

M&a and TME: What Will 2016 Hold?

M&A in the technology, media and entertainment (TME) space has boomed over the last 24 months. It's a trend that looks set to intensify in 2016 as cross sector convergence – expanding beyond traditional core activities to acquire new capabilities – continues to reap dividends for TME firms. In particular, many companies traditionally regarded as technology firms have expanded well beyond their remit to become genuine TME businesses, with the provision of content becoming a fundamental part of their companies' businesses.

The urge to converge

Underlying this drive towards convergence is a shift to 'quad play' offerings – where telecom providers seek to become a one-stop shop for TV, broadband, fixed and mobile telephony. BT's £12.5bn takeover of EE, which recently received approval from the Competition and Markets Authority, is a case in point: according to Ofcom's figures, BT already boasts 31% of the fixed-broadband market, 38% of home phone traffic, 25% of Premier League rights and, if the merger goes ahead, can expect to control 34% of the mobile sector. Investments such as this can give businesses the ability to attract and retain customers more easily, enhance revenue streams and closer align themselves with changing customer expectations.

Mobile technology generally is expected to play an increasingly significant role as M&A activity in the industry surges. Last year, mobile bypassed desktop as the primary focus for content, app, and web development strategy. This shift was down to a sharp increase in the number of mobile users, and the increasing amount of mobile visitors to websites. According to a recent report by eMarketer, Google, which processes more than 100 billion search requests each month, received more searches from mobile devices than desktops for the first time ever in 2015. We can expect to see more of the same in 2016.

Bringing in talent and tech

Industry giants will no doubt continue to drive activity in 2016 as they also continue to pursue 'acqui-hiring' strategies.

Facebook, Apple and Google rank amongst the most active acqui-hirers. However, other companies have paid attention and now realise that acqui-hiring can be an efficient way of acquiring talent, products or intellectual property (IP) to fill an important need. The acquisition of small targets does not necessarily mean that investors must sacrifice financial gain; in fact, in many cases small acquisitions offer greater return on investment in a shorter period of time.

Despite the huge gains that can be achieved, some businesses remain reluctant to acqui-hire due to the perceived challenges associated with retaining staff and achieving strong cultural alignment. In 2016, acquiring businesses may strive to combat such challenges by undertaking thorough due diligence, including robust restrictive covenants within acquisition documents and, perhaps most importantly, offering entrepreneurs creative and supportive networks in which they can thrive.

Monetising digital media

TME businesses must stay on the cutting edge of the digital world if they are to achieve success when converging. Companies will face the challenge of having to avoid going too low with their prices, steering clear of cannibalising offline content and retaining existing business models on which customers rely.

TME companies must balance their expected digital rewards with the risk of harming their currently successful models. Facebook, which acquired WhatsApp for \$19 billion in 2014, has adopted such an approach. Facebook is yet to monetise WhatsApp, instead scrapping the subscription fee and making it clear that it will not be advertising on the application. Such an approach has seen WhatsApp's user base double from 450 million to over 900 million since its acquisition.

Finally, as we look to 2016, the increased activity in the fintech sector is likely to breed fresh fraud risks which will lead to an increased demand for security offerings. Last year saw large security firms such as AVG Technologies, Baidu and Check Point Software Technologies strengthening their cyber-security offerings by acquiring businesses outside of their core business and I believe that this behaviour is set to continue in 2016 as firms seek to strengthen their product lines.

