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M&A ANALYSIS

Research and opinion on recent M&A transactions.

iHeartRadio To Acquire Radiojar For Audio Tools

Palo Alto Networks To Acquire Demisto For \$560 Million

888 Holdings Acquires Online Gambling Brands In Consolidation Push

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VentureDeal

iHeartRadio To Acquire Radiojar For Audio Tools

Quick Take

iHeartMedia ([OTCPK:IHRTQ](#)) has announced its [intent to acquire](#) Radiojar for an undisclosed sum.

Radiojar has developed technologies that make it easy for users to create their own online radio station.

IHRTQ is acquiring Radiojar to beef up its offerings to content producers in an effort to pursue an audio-centric aggregation model outside of music that promises to be more profitable.

Target Company

Athens, Greece-based Radiojar was founded in 2011 to create tools to enable web radio broadcasting and monetization.

Management is headed by founder and CEO Stathis Koutsogeorgos, who was previously Chief Product Officer at Internetq.

Radiojar's primary offerings include the ability to have cloud hosted radio programming via its branded service or through a white label version. Pricing plans start at \$10.00 per month and rise to include professional and enterprise levels.

The firm raised at least \$577,000 in seed financing, per Crunchbase.

Market

According to a 2017 report by [IBISWorld](#), the Internet-based radio broadcasting market grew by 32% between 2013 and 2017 to reach \$5 billion in total revenue.

The main drivers for this growth were increased cellular coverage, smartphone usage, and improved connectivity enabling users to stream better quality content.

More recently, the rise in the demand and supply of audio content such as podcasting has driven technology firms to offer increased capabilities to content producers.

In 2018, streaming company Spotify ([SPOT](#)) went public in the U.S. and has since acquired at least two podcasting technology and content companies in its increased focus on audio capabilities.

It is thought that Spotify is making a play to become the dominant aggregator of all forms of audio, although other large companies such as Apple ([AAPL](#)), Google ([GOOG](#)), and Amazon ([AMZN](#)), as well as major Chinese Internet companies, are also pursuing online digital content aggregation strategies.

Acquisition Terms and Rationale

IHRTQ didn't disclose the acquisition price or terms and didn't file a form 8-K or provide a change in financial guidance, so the transaction was likely for a financially non-material amount.

A review of the firm's most recent [financial results](#) indicates that as of September 30, 2018, it had \$318.8 million in cash and short term investments and \$23.75 billion in total liabilities of which long term debt was \$5.3 billion and other liabilities were \$16.97 billion.

Free cash flow during the three months ended September 30, 2018, was \$153.4 million.

iHeartMedia's subsidiary RCS is acquiring Radiojar for its web radio platform.

As IHRTQ stated in the deal announcement,

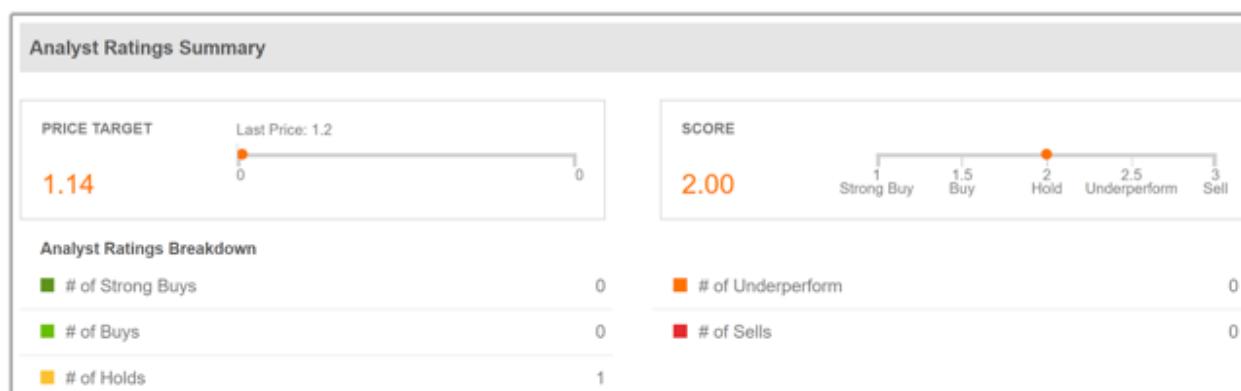
With Radiojar's sophisticated cloud-based assets and engineering, iHeartMedia, and other RCS clients, will now have a platform to easily combine or parse individual audio elements such as DJ voice tracks, music and broadcast spots to create, manage, distribute and monetize streams, podcasts and other audio content in real-time from anywhere.

