



Solganick & Co.

Technology and Digital Media
Investment Banking + M&A Advisory

Digital Media M&A Update

H1 2018

July 30, 2018



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

DISCLAIMER

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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

Digital Media M&A Activity in H1 2018

Worldwide

The global M&A value in H1 2018 totaled US\$ **2.49T** via **17,611** deals, which grew **57%** from H1 2017.

26 megadeals (deal value over US\$ 10B) were announced in H1, only 4 less than the FY 2017 total.

A \$1T Q2 2018 deal value shows **9.1%** increase from Q1 2018.

A **59.7%** increase was shown in the technology sector from US\$ **111.8B** in H1 in 2017 to US\$ **178.5B** in H1 2018.

The global average deal size reached US\$ **274M**, the highest on Dealogic record.

The cross-border transaction is dropped by **21.2%** in deal value in comparison to 2017.

United States

US M&A value in H1 2018 totaled US\$ **807.9B**, which reached the 3rd highest H1 value on Mergermarket record since 2001.

Total M&A value increased **31.1%** from H1 2017.

There was a total of **11** megadeals (deal value over US\$10B), 5 more than in H1 2017.

US M&A transactions account for **30.4%** of the global M&A by deal count. This is down by 0.7 basis points from Q1 2017 (31.1%).

There was a **40.8%** fall in the value of inbound M&A into the US overall from H1 2017 (US\$199.3B) to H1 2018 (US\$118.1B).

There was a **54.3%** fall in the value of inbound M&A into the US from China from H1 2017 (US\$ 4.3B) to H1 2018 (US\$1.9B).

Digital Media

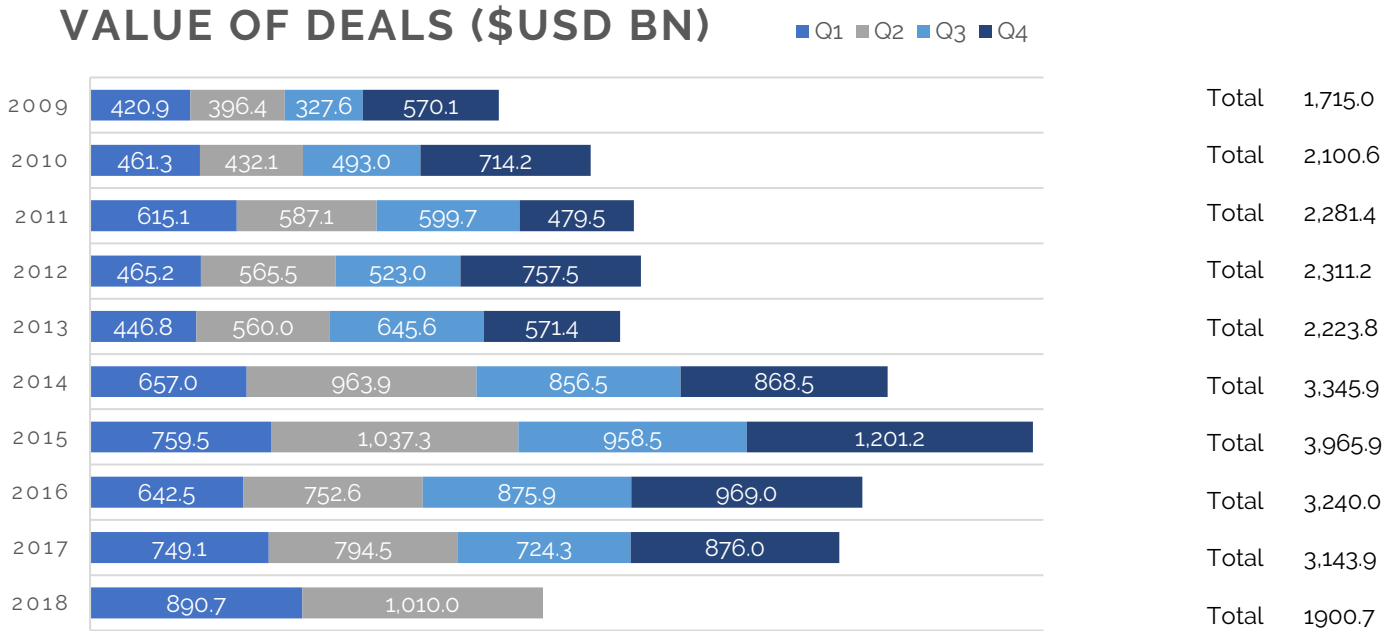
During the first half of 2018, there were a total of **266** digital media acquisitions completed in the U.S. The total M&A deal value in Q2 2018 was **\$19.5B**. Reported segment volume and value in Q2 were both flat compared to the previous quarter.

