 was fraught with geopolitical uncertainty. For US dealmaking, H1 saw increased regulations from the Obama administration, whilst H2 was dominated by the election of Donald Trump. The latter's campaign, wildly favored by the populist wave sweeping much of the world, called for deeper scrutiny of deals with foreign buyers.

• **In Q4 2016, deal value totaled \$478.7 billion,** compared to \$402.8 billion in Q3 2016.

• YTD 2016, US M&A deal value dropped 29.6% from \$1.89 trillion 2015 Q1-Q4 to \$1.46 trillion YTD.

• This year's largest deal happened in the US in October resulted in a 105 billion increase of deal value. Overall, **the US captured 45.2% of the global market share, compared to 24.6% for Europe and 20.3% for Asia.**

• Digital Media/eCommerce was the most active segment.

Digital Media

Q4 value decreased to \$18.8 billion which is 19% down compared to the previous quarter

Deal volume decreased marginally 13% compared to 318 in Q3 2016.

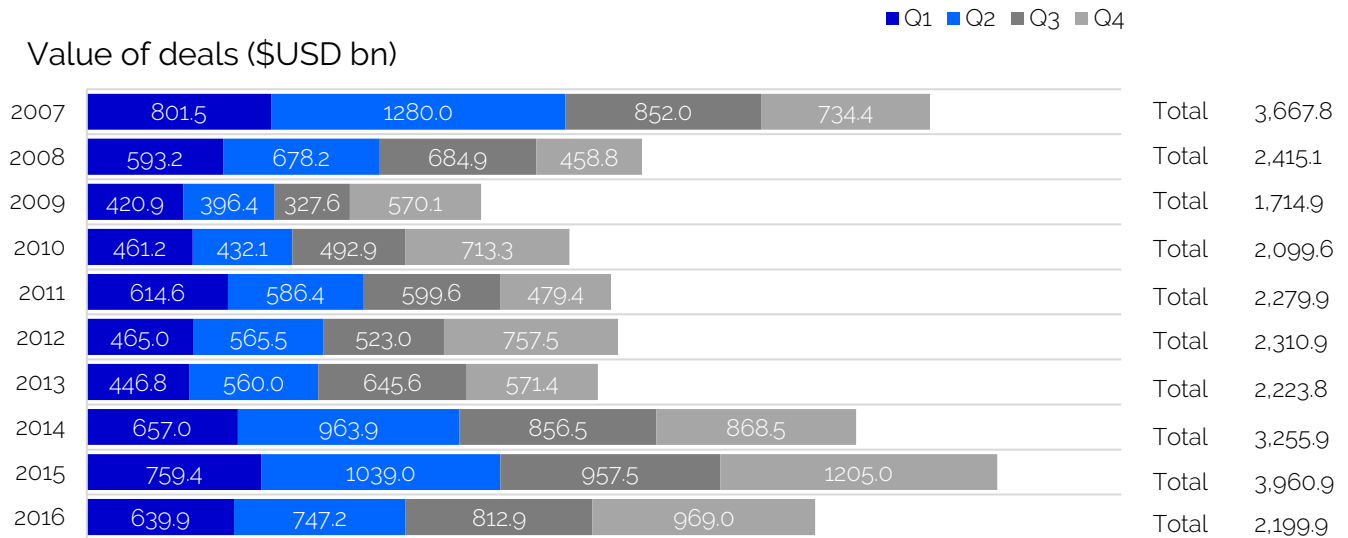
Strategic acquirers accounted for 93% of deal volume in Q3 2016.

eCommerce made up the largest portion of the Digital Media sector with **50% of deal value** and **37% of deal volume.**

Strategic buyers completed 169 deals in 2H16, of which 48 were worth \$13.1 billion in aggregate reported value. In the fourth quarter, strategic deal volume was down 12 percent compared with 3Q16, while reported value was down 41 percent.

