

# Will COVID-19 turbo-charge M&A and transformation?

C-suites reframe corporate strategies and plan to invest their way out of the crisis.



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# Media and entertainment executives use M&A to seize new opportunities

The COVID-19 pandemic is serving as a catalyst for change and strategic action for executives in the media and entertainment (M&E) sector, according to respondents to the latest EY *Global Capital Confidence Barometer*.

Although 92% of M&E executives say they experienced a decline in revenue, more than half (53%) expect a return to pre-pandemic levels in 2021. A return to profitability, however, may take longer, with 49% of respondents not expecting profitability levels to be restored until 2022.

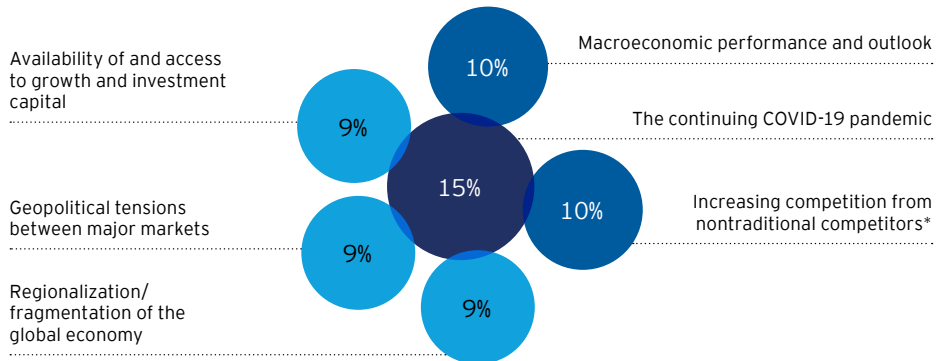
Industry executives identify the pandemic’s continuing impact as the greatest external risk to their business growth. M&E leaders also face intensifying competition from nontraditional players that are changing the industry landscape. This is especially true for video streaming and digital advertising. This kind of disruption is placing downward pressure on financial performance and market share.

M&E executives also cite the macroeconomic outlook as a risk factor for growth. However, post-pandemic reopenings should drive a sharp and powerful rebound in many M&E subsectors, particularly those with revenue models that rely on in-person gatherings, such as sports stadiums, concert halls, movie theaters and B2B events.

## Q What do you believe to be the greatest external risk(s) to the growth of your business?

(Top six options shown)

(The respondents were allowed to select three responses in order of priority. The percentages are prorated to 100%.)



\*Increasing competition from nontraditional competitors, including outside entrants with new technologies that are shifting consumer preferences and/or behaviors.

## Revisiting corporate strategy is a top priority for a majority of M&E companies

Unsurprisingly, 92% of M&E companies undertook a comprehensive strategic and portfolio review in 2020, although a significant minority had plans to do so for some time. From their reviews, M&E executives identified several key priorities.

Addressing the pandemic’s longer-term impacts on their business and sector tops the list as the most urgent strategic consideration. Although respondents believe they overperformed compared with their peers across many metrics, including digital transformation and operational stability, M&E executives are looking

to invest more in critical areas, including customer engagement, technology, workforce management and initiatives to lower costs and boost cash flow.

Taken together, M&E executives hope to improve their flexibility in responding to changing consumer behaviors and providing exceptional customer experiences. Executives want to ensure they have the right employees doing the right things at the right time with the right tools to build a more resilient enterprise.

Industry executives are also drilling into identifying potential market growth areas through acquisition, reflecting a preference to buy vs. build to gain a foothold quickly in emerging opportunities.

The dynamic geopolitical and regulatory backdrop is another factor in M&E strategic decision-making, especially as the acquisition agenda frequently involves international expansion opportunities.

## Internal challenges may hamper executives as they seek to execute on strategic priorities

Despite having clarity around strategic priorities, M&E executives are dealing with some very real internal challenges to executing their game plans. Even in the face of massive disruption – or perhaps because of it – M&E leaders are finding that the appetite for change within the organization is uneven. Inertia persists, and change management issues present hurdles to fully engaging employees in embracing transformation.

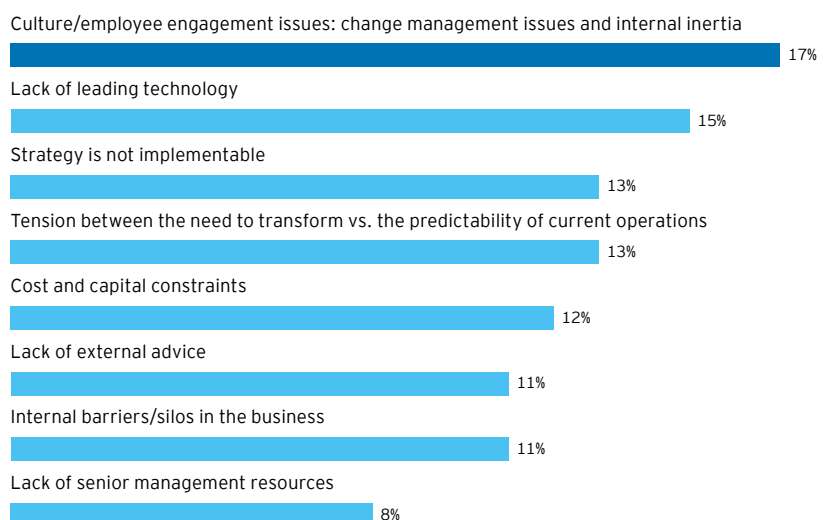
Interestingly, although 64% believe their company overperformed during the pandemic relative to competitors, M&E executives cite a lack of leading technology as another internal challenge. They have noted an imperative to invest more actively in technologies and digital capabilities – both customer-facing and back-office or operational – perhaps to address this perceived shortcoming.