Within the digital media sector, **eCommerce was the most active** subsegment during H1 with **90** acquisitions followed by **Mobile Content/Apps**. Together, these two subsegments accounted for **60%** of the segment's total activity in the first half.

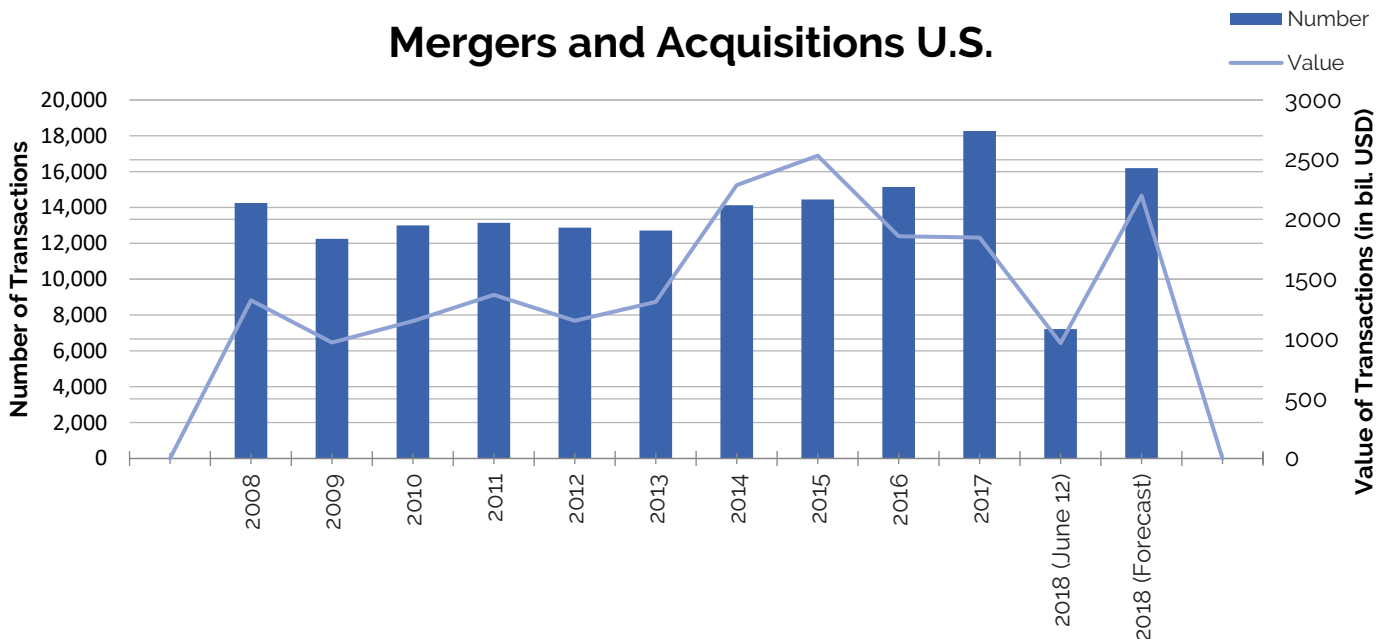
The **most active strategic buyer** during the first half of the year was **Microsoft** with five acquisitions.

