

M&A Update June 2020

Telecom & Media



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Summary

M&A in the Telecom & Media Industry is Rapidly Evolving



Changing Media Consumption Driving M&A

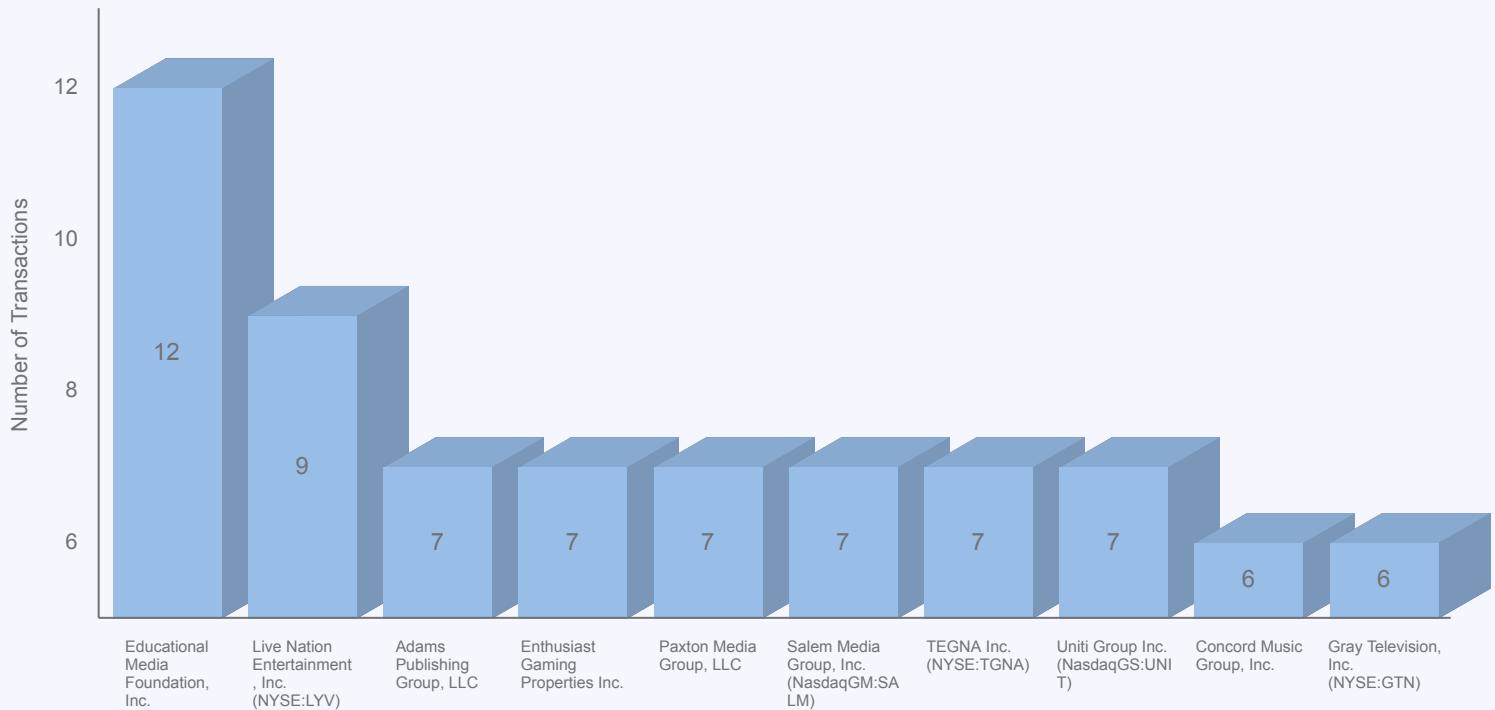
Telecom & media have been some of the strongest industries in terms of transaction value and volume in the past several years. Recent transactions have dramatically changed the sector's landscape, as many leading firms like AT&T have turned to M&A for growth. Large Silicon Valley companies like YouTube, Netflix, and Amazon have been offering better value to consumers than traditional pay TV bundles, and these new models are shaping the future of M&A in these industries. In the coming years, it is expected that new investment opportunities will arise in these sectors, as media usage habits will continue to change.

Growing Investments in 5G Infrastructure

US telecom businesses are increasingly investing in 5th Generation network technology also known as 5G. With the expansion of 5G, providers will be able to increase speeds up to 200 times faster than current networks. This is expected to drive considerable M&A activity, as companies try to establish their market position in this new environment. In reality, 5G is very much in the "build" phase right now, but as people start to understand its capabilities, we can expect to see the next generation of solutions based on 5G.

