Media & Telecoms Outlook

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Table of Contents

Electronics & Video Gaming

Overview

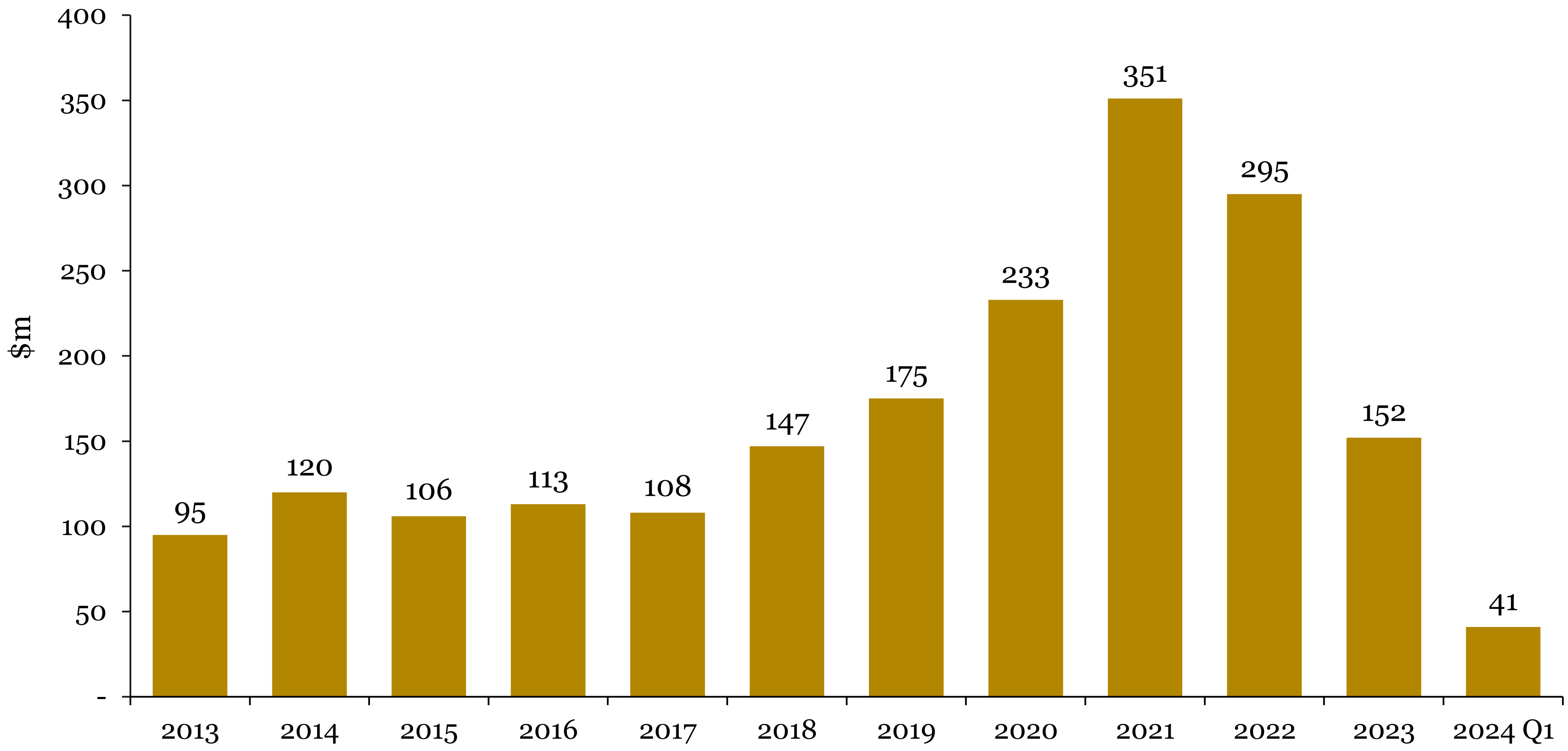
SORTINO
M&A GROUP

Sector Performance

The industry has seen significant growth in recent years, driven by advancements in technology, the increasing popularity of esports, and the rise of mobile gaming.

Historical Electronics & Video Gaming Deal Values

- Looking ahead to 2024, cloud gaming, generative AI and the DMA are set to play important roles.
- 2023 saw 163 gaming M&A deals, valued at over US$10.5bn announced.
- The sector saw a number of key M&A trends during 2023, including:
- Consolidation and restructurings aimed at optimising operational efficiency.
- Conclusion of high-profile merger reviews.
- Continued acquisitions by corporates from the Middle East and China.
- Looking ahead to 2024, cloud gaming, generative AI, cross-platform IP, and the Digital Markets Act (the DMA) will all have an impact on the industry.



Key Market Trends

Evolution of gaming platforms, rise of immersive technologies and monetisation represent key trends

The Evolution of Gaming Platforms

- The gaming industry is witnessing a significant shift in platforms as there is a surge in demand for high-quality **intellectual property (IP)**
- Major players are investing heavily in acquiring premium IP to gain a competitive edge.
- This trend is expected to lead to a future where gaming platforms have their own exclusive titles and no longer need to rely on device manufacturers to distribute their games

Cloud gaming and **streaming** technologies are changing the way games are distributed and consumed as as 5G and fiber broadband expand.

Game streaming will allow consumers to access top-tier games without needing **400+** devices.

Forward looking, we can expect to see more seamless integration between devices, enabling gamers to play anywhere and anytime. This will lead to new business models, such as game-as-a-service, and further blur the lines between PC, console, and mobile gaming.

The Rise of Immersive Technologies

- Immersive technologies like **AR, VR, and MR** are revolutionising the gaming industry, providing new and innovative ways to engage with games.
- VR headsets like Oculus Quest and Valve Index provide immersive experiences with onboard processing and high-fidelity visuals, while AR overlays digital elements onto the real-world environment.
- Major franchises like **Half-Life and Resident Evil** have made the leap to VR, and mobile AR games like Pokémon Go have generated huge enthusiasm with real-world gameplay integration.