Source: Petsky Prunier, MergerMarket, Dealogic

Global M&A Deal Value – Quarterly Comparison



US M&A Deal Value – Yearly Comparison

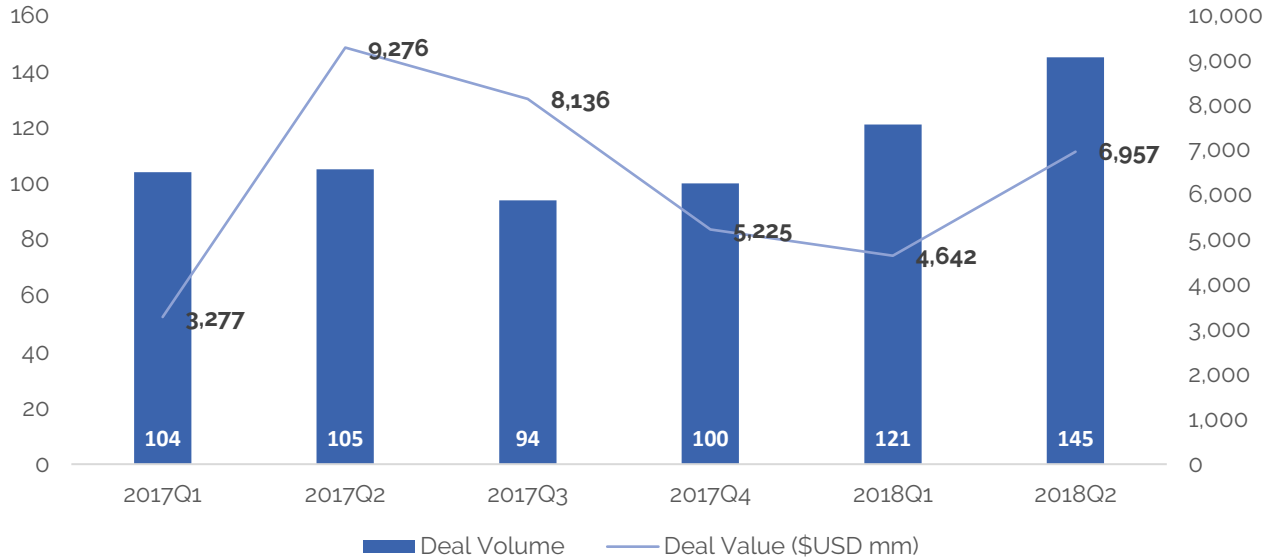


Source: MergerMarket



Digital Media M&A Activity — Quarterly Comparison

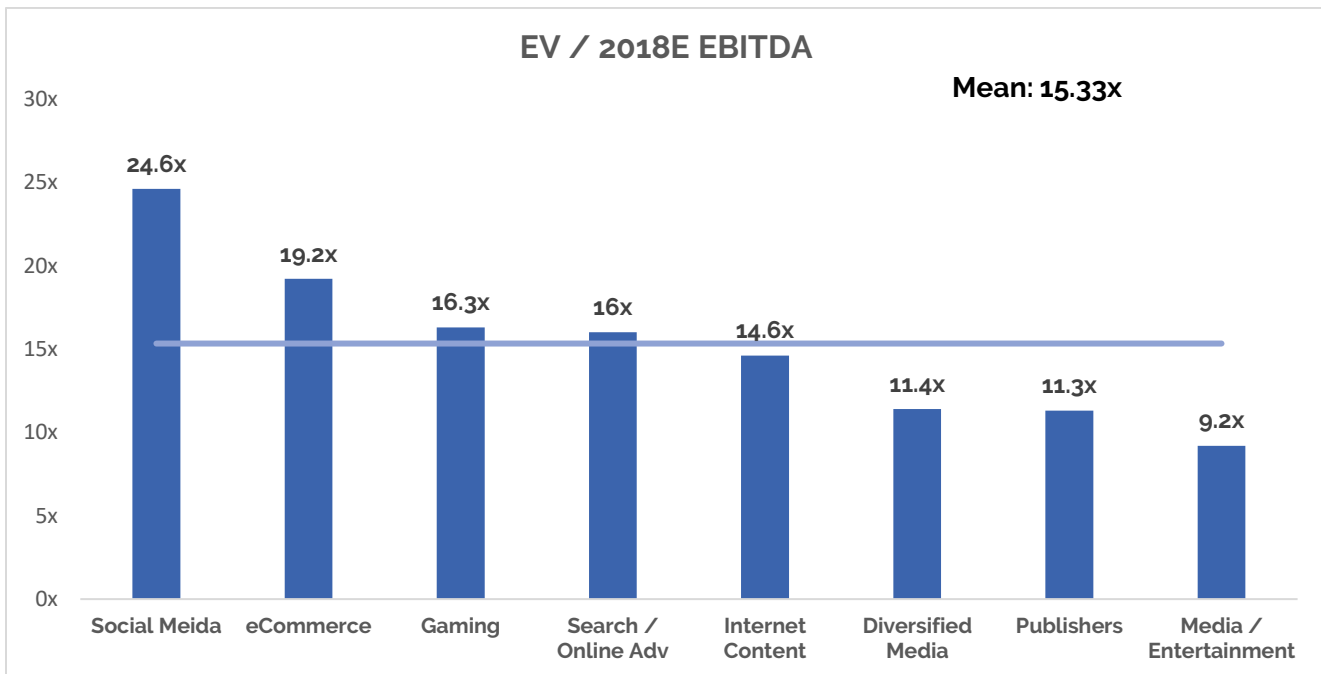
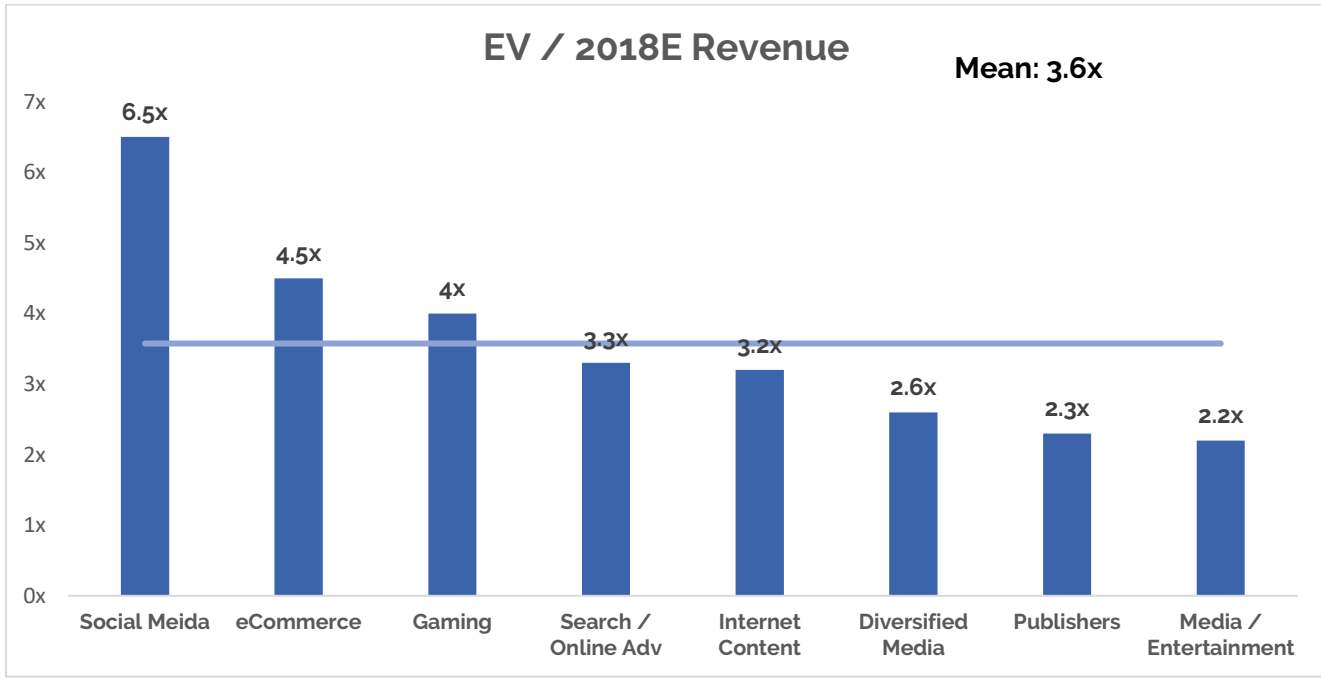
Deal flow 2017 and 1H 2018



Source: Petsky Prunier



Digital Media Market Financial Metrics



Source: GCA



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Digital Media Drivers 2018

AR/Social Media Integration: Using consumer location, companies will be able to trigger sponsored AR content in specific locations. Furthermore, Google has announced a standalone VR headset with a 180-degree camera.

Professional Live Video: Every social media platform is integrating live video platforms into their user experience, exemplified by Amazon-owned Twitch, Google's Youtube Streaming, Facebook Live, Twitter's Periscope, and now ex-Apple executives starting their new social broadcasting platform, Caffeine. Consumers are increasingly demanding the personal experience of connecting with their favorite content creators.

Voice Assistants: As new companies break into the Internet of Things space, they will be increasingly forced to make their devices compatible with Amazon or Google's voice assistants in order to give consumers what they want: seamless integration. For example, Toyota claims that it is adding Amazon's Alexa to its cars.