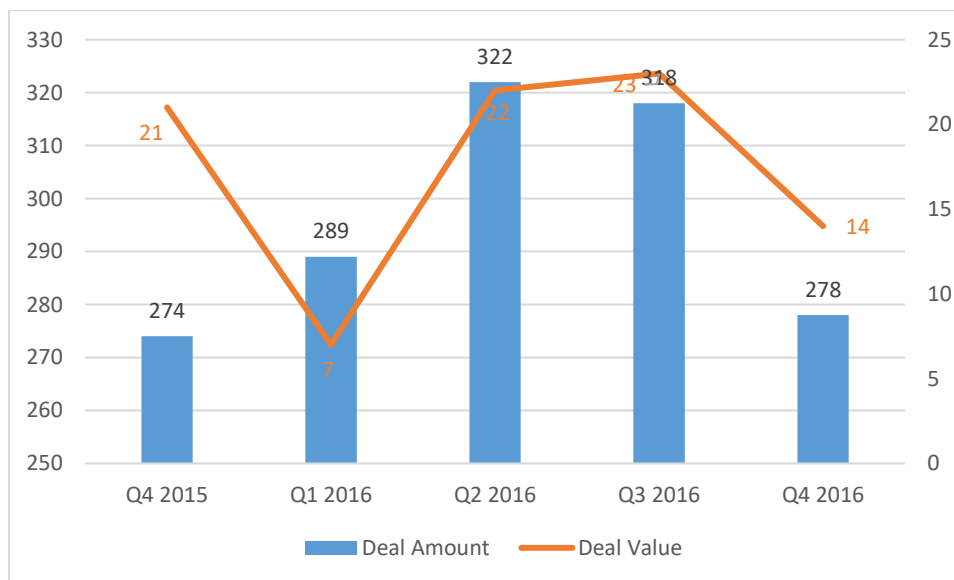
EV/Revenue Multiples Range: 1.42x to 4.02x

Global M&A Deal Value – Quarterly Comparison



Source: MergerMarket

Digital Media M&A Activity – Quarterly Comparison



Source: Petsky Prunier

Digital Media M&A Drivers 2016-2017

Cross Device Optimization: Over half of local searches happen over mobile devices “i.e. restaurants near me.” Since 2008, the average American adult has increased his mobile device usage 1,000% from 0.3 hours daily to 2.8 hours daily and doubled their total time on digital media from 2.7 hours daily to 5.8 hours daily. 97% of Millennials are mobile users while 20% do not use a desktop or laptop at all. Businesses that incorporate a mobile friendly website are much more likely to win over potential customers.

Artificial Intelligence: Digital marketing has taken a Darwinian approach with AI since newer algorithms can evolve ads by gauging customer reactions to different creative features such as different copy, colors, fonts, and images. Features that do not engage a user are removed while the others are kept in circulation for future executions of the ad. Automated creativity is already entering the mainstream; the Associated Press has already used a “robot” journalist to publish financial news from financial data. In the future as computer creativity becomes more advanced, ads may start to write themselves from scratch.

Digital Agency M&A Drivers 2016

Non-Media Companies Acquiring Digital Agencies: Non-media companies are breaking into the digital marketing sector through strategic acquisitions. IBM purchased Apertio in February for its existing digital marketing services and to expand its list of clientele. The acquisition has improved IBM's consultative services, increased its market presence in Europe, and strengthened its ability to cross-sell to major customers, Airbus and Volkswagen. Ebay completed a similar transaction with Cargigi in March while Accenture has acquired a handful of digital agencies this year.

Sources:

<http://localvox.com/blog/digital-marketing-trends-2017/>

<https://www.fastcreate.com/3048944/this-worlds-first-artificially-intelligent-ad-is-a-test-of-automated-creativity>