TOTAL TRANSACTIONS BY COMPANY: 2017-2020

Most Active Investors by Number of Transactions



Christian Media Leads M&A Activity

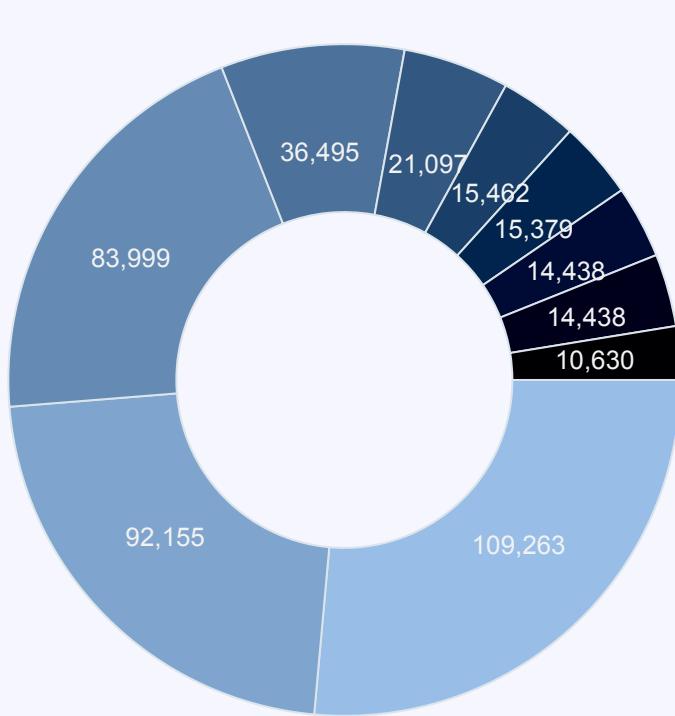
The highest volume of transactions from 2017-2020 has been from Educational Media Foundation (EMF), Inc. They are the parent company of K-LOVE and Air1, the nation's leading contemporary Christian music radio network. EMF also owns and operates Christian podcasts and audio streaming networks. Most of their M&A activity has come from acquiring radio stations that are added to their Christian radio network.

Multimedia Network Extending National Reach

Salem Media is a multimedia company based in California, that operates three specific segments: Broadcasting, Digital Media, and Publishing. They primarily provide Christian and conservative content, along with investing and health-themed content. They've been acquiring media streaming websites, radio stations, and other information sharing platforms to grow their national presence. Most of these acquisitions have been in the lower transaction range, usually under \$1 million.

TOTAL TRANSACTION VALUE BY COMPANY: 2017-2020

Most Active Investors by Transaction Size
Values in Millions (\$)



AT&T Inc. (NYSE:T)	109,263
The Walt Disney Company (NYSE:DIS)	92,155
T-Mobile US, Inc. (NasdaqGS:TMUS)	83,999
CenturyLink, Inc. (NYSE:CTL)	36,495
ViacomCBS Inc. (NasdaqGS:VIAC)	21,097
Discovery, Inc. (NasdaqGS:DISC.A)	15,462
EQT Partners AB	15,379
Digital Colony Management, LLC	14,438
Devonshire Investors (Delaware) LLC	14,438
Sinclair Broadcast Group, Inc. (NasdaqGS:SBGI)	10,630

Controversial AT&T & Time Warner Merger

AT&T Inc, one of the leading telecom companies in the world, closed the largest deal in this sector by acquiring Time Warner. AT&T was sued by the Justice Department on grounds of anti-competitive laws, but won approval following a six-week trial. This merger vertically integrates two of the largest media and telecom companies, which cuts costs and gives AT&T the ability to sell targeted advertising at higher rates.

Wave Of Mergers in Media Sector

After the approval of the AT&T and Time Warner merger, other large media and telecom companies followed suit. Comcast purchased Sky broadcasting group, and Disney acquired 21st Century Fox. This wave of M&A activity is reshaping the telecom and media sectors, as more customers are moving away from traditional TV services and towards modern streaming services like Netflix and Amazon.

