
# CAPITAL THINKING: Media Streaming Platforms Ride the M&A Wave

**By Phyllis Riggins and Greg Gordon**

Internet-enabled media streaming platforms have gained tremendous momentum during the past two years, as millions of Americans have spent much more time at home than anticipated, due to social distancing and remote working conditions brought on by the COVID-19 pandemic. Audiences have been streaming more content, which has both prompted platforms to provide more viewership options and supported the increasing valuations of media content libraries.

This environment has set the stage for a wide assortment of strategic and financial buyers to pursue acquisitions that allow them to produce content and accumulate libraries of pre-existing content, as well as to tap investor appetite for capital raises that can fund long-term growth strategies of media companies. Notable deals involve global technology conglomerates, major private equity firms, and special acquisition companies that have emerged in the past few years.

## Online Alternatives

These trends have accelerated, while the era of linear TV — audiences watching programs only when they are broadcast on a traditionally televised channel — has rapidly lost ground as the dominant viewership method. Many consumers have "cut the cord" on their cable packages. In 2020, an estimated 24.1% of U.S. households lived without cable TV, up from 19.1% the previous year, according to data from eMarketer[1]. Streaming accounted for 28% of total TV usage in September[2], up from 25% in 2Q 2020 and 19% in 4Q 2019, according to Nielsen data[3].

Services such as Netflix, Hulu, Amazon Prime, Disney Plus, Paramount+, Peacock, Apple TV+ and HBO Max have been the beneficiaries of this exodus. Audiences have grown accustomed to accessing connected television (CTV) devices that plug into or come embedded in televisions to provide online media streaming, as well as over-the-top (OTT) services that stream content through smartphones, tablets and laptops.

Competing CTV and OTT platforms are experimenting with revenue models that are continuing to evolve. Currently, they broadly consist of getting consumers to either pay for each program in transactional video on demand (TVOD), to pay for a monthly or annual service in subscription video on demand (SVOD), or to watch programs that contain paid advertisements in ad-supported video on demand (AVOD).

Whereas some AVOD models are free for consumers, others charge consumers transactional and subscription fees in addition to running advertisements. Then there are services such as YouTube TV and FuboTV, which combine revenue models to provide live streaming of traditionally televised channels. As new revenue models emerge, so might the considerations for what makes a valuable M&A acquisition target.


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## Deal Flow

Among the corporate mergers and acquisitions of the previous five years, those with an estimated value of at least $10 billion have accounted for approximately 52% of global media deal activity involving strategic buyers, with deals valued below $1 billion accounting for 23%, according to Bain & Company data[4]. Those deals included Disney closing its $71 billion acquisition of Twenty First Century Fox's entertainment assets in 2019[5], and Fox Corporation closing its acquisition of the OTT platform Tubi in 2020 for an estimated $440 million[6].

Streaming-based deal flow has shown no signs of slowing down this year. Roku, which makes both digital streaming devices and original streaming content, announced a string of acquisition plans this year including the Quibi platform of Emmy-winning short-form streaming content for an undisclosed amount, the "This Old House" home improvement TV programs for $97.8 million[7], and Nielsen's Advanced Video Advertising (AVA) business for $39.1 million, as well as plans to sell up to $1 billion in stock[8].

In March, Vizio conducted an initial public offering whose share pricing valued the television maker and streaming provider at $3.9 billion[9]. Soon after the IPO, Vizio indicated it would allocate capital to enhance its streaming software[10]. This includes the WatchFree+ service of hundreds of channels curated to user interests, which Vizio expanded in October and comes at no extra cost to customers[11].

In May, Discovery and AT&T's WarnerMedia announced a $43 billion deal to merge their content units[12]. That same month, Amazon announced its $8.45 billion acquisition of Metro Goldwyn Mayer (MGM), one of the oldest producers and distributors in the country with a library of over 4,000 films and 17,000 TV shows[13]. In August, actress Reese Witherspoon's Hello Sunshine production company sold a control position at a valuation reported as approximately $900 million to an entity backed by the private equity firm Blackstone Group[14].

Netflix — for now still the media streaming market leader — announced in September the acquisition of the Roald Dahl Story Company for an undisclosed amount[15]. The same month, Argus Capital, a SPAC focused on the media streaming space, conducted a $265 million IPO[16]. And Seaport Global took Redbox public in October through an estimated $693 million SPAC merger that aims to expand Redbox's on-demand streaming capabilities, leveraging its extensive database of traditional kiosk users[17].

## Long-term Viability

Future deals may depend on the long-term viability of individual companies active in the video streaming space. It is uncertain how many platforms audiences are willing to pay for, or even use. The recent growth of AVOD platforms and introduction of hybrid ad-supported / lower-priced 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. It also remains to be seen how much the shift toward media streaming has been due to the pandemic dissuading people from attending mass entertainment gatherings such as concerts and movie theaters.

Another question is to what extent the streaming value chain has a natural "center" and where that might be. For instance, if brand loyalties for mobile devices, their accessories and software developer marketplaces are any indication, consumers could exhibit preferences by utilizing the products and services of a single company that can provide everything: the television, a diverse array of popular pre-existing content and compelling original new programs, as well as internet access itself.

Indeed, Comcast released a streaming-ready smart TV in October, complementing its Peacock platform by NBCUniversal and its Xfinity internet connectivity[18]. The same month, Amazon launched its Fire TV Omni Series and Fire TV 4-Series, with the Omni featuring Alexa-based voice controls and smart home integrations[19].

All of these factors indicate that the most viable media streaming 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.

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