In the past 12 months, IHRTQ's stock price has risen 166.7%, with most of the rise coming from recent positive bankruptcy administration-related developments, as the chart below indicates:



Source: [Sentieo](#)

The firm has only one analyst covering it, with a rating of 'Hold'. The price target of \$1.14 is higher than the firm's most recent price of \$1.20 at press time, implying downside potential:



Source: [Seeking Alpha](#)

Commentary

iHeartMedia [RCS] wants to acquire Radiojar to build out its own ‘audio’ aggregation strategy by offering users the ability to easily create their own radio station.

By providing these tools, RCS aims to set up a ‘honey pot’ to attract more content in a low-cost manner, which then creates a virtuous cycle of more content producers, more listeners, higher engagement which leads to more advertising revenue, all without having to pay the CRB its ever-increasing royalty rates.

This is now the ‘playbook’ for major audio content providers including Spotify, so it’s good to see IHRTQ getting on the program.

Now, the firm just has to complete its reorganization and emerge from bankruptcy free of Clear Channel so management can pursue the new paradigm.

I expect to see other acquisitions or initiatives along these lines as IHRTQ competes with deep-pocketed firms in a competitive environment for large market opportunities.

Palo Alto Networks To Acquire Demisto For \$540 Million

Quick Take

Palo Alto Networks ([PANW](#)) announced it has agreed to acquire Demisto for \$560 million.

Demisto operates a security orchestration, automation & response [SOAR] platform.

With the acquisition, PANW will assist customers in reducing the vendor management overhead of their increasingly complex security environments.

Target Company

Cupertino, California-based Demisto was founded in 2015 to develop and operate a SOAR platform that combines intelligent automation and collaboration within a single ChatOps interface.

Management is headed by Co-Founder and CEO [Slavik Markovich](#), who was previously Board Member at Enlocked.

Below is an overview video of the company’s offerings:

Source: [Demisto](#)

Demisto’s primary offering is the Demisto Enterprise platform whose features include:

- Security Orchestration
- Incident Management
- Interactive Investigation
- Machine Learning
- Threat Hunting
- Cloud Security

Source: [Demisto](#)

Investors have invested at least \$69 million in the company and include Accel, Greylock Partners, ClearSky, Slack, Vipro Ventures, and others. Source: [VentureDeal Venture Capital Database](#)

Market And Competition

According to a [market research report](#) by Markets and Markets, the global security orchestration market was valued at \$826.1 million in 2016 is projected to reach \$1.68 billion by 2021.

This represents a strong CAGR of 15.3% between 2017 and 2021.

The main drivers for this expected growth are growing incidence of security breaches, rapid development, and deployment of cloud-based products and services as well as growth in the Bring Your Own Device trend that affects small and medium-sized enterprises [SMEs].

The North American region is projected to dominate during the forecast period due to a large number of vendors located across this region while the Asia-Pacific region is projected to grow as SMEs are turning their focus on security orchestration to protect against security breaches.

Competitive vendors that provide security orchestration solutions include:

- FireEye ([FEYE](#))
- Cisco Systems ([CSCO](#))
- Intel Security ([INTC](#))
- IBM ([IBM](#))
- Huawei Technologies
- Hexadite
- Phantom Cyber Corporation
- Tufin

Source: [Sentieo](#)

Acquisition Terms And Rationale

PANW disclosed the acquisition price as \$560 million in a combination of cash and stock. The amount of each component was not disclosed by management.

In its deal conference call, management also didn't provide a change in financial guidance, saying that discussion of that topic would be included in their scheduled earnings call on February 26, 2019.