Apple announced that Unity Technologies would be the preferred development partner for its XR headset **Vision Pro**

Forward looking, we can expect to see more sophisticated and realistic gaming experiences, further blurring the lines between the physical and digital worlds. This will lead to new opportunities for gamification, education, and therapy.

The Future of Monetisation and Revenue Streams

- The gaming industry is exploring **new monetisation models**, including subscription-based services, ad revenue, and esports.
- Bain’s analysis forecasts that global revenue for games could grow by **more than 50%** over the next five years.
- The way games make money hasn't quite caught up with technological advancements in the industry.

Technology for in-game advertising, such as **"gaming natives"** that make ads look and feel similar to game content, exists today and can make ads feel less intrusive.

Publishers should **use first-party** data and **data clean rooms** to ensure they're showing ads and offer walls that increase ARPU without disrupting player experience.

Forward looking, we can expect to see more innovative monetisation models, including blockchain-based transactions, NFTs, and virtual goods. This will lead to new opportunities for game development, publishing, and distribution.

Key M&A Trends

The mobile gaming industry is expected to see increased M&A, driven by four key trends with companies seeking to expand their offerings and reach new audiences

The Thriving Video Gaming Industry

The video gaming industry is experiencing unprecedented growth, with the global market expected to reach **$190bn** by **2025**.

- This growth is driven by the increasing popularity of gaming across various platforms, including mobile, PC, and console.
- The industry's growth is also fueled by the rise of new business models, such as game-as-a-service and esports.

Mobile gaming is a significant contributor to the industry's growth, with a global value of **$128.5bn** in 2020.

As a result, M&A activity in the mobile gaming sector has increased, driven by the need for companies to expand their offerings and reach new audiences.

Key Trends in Mobile Gaming M&A

Strategic Rationale for M&A in Gaming

According to Stax, the strategic rationale for M&A in gaming includes:

- Access to new markets and customers
- Expansion of product offerings and portfolios
- Enhancement of capabilities and expertise
- Cost savings and synergies
- Defense against competition
- Predictions for the Future of Mobile Gaming M&A

Therefore, several trends are shaping the mobile gaming M&A landscape:

Consolidation: Large gaming companies are acquiring smaller studios to bolster their portfolios and increase their market share.

Market Expansion: Companies are acquiring studios with expertise in specific genres or regions to tap into new markets.

Technological Advancements: The acquisition of studios with expertise in emerging technologies like AR, VR, and cloud gaming is on the rise.

Key Projections

As the mobile gaming market continues to grow, M&A activity is expected to increase. Here are some predictions for the future:

- **Emerging Markets:** Companies will focus on acquiring studios with expertise in emerging markets like Latin America, Southeast Asia, and Africa.
- **IP Power:** The importance of intellectual property (IP) will grow, with companies seeking to acquire studios with strong IP portfolios, including popular game franchises and characters.
- **Cloud Gaming:** The rise of cloud gaming will drive M&A activity, as companies seek to acquire studios with expertise in this area.

Outlook for 2024 and Beyond:

As the mobile gaming market continues to grow, M&A activity is expected to remain strong in 2024 and beyond. Companies will need to stay focused on emerging trends and technologies, and be prepared to make strategic acquisitions to stay ahead of the competition.

Source: Norton Rose Fulbright

Key Deals

Industry-defining deals over the past three years

Q3 2024

EQT

Announces acquisition of

Keywords Studios
Imagine More

For **$2.4bn**

Deal Rationale

The rationale behind this acquisition was driven by EQT's strategy to capitalise on the growing demand in the video game industry, particularly in the area of outsourced services. Keywords Studios is a major provider of creative and technical services to the global video game and entertainment industries.

The acquisition price represented a 66.7% premium over Keywords Studios' share price prior to the deal announcement, valuing the company at £2.1bn on a fully diluted basis. The deal is expected to benefit from synergies related to EQT's experience in scaling businesses and expanding their global reach.

Additionally, co-investors such as CPP Investments and Temasek supported this acquisition, highlighting the strategic value and growth potential they see in Keywords Studios' offerings in the gaming industry.

Advisors Numis (Target) J.P.Morgan (Acquirer)

Q1 2024

CVC

Announces acquisition of

JAGEX

For **$1.1bn**

Deal Rationale

Jagex, best known for its flagship MMORPG "RuneScape," has a strong reputation in the "forever games" category, with over 2.4m active subscribers and 300m lifetime accounts.

This acquisition aligns with CVC's broader strategy to expand its portfolio in the video game sector, particularly focusing on companies with strong community engagement and live service models. The rationale includes leveraging CVC's experience in sports, media, and entertainment to enhance Jagex's existing games and expand into new markets and platforms.

The deal also marks a continuation of Jagex's growth trajectory under Carlyle's ownership, during which the company expanded through strategic acquisitions and increased investment in its gaming platform.

Advisors Morgan Stanley (Target) Goldman Sachs (Acquirer)

Sortino Commentary: Forward-Looking Thoughts Going into 2025

The gaming industry is poised for a revolution driven by innovation, immersion, and strategic M&A.

The gaming industry is on the cusp of a revolution, driven by the surge in demand for high-quality IP. As major players invest heavily in acquiring premium IP, we can expect a future where gaming platforms have their own exclusive titles, no longer relying on device manufacturers to distribute their games.

In the future, we can expect more seamless integration between devices, enabling gamers to play anywhere and anytime. This will lead to new opportunities for cross-platform play, social features, and community engagement.

The future of immersive technologies in the gaming industry is expected to be shaped by advancements in VR, AR, and MR. These will continue to blur the lines between the physical and digital worlds.

One potential development that could revolutionize the gaming industry is the integration of BCIs. Another area of growth is the use of immersive technologies in social impact gaming. By leveraging the emotional connection and empathy that immersive experiences can create, games can be designed to raise awareness and drive action on social and environmental issues.