Notable Digital Media M&A Transactions, Q4 2016

Deal Date	Target (Seller)	Buyer	Description	Deal Size	EV/ Revenue	EV/ EBITDA
14-Dec-2016	Nimbuzz (Ngage)	Mogae Media , Multiples Alternate Asset Management	Operator of an advertisement technology platform	5.90		
01-Dec-2016	Encima Group	Indegene Healthcare	Provider of business analytic, big data and digital marketing services	16.00	1.43x	
17-Nov-2016	Mastermind Involvement Marketing	SharkReach	Provider of digital marketing ad advertising services	16.40		
17-Nov-2016	Lseo	UM Technologies	Provider of digital marketing services			
17-Nov-2016	BuzzShift	Ivie & Associates	Provider of digital marketing services..			
09-Nov-2016	HookLogic	Criteo	Provider of e-commerce media services	250.00	1.92x	
08-Nov-2016	Ambergreen Internet Marketing	DAC Group	Operator of a digital marketing agency			
07-Nov-2016	Marketeching Solutions	Mountaingate Capital, W2O Group	Operator of a digital marketing firm with a social platform focused in healthcare and life sciences			
03-Nov-2016	Axis41	Merkle	Operator of an advertising agency			
01-Nov-2016	Dubsat	AdStream , Crescendo Partners Australia	Provider of advertising content management and distribution services intended to offer digital media and entertainment content			
24-Oct-2016	Refined Labs	Visual IQ	Provider of an online marketing campaign management platform			
06-Oct-2016	Art of Click	Xurpas	Developer of a mobile marketing platform	45.00	4.02x	

Deal Date	Target (Seller)	Buyer	Description	Deal Size	EV/ Revenue	EV/ EBITDA
04-Oct-2016	Yourzine	PostNL	Operator of an online marketing agency			
13-Dec-2016	Scout Media	CBS Corporation	Operator of an online sports network and publishing business	9.50		
23-Nov-2016	Invidi Technologies	AT&T Corp, Dish Network, WPP	Provider of software services for television advertising and marketing to cable, satellite and IPTV service providers			
11-Nov-2016	CrowdTangle	Facebook	Developer of a social media tracking and discovery platform			
21-Oct-2016	FameBit	Alphabet	Operator of a marketplace for businesses to find, hire and work with YouTube influencers for product and service endorsements			

Source: Solganick & Co. Analysis, Pitchbook

Publicly Traded Digital Media Firms Valuation Table (as of 12/30/16)

Digital Media	Ticker	Stock Price	Market Cap	EV/Revenue	EV/ EBITDA
Omnicom Group	OMC	85.11	20,379,590	1.6x	11.9x
Publicis Groupe	PUB	69.10	15,387,561	1.7x	11.5x
The Interpublic Group of Companies	IPG	23.41	9,373,949	1.3x	11.5x
WPP	WPP	22.68	29,219,730	1.9x	13.6x
Average				1.6x	12.1x

Diversified Media	Ticker	Stock Price	Market Cap	EV/ Revenue	EV/ EBITDA
CBS Corporation	CBS	63.62	28,963,005	2.6x	13.9x
Comcast	CMCSA	69.05	167,567,088	2.9x	13.7x
eBay	EBAY	29.69	34,284,528	4.0x	15.1x
Time Warner	TWX	96.53	76,012,549	3.5x	13.6x
Twenty-First Century Fox	FOXA	28.04	53,444,240	2.5x	15.0x
Walt Disney Company	DIS	104.22	169,774,380	3.4x	12.5x
Average				3.2x	14.0x

Internet	Ticker	Stock Price	Market Cap	EV/ Revenue	EV/ EBITDA
Alibaba Group	BABA	87.81	217,000,463	10.5x	27.7x
Alphabet	GOOGL	792.45	544,578,376	5.6x	21.3x
Amazon.com	AMZN	749.87	353,376,238	2.7x	85.1x
Apple	AAPL	115.82	633,630,372	3.0x	10.5x
eBay	EBAY	29.69	34,284,528	4.0x	15.1x
Facebook	FB	115.05	327,719,925	12.4x	29.4x
IAC	IAC	64.79	5,249,383	1.8x	N/A
Netflix	NFLX	123.80	53,088,164	6.3x	136.2x
WPP	WPP	22.68	29,219,730	1.9x	13.6x
Yahoo	YHOO	38.67	36,630,128	6.3x	N/A
Average				5.5x	42.4x

M&A Spotlight



AT&T Inc acquires Time Warner for 85.4 billion

Oct. 22, 2016 – AT&T Inc. has reached an agreement to buy Time Warner Inc. for \$85.4 billion in a deal that would transform the phone company into a media giant. The wireless carrier agreed to pay \$107.50 a share, evenly split between cash and stock. The companies said they expect the deal to close by the end of 2017.

The transaction would be far and away the biggest media deal of recent years, potentially breathing new life into media deal-making. Time Warner had a market capitalization of \$68 billion before the Journal reported on the advanced talks Friday, while AT&T's was \$233 billion. For AT&T, the deal would eclipse the nearly \$50 billion DirecTV deal and may be its biggest acquisition since paying \$85 billion for BellSouth in 2006.