Impacts of COVID-19

Consumer Demand For Telecom & Media Will Continue

Lower Valuations May Offer Attractive Long-Term Investments

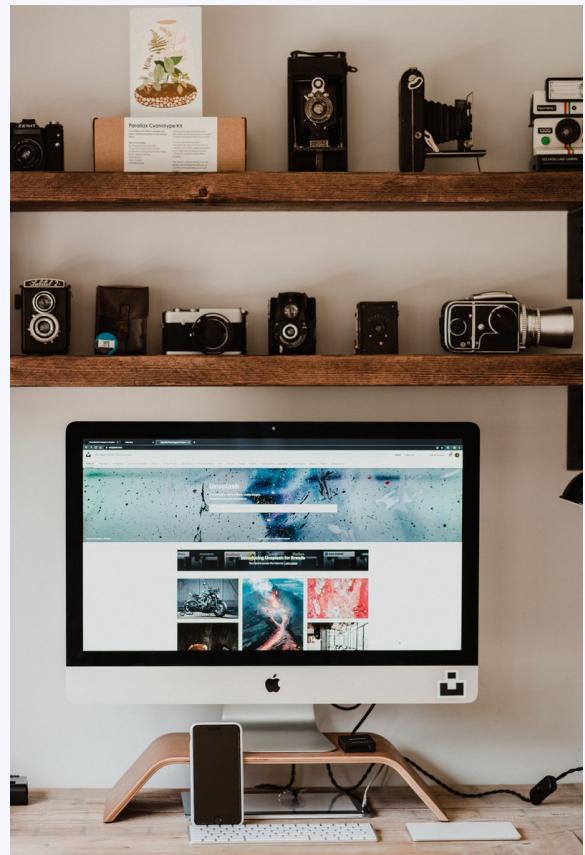
Since the pandemic hit, many telecom and media companies have seen their valuations drop dramatically. This could open up opportunities for investors to gain a market share in next generation technologies, at a reduced cost. However, companies should do their research when picking investments, as it is crucial to invest in the right company given the volatile markets. Consumers will continue to demand new improvements to applications and software, and investors that pick up on these trends have the potential for considerable returns.

Telecom Companies Offering At Home Services Prosper

Application software companies that are providing critical services to keep workers productive at home have seen a massive increase in use since COVID-19 hit. Video conferencing, task/project management, and remote desktop applications have been growing in demand, as they help to keep the workplace connected and proactive. Companies like Zoom and Slack have seen their stock prices flourishing, even with the economic downturn.

Long-Term Impact of COVID-19

Media and telecom companies have established themselves as prominent parts of our society, and M&A will pick back up in these industries following this pandemic. Although M&A activity has decreased dramatically, consumer demand for cloud-based services, 5G, and other telecommunication features will continue to grow. Consolidation will likely be more common, as companies will look to strengthen their position in the market. Likewise, PE firms and other investors will be looking to spend more on next generation technologies, which could contribute to a rise in M&A activity following COVID-19.



Valuations

Over \$500 Billion
of Deals Closed:
2017-2020

Average Deal Value (Millions of \$)	256.44
Average TEV/Revenue	2.64
Average TEV/EBITDA	5.22

Cloud Based Commerce Company Fueling Global Expansion With M&A

In October of 2019, Commercetools announced a deal with Insight Partners aimed at helping them achieve a global presence. Commercetools is a leader in cloud based commerce software with an enterprise value of just under \$150 million. They offer brands the ability to create more engaging and higher revenue-driven commerce experiences that are easier and quicker to build, grow and manage. This new financing builds on Commercetools rapid growth, and will allow them to strengthen their operations in the USA, Europe, and Pacific Asia.