The gaming industry is evolving its monetization models, with a focus on innovative approaches that balance revenue growth with player experience. Key trends include in-game advertising that's less intrusive and more targeted, blockchain-based transactions, NFTs, and virtual goods.

Looking ahead, a shift towards personalised and dynamic monetisation models that adapt to individual player behavior and preferences. The integration of blockchain technology and NFTs will continue to play a major role, creating new revenue streams and providing players with a sense of ownership.

The mobile gaming M&A landscape is being shaped by several key trends, including consolidation, market expansion, and technological advancements. Large gaming companies are acquiring smaller studios to bolster their portfolios, tap into new markets, and gain expertise in emerging technologies like AR, VR, and cloud gaming.

Looking ahead, emerging markets like Latin America, Southeast Asia, and Africa will become increasingly important targets for M&A activity. The importance of IP will also grow, with companies seeking to acquire studios with strong IP portfolios, including popular game franchises and characters.

Source: Team Analysis

Streaming
Overview

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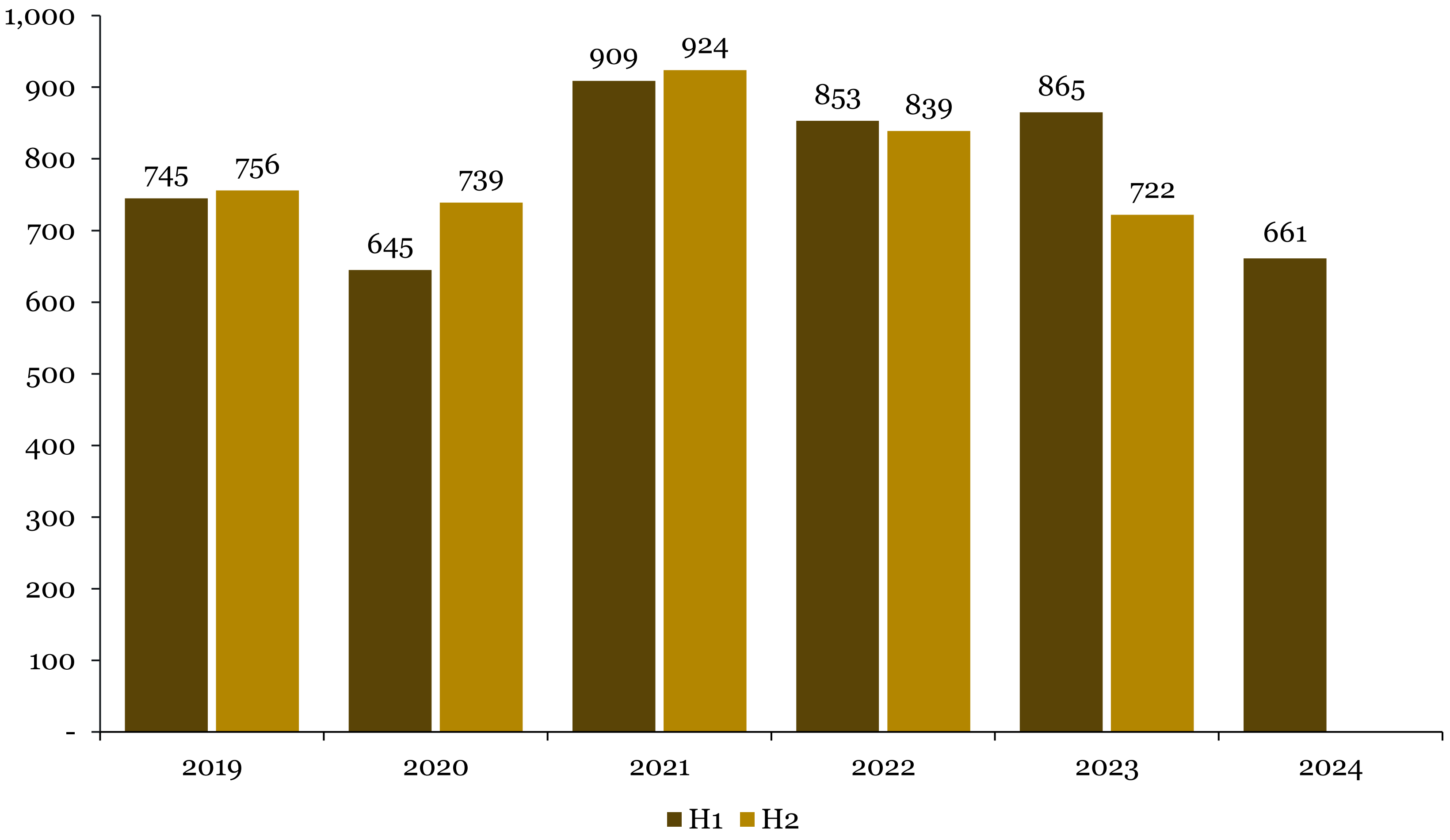
Sector Performance

Slump in deal volumes in recent years for streaming

Media & Entertainment (Streaming) Deal Volumes

- Streaming industry has been a major driver of investment in the entertainment economy, second only to gaming.
- There has been significant funding for both startups and established companies
- Industry growth and competition has led to a surge in M&A activity
- Key deals: WarnerMedia's merger with Discovery and Amazon's acquisition of MGM Studios
- This put pressure on other media giants like ViacomCBS and NBCUniversal to consider similar strategies to compete with Disney, Netflix, and Amazon.
- Companies have been experimenting with hybrid business models that combine subscription and advertising revenues.
- The overall trend indicates continued strong investment and M&A activity in the streaming sector.
- The industry will remain a key focus for venture capital and mergers.



Broader Digital & Streaming Sector Trends

Paid Subscriptions Persist, but Sector Growth has Slowed

Subscriptions Based on Content Prove Key

In 2024 H1

- **Paid subscriptions** now make up **50%** of streaming time, up from 42% in 2023.
- Subscriptions per person grew **25%**, a change brought on by measures to **restrict password sharing**.
- Global total screentime grew roughly **35%**, this is approximately 4% less than growth in 2023.