Some M&E leaders report that the strategy they hope to execute is not implementable, which suggests that their vision may be disconnected from the day-to-day reality of the business.

Finally, with much of the industry transitioning from a fading yet still profitable legacy business to a high-growth model that requires bold action and investment, M&E leaders live in a constant state of tension, balancing the need for transformation with the predictability of current operations.

### Q Which of the following are the biggest internal challenges to implementing your company's strategy?

(The respondents were allowed to select three responses in order of priority. The percentages are prorated to 100%.)



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## Media and entertainment executives focus on drivers of change

As M&E companies seek to effect meaningful change to adjust to new market realities, they are emphasizing drivers that will increase profit margins and, ultimately, cash flow. The pivot to a direct-to-consumer distribution model has many M&E companies moving more customer interactions onto fully digital platforms for account activation, transaction activity and customer service.

Similar to front-of-house operations, M&E companies are using technology and automation in the back office to redeploy or replace higher-cost labor roles and improve scalability. And they are willing to divest any non-core or underperforming assets that they identified during their strategic review process.

Triggers for transformation within M&E companies include pandemic-induced factors like loss of revenue or a recognition that the existing operating model lacks resiliency, compounding the stress from unforeseen external shocks. Irrespective of the pandemic, industry leaders are finding that the challenge of attracting and retaining the right talent can be a catalyst for transformation, powering new ways of working or even M&A activity.

Transformation projects announced recently by many M&E companies are grounded in the practical need to reduce expenses and improve operating efficiency to create a more flexible operating model and cost base, releasing trapped resources for reinvestment into growth initiatives.

## Technology alignment and business resilience are top of mind when considering an M&A target

The pandemic has also affected M&A strategy among M&E executives. Of the 41% of M&E executives who are considering M&A in the next 12 months, 39% are looking to increase operational capabilities, while 35% are seeking bolt-on acquisitions.

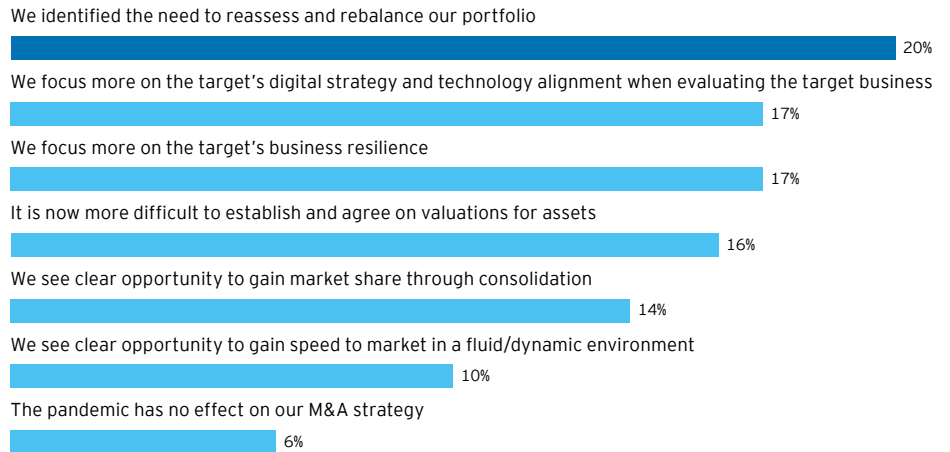
Industry respondents cite the need to reassess and rebalance their portfolios. Additionally, when considering an asset, M&E executives say they are placing a sharper focus on a target's digital strategy and technology alignment and more thoroughly considering its business resilience.

Swings in the capital markets also are influencing transaction valuations, adding a degree of difficulty to deal negotiations. Nearly three-quarters (72%) of M&E executives also expect increased competition from private equity (PE) firms, many of which are sitting on record amounts of dry powder.



## How have your M&A strategy and outlook been affected by the COVID-19 pandemic?

(The respondents were allowed to select three responses in order of priority. The percentages are prorated to 100%.)



## Media and entertainment companies are poised to thrive after the great pandemic reset

The pandemic has been the great accelerator of change. M&E executives have undertaken the requisite reviews and are poised to execute. Although challenges, both external and internal, may hamper their progress, M&E companies expect to seize the opportunities that arise in a competitive, economic, geopolitical and social environment that's been reset.

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## About the survey

The *Global Capital Confidence Barometer* gauges corporate confidence in the economic outlook, and identifies boardroom trends and practices in the way companies manage their Capital Agendas – EY framework for strategically managing capital. It is a regular survey of senior executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company.

The panel comprises select EY clients across the globe and contacts and regular Thought Leadership Consulting contributors.

- From November 2020 until January 2021, Thought Leadership Consulting surveyed on behalf of the global EY network a panel of more than 2,400 executives in 52 countries; 82% were CEOs, CFOs and other C-suite-level executives.
- Respondents represented the following sectors: financial services, telecoms, consumer products and retail, technology, media and entertainment, life sciences, hospital and health care providers, automotive and transportation, oil and gas, power and utilities, mining and metals, advanced manufacturing, and real estate, hospitality and construction.

- Surveyed companies' annual global revenues were as follows: less than US\$500m (25%), US\$500m-US\$999.9m (26%), US\$1b-US\$4.9b (25%) and greater than US\$5b (24%).
- Global company ownership was as follows: publicly listed (60%), privately held (40%).

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