A review of the firm's most recent [10-Q filing](#) indicates that as of October 31, 2018, PANW had cash, equivalents, and short-term investments of \$3.2 billion and total liabilities of \$4.5 billion, of which convertible senior notes represented \$1.4 billion and long-term deferred revenue was \$1.1 billion.

Free cash flow during the three months ended October 31, 2018, was \$218.0 million.

PANW is acquiring Demisto to help its clients deal with the increasing complexity of cybersecurity protection through its orchestration capabilities.

As PANW stated in the deal announcement:

Demisto's automated playbooks have helped reduce alerts that require human review by as much as 95 percent, allowing security teams to focus on the most complex threats. This well-developed approach will bring Palo Alto Networks closer to using AI and machine learning to help further automate significant parts of the company's customers' security operations.

In the past 12 months, PANW's stock price has risen 36.7% vs. Fortinet's ([FTNT](#)) rise of 69.2%, as the chart below indicates:



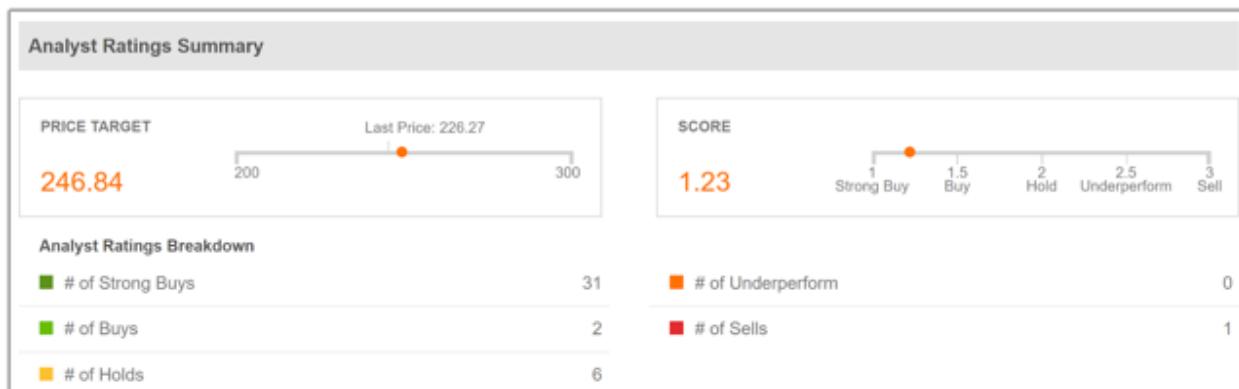
Source: [Sentieo](#)

PANW has a history of positive earnings surprises, which leads me to wonder if management is ‘managing’ the earnings beats on purpose:



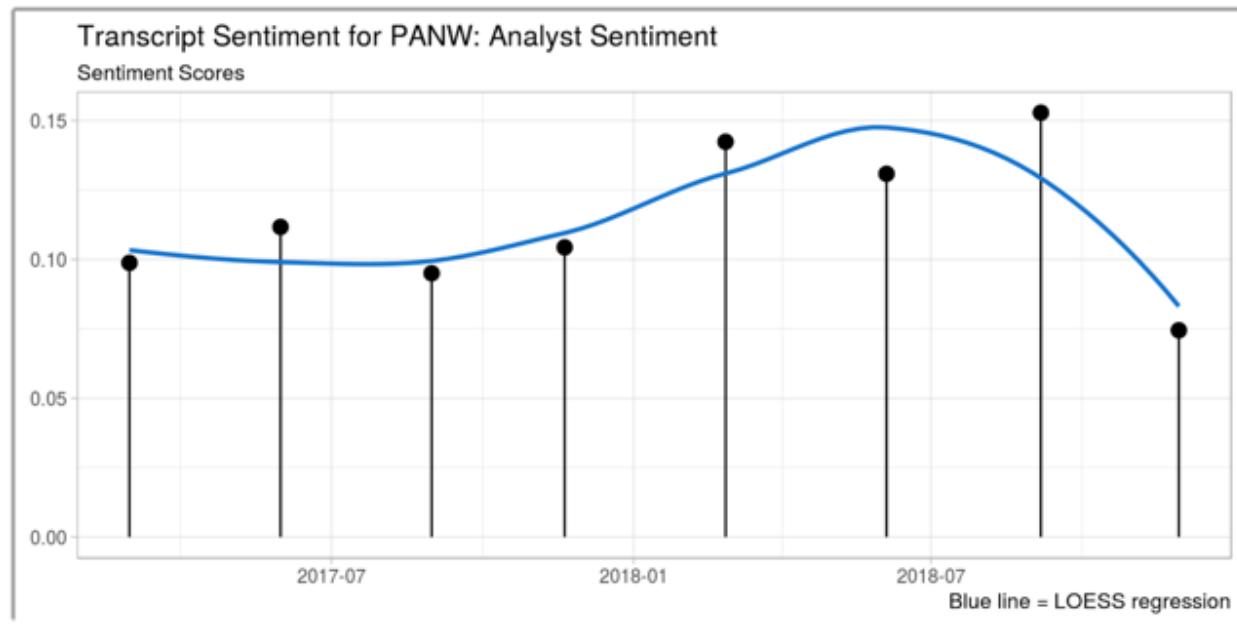
Source: [Seeking Alpha](#)