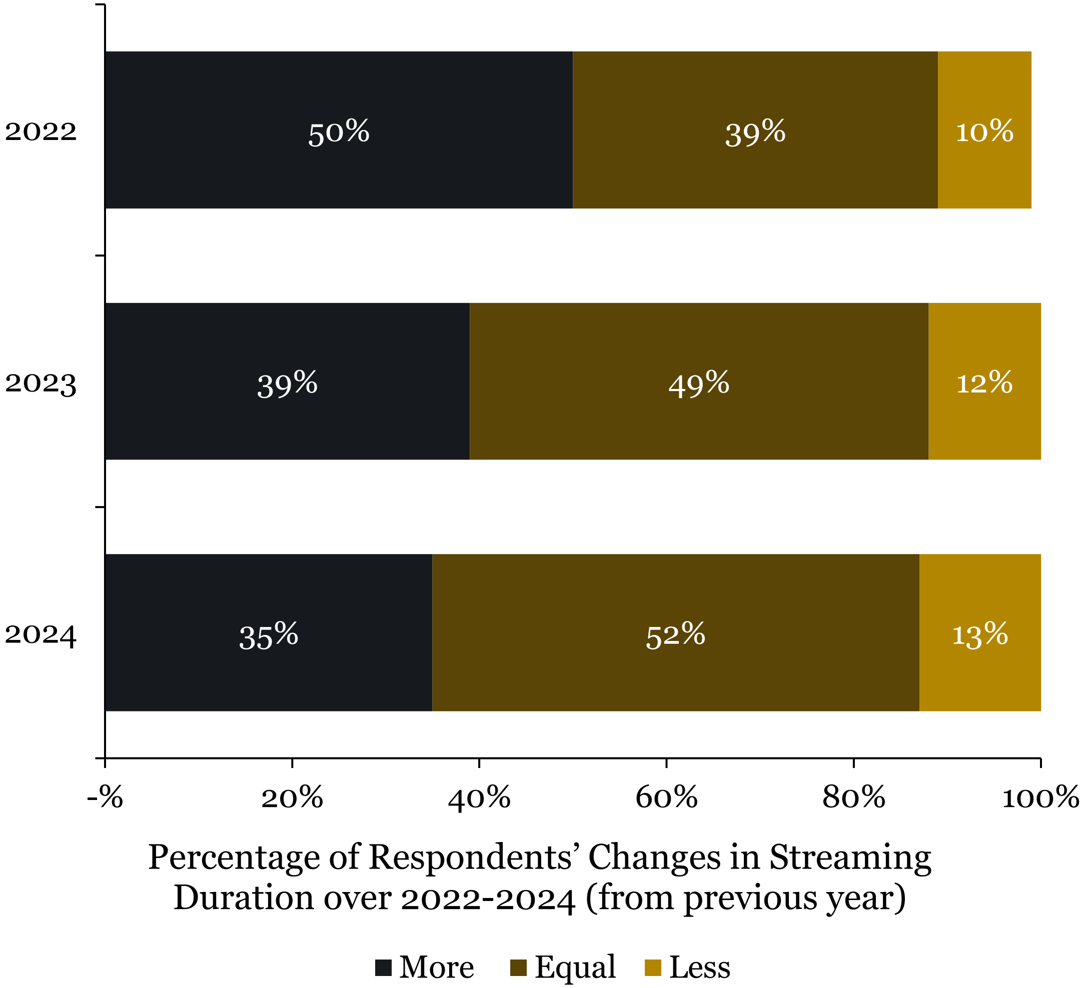
General Trends:

- Providing a **broad content range** remains the most significant value driver for streaming service providers.
- **Social media** activity, mostly for younger audiences, has continued to slowly replace streaming time.
- **Market structure** has had minimal change since 2023 H2, leaving room for product differentiation.

Key Players:

- **Netflix** (Market Cap: $167bn)
- **Disney - Disney+** (Market Cap: $150bn)
- **Amazon - Prime Video** (Market Cap: $1.35tn)

Market Development is Dwindling



Percentage of Respondents' Changes in Streaming Duration over 2022-2024 (from previous year)

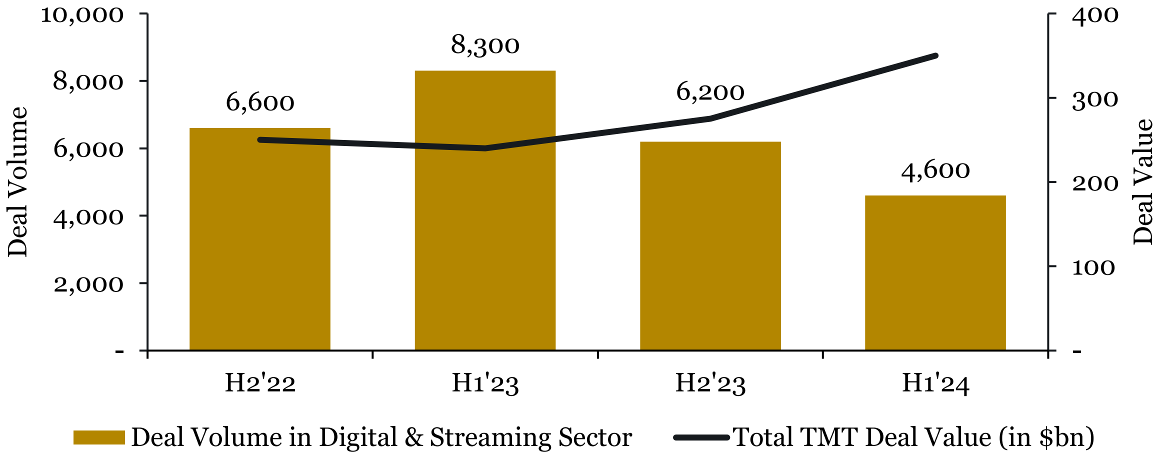
Digital & Streaming Services Deal Trends