Voice Marketing: Google reported that 20% of its mobile queries are voice searches. This number is only going to increase as consumers get accustomed to using Alexa, Siri, Google Assistant, and their smart fridge for advice on what to buy. Marketers will begin to utilize sponsored content through these platforms.

Predictive Algorithms: The artificial intelligence trend will certainly continue to expand in its role in digital media in 2018, just as it has done for the past few years. Application programming interfaces are allowing businesses of any size to analyze their marketing effectiveness with modernized metrics such as cost per experiment replacing old metrics such as impressions, clicks, leads, and pixels.

Sources:

<https://www.forbes.com/sites/forbesagencycouncil/2017/12/18/how-digital-marketing-will-change-in-2018-15-top-trends/2/#6f51d13c5bcf>

http://petskyprunier.com/_petskyprunier.com/dynamic/user_reports-mmt_pdf-13.pdf

<https://techcrunch.com/2017/12/04/ten-predictions-for-digital-media-in-2018/>

Digital Media 2018 M&A Outlook

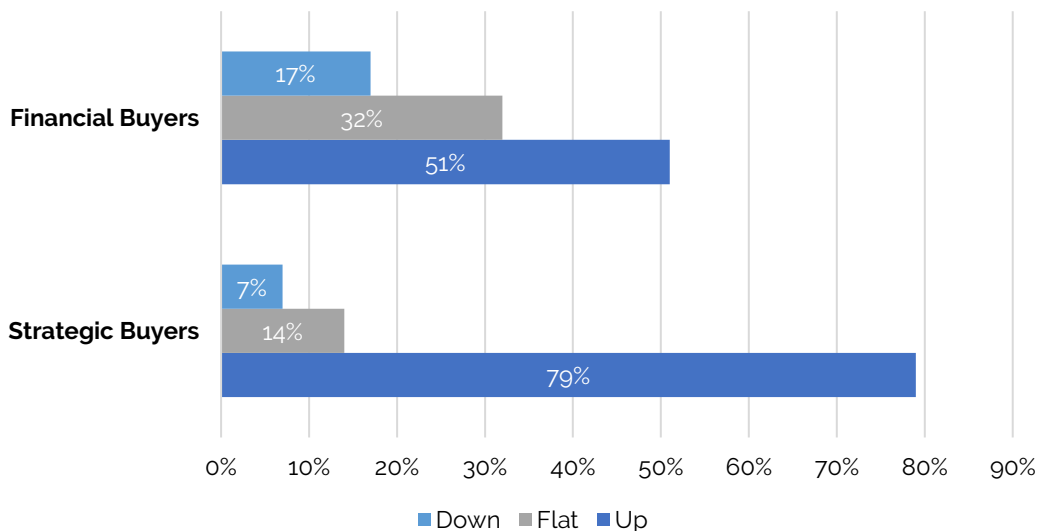
Increased Sell-Side Interest: The percentage of digital media related companies that expect to explore a sale of their company in 2018 increased to 61%, up from 47% in 2017.

Decreased Buy-Side Interest: The percentage of digital media related companies that expect to explore an acquisition target in 2018 decreased to 49%, down from 68% in 2017.

Most Sought Areas of Expansion: Consistent with prior years, analytics, social/mobile marketing, and design/user experience were the most sought after areas of expansion for digital media related companies.

No End in Sight: Only 17% of digital media related firms believe that the mergers and acquisitions market has peaked.