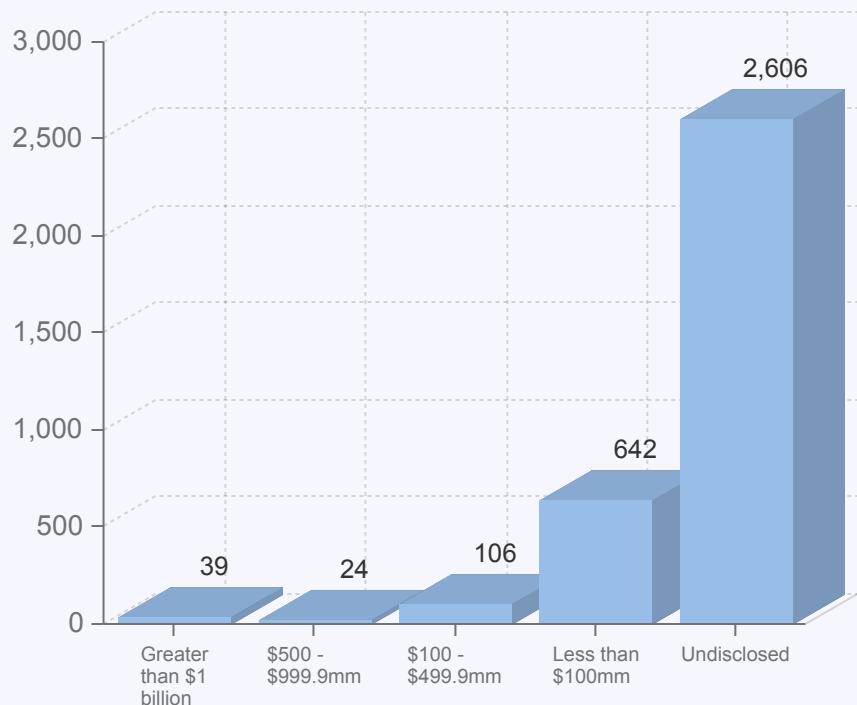
Internet and Cloud Based Services Receiving Higher Valuations

Valuations of private lower middle market telecom and media companies tend to be lower than other industries. The average Total Enterprise Value (TEV)/EBITDA reached nearly 5.25x, and the average TEV/Revenue was just over 2.5x. However, valuation multiples for media and telecom businesses that take a cloud-first approach are often much higher than these values. This is because their potential for expeditious growth with minimal additional investment is high, which puts them in a stronger position for acquisition

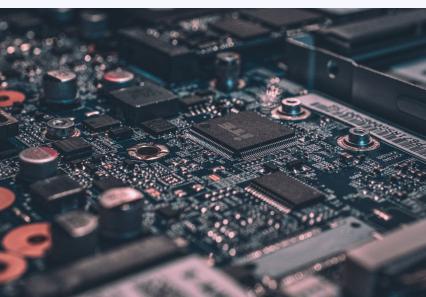
Private Lower Middle Market Prominent in These Sectors

A relatively high volume of M&A in the telecom and media industries has been from smaller companies, often in the private lower middle market. Most of the transactions that disclosed a deal value were under \$100 million, demonstrating that much of the M&A activity was driven by smaller companies. This activity is expected to remain strong, as consolidation is one of the most common ways for the private lower middle market to extend their operations.

Number of Deals by Transaction Range



Conclusion



AT&T Merger Causing Wave of M&A

When the Time Warner and AT&T merger was approved by a federal judge, many other media companies looked toward consolidation to stay competitive. This has changed the landscape of the telecom and media industries, as many of the largest competitors have shifted to become vertically integrated.



5G is the Future of These Industries

As 5G comes into the picture, telecom and media companies are looking to capitalize on this next generation technology. Companies that can position themselves to be the leaders in this space can help provide the next generation of solutions, and they have the potential to generate healthy cash flows for years to come.



The Prospect of Cloud Based Services

Internet and cloud based services have seen a growing interest from investors in the past few years. These companies have greater potential for natural growth, and receive higher valuations based on that. Following COVID-19, these companies may see an increase in M&A activity, as investors look for a more reliable place to put their money.

Senior Management Team



Jim Audette is a founding partner and President of ASA Ventures. He has broad experience in building high performance companies as a C-level executive and strategist. In addition, his experience includes M&A, debt and equity financings, and corporate restructurings, in a wide range of industries including technology, consumer products, promotional products, healthcare, manufacturing, energy and industrials.

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John Allen is a Managing Director, founding partner of ASA Ventures and is a CPA. He brings over 30 years of direct P&L and general management experience. His diverse background includes a unique combination of operations, financial and sales management, which has enabled him to lead companies to dramatic increases in revenue and profitability. He has served as President, General Manager, and Chief Financial Officer. He has an extensive sales background, has closed numerous transactions in the technology sector, as well as, integrating acquisitions.

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Bill Schloth is a Managing Director and founding partner of ASA Ventures. Bill has significant experience in mergers and acquisitions. He has worked on transactions in many sectors including renewable energy, cloud computing, data analysis, construction and manufacturing. These transactions have ranged in enterprise value from \$5 million to \$200 million. His focus has always been on exceeding client expectations through detail-oriented due diligence, transparency and thorough marketing efforts.

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ASA Ventures Group

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