Content is Still King, Deal Volume Falls, and India Emerges as an M&A hotspot

Content is King

- The pursuit of content continues to drive deals in the streaming sector and market leaders have made several strategic acquisitions in the last year.
- This M&A trend is caused by the broader sector trends as consumers prefer a broader content range, hence, market leaders seek to diversify their content.
- Disney, for instance, now have full ownership of Hulu and will look to integrate its content into Disney+. In addition, Disney renewed NFL broadcasting contracts with ESPN & ABC, with **ESPN** being the go-to for sports streaming in the US.
- Streaming **original content** is key to differentiating providers, many market leaders have continued to acquire film & television studios to release under their name.
- In light of this, Netflix, like other market leaders, has centered its content strategy around producing originals such as box-office blowouts *Stranger Things* and *Wednesday*.

Sub-Sector Deal Volume Falls while Sector Deal Value Rises



India as an M&A Hot Spot

- India's size, scale, and expected growth figures paint an attractive picture for dealmakers interested in benefitting from its projected **rapid growth in consumer spending**.
- Deal activity in India has signalled the potential for M&A to act as a catalyst for unlocking tremendous industry growth in the region.
- Currently, this sub-sector is **highly competitive**, which strengthens the case for M&A in strategy to increase market share and client base.

Source: PWC, Yahoo Finance

Key Deals

Industry-defining deals over the past three years

Q4 2023

LIONSGATE

Announces acquisition of

eOne

For **$375m**

Deal Rationale

The acquisition adds 6,500 film and television titles to Lionsgate's library, one of the largest and most valuable in the world, diversifies and strengthens its scripted and unscripted television businesses, extends its portfolio of brands and franchises and expands its presence in Canada and the UK.

eOne produces the hit ABC franchise The Rookie, the critically-acclaimed Showtime series Yellowjackets and the long-running Discovery unscripted series Naked & Afraid.

The transaction also includes film development rights to Hasbro's beloved Monopoly brand.

"The eOne acquisition concludes a busy year in which we continued to execute our strategy of strengthening our studio business as we prepare for the separation of Lionsgate and STARZ into pure play standalone companies," said Lionsgate CEO Jon Feltheimer

Advisors CENTERVIEW PARTNERS (Target) Jefferies (Acquirer)

Q4 2023

Disney+

Announces acquisition of

hulu

For **$8.6bn**

Deal Rationale

“The acquisition of Comcast’s stake in Hulu at fair market value will further Disney’s streaming objectives,” Disney said in a statement. Hulu, which has roughly 48 million subscribers, offers programming from ABC, FX, Fox and other traditional networks, along with original shows like “Only Murders in the Building” and “The Kardashians.”

As part of its push to make its flagship Disney+ streaming service profitable, Disney announced this year that content from Hulu would be made available on Disney+ to subscribers of both services in the United States. (Hulu does not operate overseas, while Disney+ does.)

Disney plans to roll out this “one app experience” by the end of the year. Hulu will also continue as a stand-alone product, charging $18 for ad-free access and $8 for an ad-supported option.

Advisors Morgan Stanley (Target) J.P.Morgan (Acquirer)

Sortino Commentary: Forward-Looking Thoughts Going into 2025

Streamers must gain a competitive edge in an increasingly competitive industry

Future deals depend on the long-term viability of individual companies active in the video streaming space.

The recent growth of AVOD platforms and introduction of hybrid ad-supported / lowerpriced subscription models by SVOD operators may indicate that the consumer's tolerance for paying multiple significant subscription fees is wearing thin.

Consumers have a limited amount of time each day to dedicate to television viewing; therefore, streaming platforms compete not only with each other, but also with the time people spend on social media, playing video games, working, and activities away from their devices entirely.

Companies will continue pursuing a combination of organic and inorganic growth.

These strategies are likely to encompass capital raising that fuels technological enhancements as well as the creation and acquisition of proprietary content supporting the launch of new products and services, along with vertical and horizontal M&A deals that bring together firms of various sizes.