Strategic vs. Financial Buyer Dealflow Expectations



Sources: AdMedia Partners, 451 Research

Notable Digital Media M&A Transactions, H1 2018

Deal Announced	Buyer	Target	Description	Deal Size (USD, mm)	EV/ Revenue	EV/ EBITDA
1/17/2018	Frontier Capital	MediaRadar, Inc.	Advertising intelligence			
1/23/2018	JumpStart Games, Inc.	Sokikom	Online math program			
2/1/2018	Niantic	Escher Reality	AR gaming Company	50		
2/13/2018	Nielsen Holdings NV	Ebiquity Plc – Adintel Unit	Marketing and media analytics consultancy	40		
2/16/2018	Bynder	WebDam	Web-based digital asset management software	49	2.2x	
2/26/2017	Alibaba Group	Ele.me	Food delivery App	9,500		
3/26/2018	Endeavor LLC	NeuLion, Inc.	Digital Solutions	250	2.6x	
4/10/2018	Morgan Stanley Capital Partners	Instapage	Conversation rate optimization software			
4/30/2018	Amer Sports	Peak Performance	Sports fashion brand	309	1.7x	
5/26/2018	Walmart Inc.	Flipkart Internet Pvt. Ltd.	E-commerce destination	16,000	5.3x	
5/28/2018	Goldman Sachs Merchant Banking Division	Voodoo	Mobile video game manufacturer			
5/30/2018	Zynga, Inc.	Gram Games Ltd.	Mobile game development studio			
6/5/2018	Vista Equity Partners	Integral Ad Science, Inc.	Global software company			
6/11/2018	Microsoft Corp	Undead Labs LLC	Video game development			
6/28/2018	Amazon	PillPack	Online pharmacy	1,000	10x	
6/29/2018	Better Collective A/S	Bola Webinformation GmbH	Online Marketing	41	4x	5.2x



Publicly Traded Digital Media Firms Valuation Table (as of Jul 8, 2018)

Digital Media	Ticker	Stock Price	Market Cap (B)	EV / Revenue	EV / EBITDA
Omnicom Group	OMC	70.60	16.05	1.30x	8.49x
Publicis Groupe	PUB.PA	58.30	13.44	1.47x	8.10x
The Interpublic Group of Companies	IPG	22.55	8.69	1.39x	9.72x
WPP	WPP	76.41	19.66	1.28x	8.27x
			Mean:	1.36x	8.65x

Diversified Media	Ticker	Stock Price	Market Cap (B)	EV / Revenue	EV / EBITDA
CBS Corporation	CBS	58.22	22.08	2.26x	10.27x
Comcast	CMCSA	34.04	156.64	2.49x	7.69x
Walt Disney Company	DIS	110.69	164.57	3.10x	10.24x
Viacom	VIA	33.70	11.85	1.85x	8.05x
			Mean:	2.43x	9.06x

Internet	Ticker	Stock Price	Market Cap (B)	EV / Revenue	EV / EBITDA
Alibaba Group	BABA	190.79	490.23	12.60x	36.79x
Alphabet	GOOGL	1212.91	841.20	6.08x	19.43x
Amazon.com	AMZN	1842.92	894.23	4.48x	50.21x
eBay	EBAY	37.95	37.72	4.28x	14.10x
Facebook	FB	209.36	606.02	12.31x	21.41x
InterActiveCorp	IAC	153.56	12.85	3.77x	32.97x
Netflix	NFLX	375.13	163.07	14.59x	168.50x
			Mean:	8.30x	49.06x

M&A Spotlight



Amazon Buys Online Pharmacy Pillpack for \$1 Billion

Jun 28, 2018 - Amazon.com Inc. is buying online pharmacy PillPack Inc. giving the e-commerce giant the ability to ship prescriptions around the country, and overnight, making it a direct threat to the more than \$400 billion pharmacy business.

Amazon is paying roughly \$1 billion in cash for PillPack, which presorts medications and ships them to customers' homes in 49 U.S. states, excluding Hawaii, according to people familiar with the matter. The online retailer beat out Walmart Inc., which also was in talks for the five-year-old startup, one of the people said. Walmart had no immediate comment.

The deal for PillPack fires a warning shot to drug chains and retailers including CVS Health Corp. and Walmart, which have big pieces of the prescription market. The acquisition means Amazon doesn't have to build capabilities in-house that current players have spent years assembling.

Shares of CVS, Walgreens Boots Alliance Inc. and Rite Aid Corp. tumbled Thursday, and the three companies lost more than \$11 billion in market value.

But the health-care market may be challenging for Amazon to disrupt. It is highly regulated, and depends on a complex web of contracts, interconnected data systems and other relationships with health plans, drug-benefit managers and other health-care players that Amazon may not want to alienate if it wants its pharmacy business to prosper.

Source: <https://www.wsj.com/articles/amazon-to-buy-online-pharmacy-pillpack-1530191443>



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M&A Spotlight



Alibaba Takes Control of Ele.me, at \$9.5 Billion Value

Apr 3, 2018 – Chinese e-commerce giant Alibaba has moved to fully acquire the Ele.me startup, seeking to leverage its service network to dive deeper into brick-and-mortar retailing.