If completed, Dallas-based AT&T would rely on its entertainment business for more than 40% of its revenue, based on second-quarter financial results, strongly diversifying the company away from a U.S. wireless business that has become increasingly competitive.

AT&T will tap \$40 billion in bridge loans, the person said, with \$25 billion coming from J.P. Morgan Chase & Co. and \$15 billion from Bank of America Corp. The carrier said it is committed to maintaining its investment-grade credit ratings and forecast that the deal will lead to about \$1 billion in cost savings within the three years.

Source: <https://www.wsj.com/articles/at-t-reaches-deal-to-buy-time-warner-for-more-than-80-billion-1477157084>



HookLogic acquired by Criteo for 250 million

Oct. 4, 2016 – Criteo, the performance marketing technology company, today announced it has signed a definitive agreement to acquire HookLogic. The acquisition of HookLogic and its leading advertising exchange for brands will strengthen Criteo's performance marketing platform.

HookLogic's performance marketing exchange connects many of the world's largest retail e-commerce sites with consumer brand manufacturers who vie for virtual shelf-space via sponsored product ads. Retailers earn revenue by monetizing their site traffic via these Cost-per-Click (CPC) based native ads. Unlike traditional advertising tactics, HookLogic's ads link manufacturer marketing spend directly to retail sales.

HookLogic was founded in 2004 and is headquartered in New York, USA. HookLogic's solutions will be maintained upon close of the deal ensuring continuity of its offering. The transaction remains subject to customary conditions and is expected to close in the 4th quarter of Criteo's fiscal year, as described in Criteo's filings with the U.S. Securities and Exchange Commission.

Source: <http://www.prnewswire.com/news-releases/criteo-to-acquire-hooklogic---strengthening-its-performance-marketing-platform-300338688.html>



Media.net acquired by China-based Miteno Communication Technology for \$900M in mega adtech deal

September 21, 2016 - The flow of Chinese capital into foreign adtech companies increased with the acquisition of **Media.net** for \$900 million USD in cash. A consortium will be paying cash for the startup with key operation centers in New York City and Dubai. Eventually the company is set to be acquired from the consortium by **Miteno Communication Technology**, a Chinese tech conglomerate. The transaction is one of the largest ad-tech deals in history, ahead of notable exits like Google's \$750 million-dollar acquisition of AdMob in 2010 and Twitter's \$350 million dollar acquisition of MoPub in 2013.

Media.net provides a suite of products for creating, targeting, and evaluating advertising campaigns. The company supports publishers by connecting them to relevant ads via their Yahoo! Bing network. Media.net's publisher inventory is available through major demand-side platforms and ad-exchanges.

The Chinese adtech space is particularly interesting because API integration with many of the largest Chinese technology companies is lagging their American counterparts. This is putting pressure on companies to find innovative ways to target advertising.

SharkReach



SharkReach acquires Mastermind Involvement Marketing

November 17, 2016 – SharkReach, Inc. entered into a definitive agreement to acquire 100% of the digital marketing agency, Mastermind Involvement Marketing, LLC. This transaction is structured in cash and stock, with Mastermind becoming a wholly owned subsidiary of SharkReach, Inc for \$16 million in total consideration including cash, stock and earn-out.

Headquartered in Atlanta, GA, Mastermind is a digital marketing agency that creates, designs and develops branding and marketing campaigns primarily for large corporate clients. Founded in 1984, it has been pioneering new ways to connect consumers with products and services. Its clients include Bayer, The Home Depot, Hanes, Macy's, Harley-Davidson, Citi and Staples.

SharkReach is a disruptive millennial media company that combines the strength of an influencer owned network with proprietary technology for creating, posting, managing and monitoring branded, sharable content. SharkReach is headquartered in Hermosa Beach, CA.

Solganick & Co. acted as exclusive M&A advisor to Mastermind Involvement Marketing, LLC in its sale to SharkReach (SHRK).

For more information on the transaction: <http://finance.yahoo.com/news/sharkreach-signs-16-million-merger-144100412.html>

About Solganick & Co.

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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