Source: Team Analysis

Integrated Telecommunications
Overview

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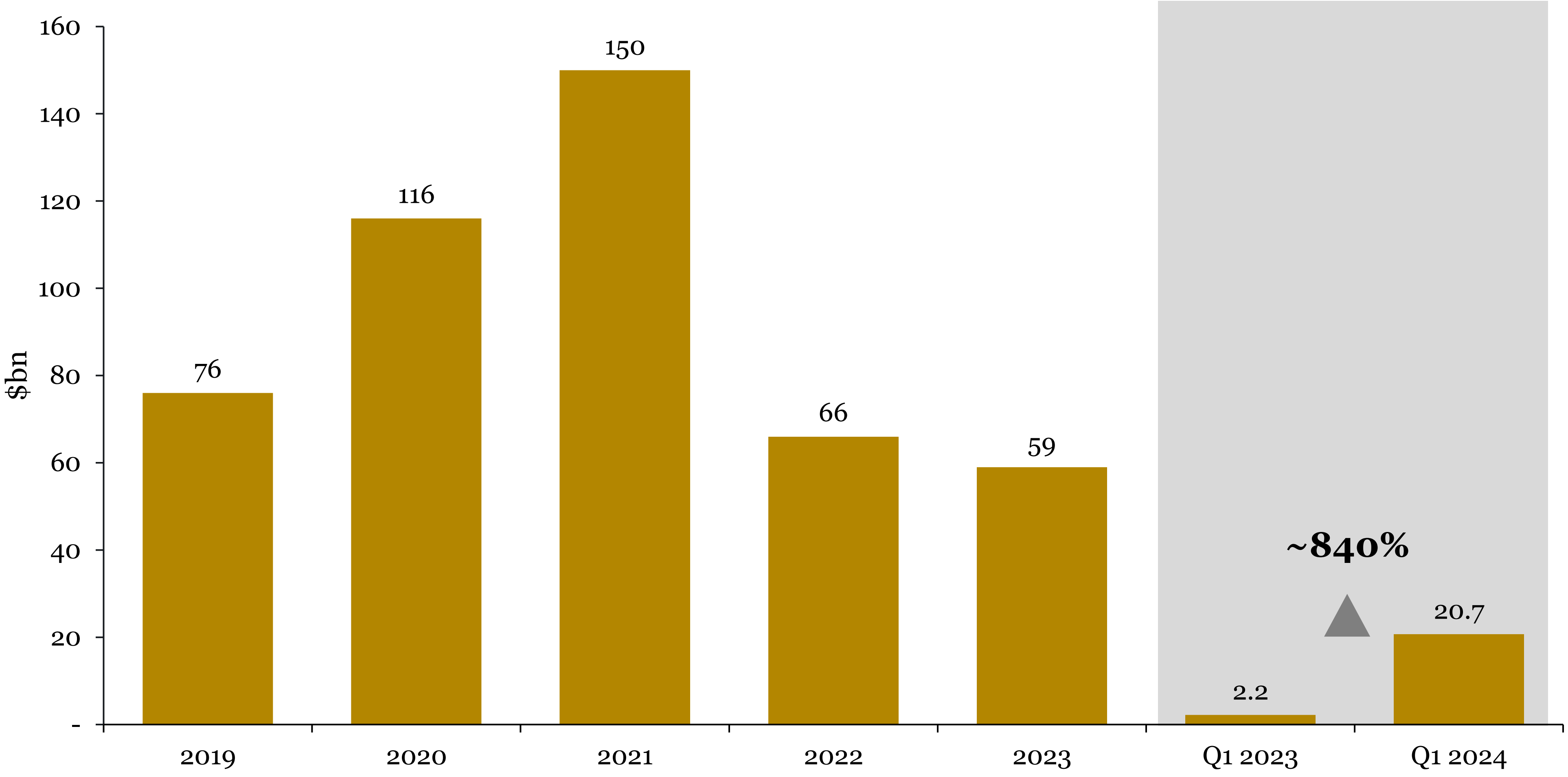
Sector Performance

Integrated telecom M&A set for a strong year after hitting 2023 lows

Integrated Telecom Global M&A Deal Values

- Global telecom M&A had another strong quarter. Deal value shot up from about $2 billion in the first quarter last year to almost $21 billion in the latest quarter
- Scale deals are set to rebound, as depressed valuations and increased competition set the scene for consolidation by big player
- EMEA will be key driver in deal volumes, as multi-year underperformance in European Telecom players attracts PE interest