The deal, which first surfaced in February as Alibaba approached all Ele.me shareholders for a possible buy-out, implies an enterprise value of \$9.5 billion for the Shanghai-based startup, the company said in a statement without specifying how much it is paying. Alibaba and affiliate Ant Financial, which currently own 43% of Ele.me, invested \$1.25 billion in the company in 2016. The startup also once counted other powerful backers including rival tech giants Baidu and Tencent, as well as investment firm Sequoia Capital.

Ele.me, whose name roughly translates as “Are you hungry?”, is the latest boost to Alibaba's new retail initiative. The startup operates a food-delivery platform, employing as many as three million people in its Feng Niao Pei Song logistics service to meet founder Zhang Xuhao's commitment of 30-minute delivery in multiple Chinese cities. This fits with Alibaba's retail plans as the e-commerce giant seeks to blend online and offline shopping. Company executives envision a future where shoppers visit store fronts but place orders through smartphones, with purchases being sent to their doorsteps within 30 minutes so they don't have to carry bags elsewhere.

“Looking forward, Ele.me can leverage Alibaba's infrastructure in commerce and find new synergies with Alibaba's diverse businesses to add further momentum to the New Retail Initiative,” Alibaba Chief Executive Daniel Zhang said in a statement.

Source: <https://www.forbes.com/sites/ywang/2018/04/03/chinese-e-commerce-giant-alibaba-acquires-ele-me-in-9-5b-deal/#698112e357c3>



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M&A Spotlight



ENDEAVOR

NeuLion, Inc. Enters Into Agreement to be Acquired by Endeavor

March 26, 2018 – NeuLion, Inc, a leading technology product and service provider specializing in the digital video broadcasting, distribution and monetization of live and on-demand content to Internet-enabled devices, and sports and entertainment leader Endeavor, today announced that they have entered into a definitive agreement by which Endeavor will acquire NeuLion in an all-cash deal valued at approximately USD \$250 million.

Under the terms of the agreement, Endeavor will acquire each share of outstanding common stock of NeuLion for USD \$0.84. Upon completion of the transaction, NeuLion will become a privately held subsidiary of Endeavor.

"We're excited by the value delivered to our stockholders through this transaction, and we're looking forward to the dynamic opportunities that being part of the Endeavor family will provide for both our current and new clients," remarked Roy Reichbach, President & CEO, NeuLion.

The transaction, unanimously approved by NeuLion's Board of Directors and by the written consent of holders of a majority of NeuLion's outstanding common stock, is subject to regulatory approvals and other closing conditions, and is expected to close in the second quarter of 2018.

Source: https://www.neulion.com/ViewArticle.dbml?DB_OEM_ID=30000&ATCLID=211707886



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Walmart Flipkart

Walmart Agrees to Buy 77% Stake in Flipkart for \$16 Billion

May 9, 2018 – Walmart Inc. said it has agreed to take control of India's largest e-commerce company, Flipkart Group, for \$16 billion, betting that growth in the South Asian market will make up for the short-term losses from taking on the unprofitable startup.

Investors sent Walmart's stock down about 3% on the day in an indication of skepticism about the cost of the deal and whether it can help the Bentonville, Ark.-based retailer counter Amazon.com Inc.'s push into India.

Walmart executives cast the largest acquisition in its history as a long-term play in a market with a rising middle class and plenty of room for growth in mobile adoption, e-commerce and retail overall. Only about 15% of India's 1.3 billion people shop online, according to research firm Gartner.

"If we were looking at this company with say a three to five-year horizon we wouldn't invest elsewhere" beyond North America, CEO Doug McMillon said of Walmart on a call with investors. The purchase is about "setting the company up for growth and profits in the future," he said.

Once the deal is complete, Walmart will own 77% of Flipkart, though other investors may join in. The retailer said its investment includes \$2 billion in new equity funding to help Flipkart grow.

The transaction will reduce Walmart's per-share earnings by 25 cents to 30 cents for its current fiscal year if the deal is completed in the year's second quarter, the company said. Walmart's profit is expected to take a bigger hit of 60 cents a share in the next fiscal year as the retailer invests to increase Flipkart sales.

Source: <https://www.wsj.com/articles/walmart-agrees-to-buy-77-stake-in-flipkart-for-16-billion-1525864334>



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About Solganick & Co.

Solganick & Co., Inc. is an independent investment banking and M&A advisory firm focused exclusively on the global technology 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.

Please contact us for information regarding this report or to inquire about an M&A transaction.



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