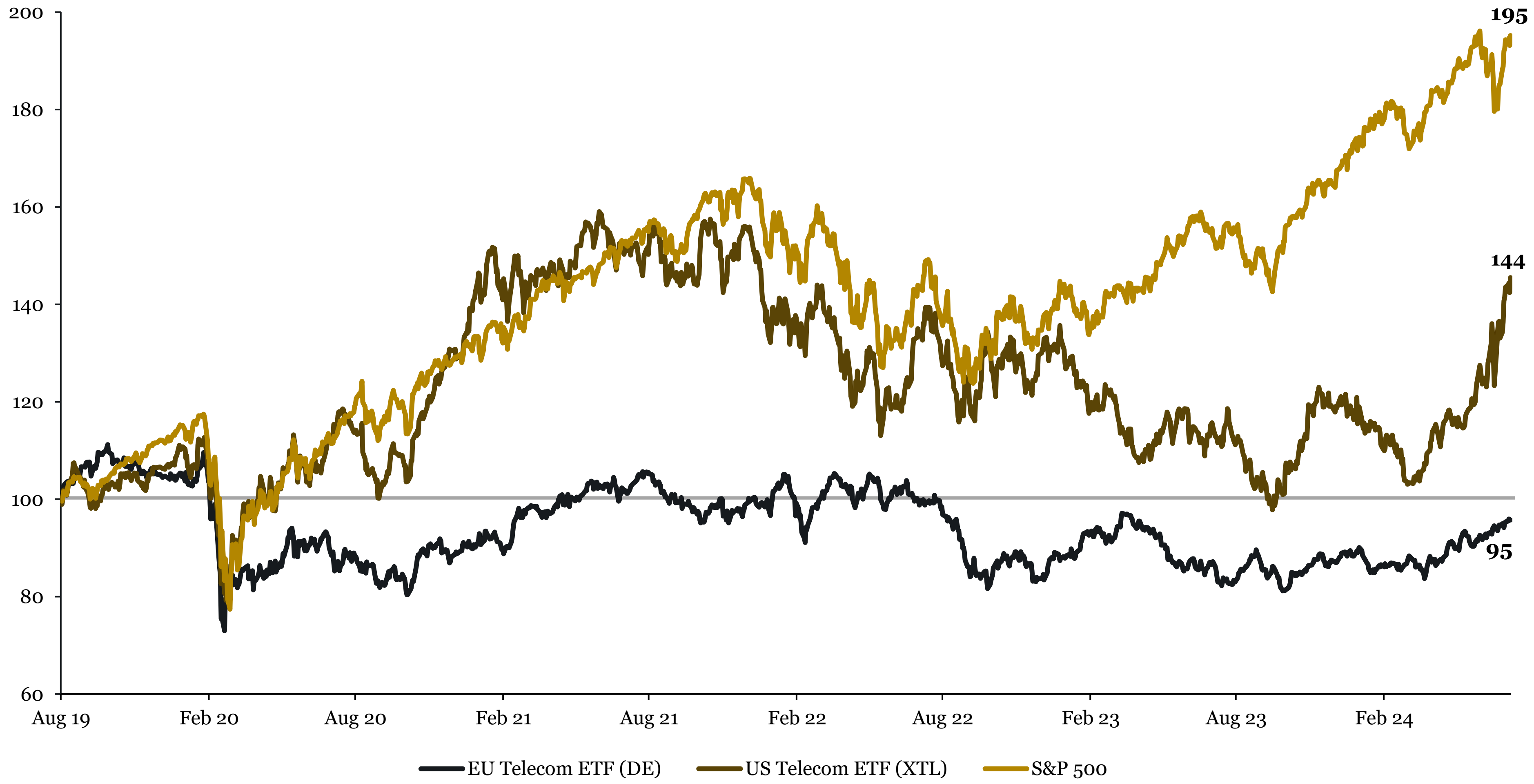


Stock Market Performance

Global telecom underperforming benchmark indices

Indexed Stock Price Performance of EU, US Telecom Against S&P 500

- US and EU Telecom performance historically lags S&P 500, due to increased competition and potential business slowdowns
- Technological upgrades and breakthroughs have resulted in cutthroat price competition.
- Product life-cycles and upgrade-cycles have been reduced drastically as firms are introducing new products and services within a shorter span of time.
- This, coupled with sales fluctuations, results in underperforming earnings and cash flows.
- EU Telecom is the hardest hit which is a likely function of multi-year depressed valuations for EU equity markets as a whole, paving the way for PE acquisitions in the sector

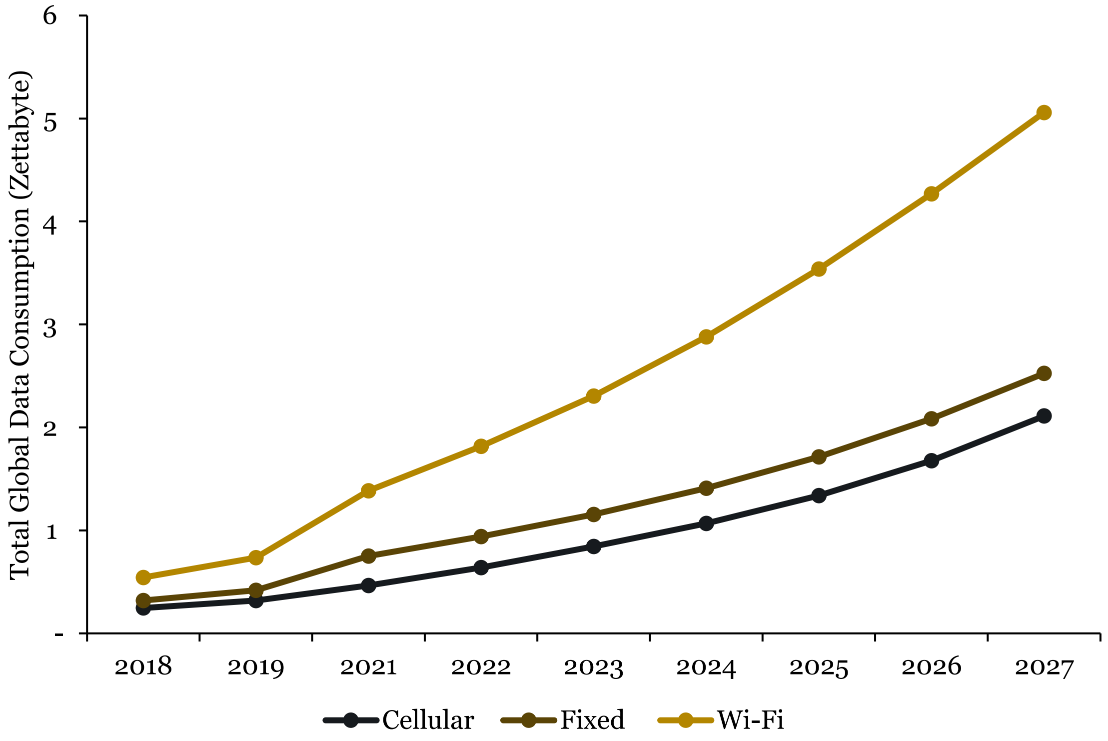


Sector Trends

Cellular data, aggressive 5G rollout to be key themes

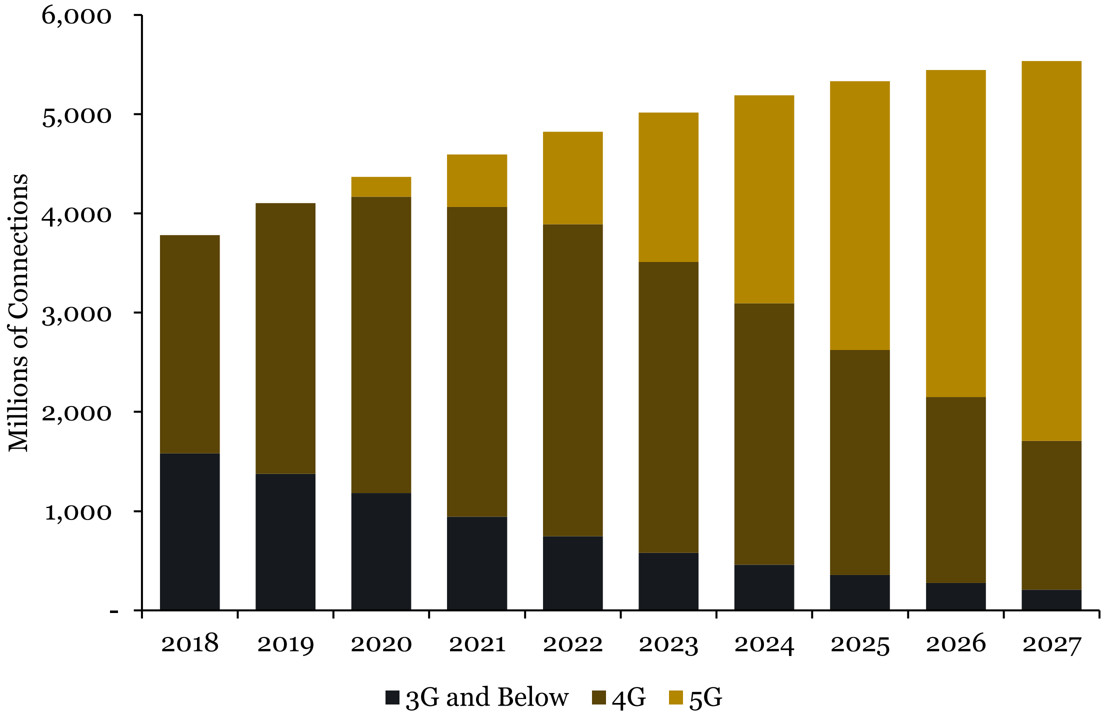
Cellular data will be the fastest-growing category for data usage

With a CAGR of 27% between 2022 and 2027. There are significant variations in data consumption behaviours across different geographies. Cellular data is projected to account for just 6% of all data traffic in North America but a far larger 30% in Asia. That can be explained in part by developments in India. Given the country's strong mobile take-up; its young, tech-savvy population; and the relative lack of available fixed broadband infrastructure, the rollout of 5G in India is opening the way for a surge of service development and innovation. Further opportunities for 5G-based services are anticipated in sectors such as healthcare.



Aggressive 5G Rollout

By the start of 2023, close to 200 telcos had rolled out 5G networks, and several more were set to follow in the subsequent 12 months. 5G will become the leading smartphone connection type in 2025, at just over 50% of the total—and is forecast to rise to more than two-thirds in 2027. Fibre deployment is continuing to pick up steam, but still has a lot more ground to cover. Open radio access networks (Open RAN)—which focus on boosting interoperability among devices and providers—remain a niche technology, but one in which some notable initiatives are underway. One example is Vodafone's Open RAN, which is based on partnerships with Dell, Intel, Samsung, and Wind River.



M&A Trends

Increasing competition will push players to adapt

Fiber network consolidation is coming. When interest rates were low, many fiber companies built out networks financed by debt in places such as the UK and Germany. Pressure to make a deal could grow if they don't succeed in attracting enough customers to deliver a return on investment. In addition, many countries' fiber networks have matured enough that companies' method of value creation will shift from planting their flag and building the fiber infrastructure themselves to tapping into scale effects via consolidation. Brazil and the US are some of the largest markets where such a consolidation stage is most likely to occur.

Higher-growth segments will attract deals. Robust deal activity is expected in enterprise services, a high-growth market undergoing significant technology shifts (e.g., copper to fiber, 4G to 5G, and on-premise data storage to public cloud). For telcos that have a small enterprise business or none at all, it could be a good time to make targeted acquisitions to add capabilities or gain scale. Enterprise services deals in 2023 included Proximus, a Belgium-based provider of digital communications and identity services, buying a majority stake in India-based Route Mobile for more than $700m.

Industry dynamics might make regulators open to more consolidation. As telcos continue to invest heavily in fiber network expansion, mobile network density, and whatever succeeds 5G, scale deals could provide cash infusions. That's especially crucial as connectivity services become more commoditised, making price increases less palatable. At the same time, geopolitical uncertainty has made communications network resiliency a more critical priority for governments around the world, potentially shifting regulators' calculus in favor of consolidation. Yet, telcos will likely still need to take steps to allay competition and price concerns, such as by opening their networks to wholesale agreements. For their part, telecommunications executives perceive regulatory scrutiny easing somewhat.

Source: Bain & Company

Key M&A Deals

Industry-defining deals over the past three years

swisscom

vodafone

For **€8bn**

KKR

TIM

For **€22bn**

Hewlett Packard Enterprise

JUNIPER NETWORKS

For **$14bn**

Advisors

Deal 1

EVERCORE (Acquirer) | UBS (Target)

Deal 2

J.P.Morgan (Acquirer) | Goldman Sachs (Target)

Deal 3

J.P.Morgan (Acquirer) | Goldman Sachs (Target)

Deal Rationale

Through this transaction Swisscom significantly strengthens its presence in Italy, where it has been operating since 2007 through subsidiary Fastweb. By combining Fastweb's strengths in fixed connectivity with Vodafone Italia's leading position in mobile services, the new entity stands to deliver significant shareholder value, generating €600m in annual run-rate synergies and being FCF accretive from year two post-closing.

Deal Rationale

The deal would see KKR acquire an asset at a reasonable valuation, while investing to upgrade the grid alongside the Italian Government, Telecom Italia, which has historically been saddled with €27bn of net debt, will reduce its leverage by €14bn, while shedding half of its 40,000 domestic staff to focus on its service operations. The sale gives Telecom Italian greater commercial flexibility to compete in the domestic retail service market.

Deal Rationale

The acquisition is expected to double HPE's networking business and advances HPE's portfolio mix shift toward higher-growth solutions and strengthens its high-margin networking business. The transaction is expected to be non-GAAP EPS and free cash flow accretive in year one post-closing, achieving annual run-rate cost synergies of $450m within 36 months post-closing.

Sortino Commentary: Forward-Looking Thoughts Going into 2025

Telco players must gain a competitive edge in an increasingly competitive industry

Macroeconomic In a 'higher for longer' macroeconomic environment, higher rates will definitely weigh on debt-saddled Telecom players through higher cost of debt and interest expenses, negatively impacting cash flows and earnings. PE players will be on the lookout for quality businesses that are trading for depressed valuations.

Technological As Telcos roll out 5G over the next five years, companies like Nvidia are already initiating research into 6G networks. Going forward, upgrade-cycles for Telcos will only shorten, meaning that Telcos have to be on top of any technological advancements in telecommunications.

Regulatory As 5G penetration comes into focus, regulators around the world are considering easing antitrust regulations for Telecom M&A, in a bid to get Big Tech and financial sponsors to fund the rollout of 5G. This is particularly evident in Europe, as the EU mulls easing merger rules to allow for cross-border consolidation and upstream cooperation.

Source: Team Analysis