Analyst ratings are generally quite positive, but the current consensus price target of \$246.84 implies only a 9% upside from the current stock price of \$226.27 at press time:



Source: [Seeking Alpha](#)

Analyst sentiment in recent earnings calls has dropped markedly, as the linguistic analysis shows below:



Source: [Sentieo](#)

Companies that have significant security challenges are facing an environment of vendor fragmentation.

Demisto's security orchestration technology helps firms operating in hybrid and complex environments to take advantage of recent developments in machine learning to effectively coordinate between applications.

With the deal for Demisto, PANW will more fully integrate its security orchestration, automation, and response capabilities into its Application Framework.

While we don't know if PANW is overpaying for Demisto based on revenue or EBITDA multiples, from a strategic technology perspective, by providing a robust security orchestration piece, PANW is positioning itself as a vendor that can help reduce client complexity in the management of security applications.

888 Holdings Acquires Online Gambling Brands In Consolidation Push

Quick Take

888 Holdings ([OTCPK:EIHDF](#)) announced it has acquired Jet Management Group Limited and Jet Media's [JPJ Group ([OTCPK:JKPTF](#))] online bingo platforms for approximately \$23.47 million, or £18 million.

Acquired brands include Costa Bingo, Sing Bingo, City Bingo, Costa Games, Slot Crazy, Fantastic Spins.

With the deal, EIHDF is consolidating its UK betting operations over a larger number of properties as the regulatory environment becomes stricter. In addition, management is focusing its resources on less disrupted markets, with the U.S. showing promise in the wake of a recent favorable Supreme Court ruling.

Target Company

London, England-based JPJ Group was founded in 2013 to develop and operate an online bingo platform in the UK.

Management is headed by CEO [Simon Wykes](#), who has been with the firm since 2017 and was previously CEO at Gala Leisure.

Market and Competition

According to a [market report](#) by the UK Gambling Commission's, the county's wagering market reached \$17.9 billion (£13.7 billion) for the year ended March 2017 and is projected to grow. This represents a year-over-year increase of 1.8%.

During the same period, the online gambling sector accounted for 34% of all bets placed and reached \$6.2 billion (£4.7 billion), marking a Y-O-Y growth of 10.1%.

In contrast, the number of high street bingo operations has decreased by 1.4% and the number of licensed arcade premises by 5.1%. The decline is mostly attributed to rising demand for online wagering and an increase in ticket price due to UK's 2014 Point of Consumption tax, which imposes a 15% deduction on the revenue of casinos based overseas.

Major competitive online gambling operators in the UK include:

- Rank Digital Gaming
- Lindar Media
- Cassava Enterprises
- Sun Bingo
- Buzz Bingo Group
- Coral Interactive

Source: [Sentieo](#)

Acquisition Terms and Rationale

888 disclosed the acquisition price as approximately \$15.7 million in cash due at closing and another \$7.8 million due in September 2019.

A review of the firm's June 30, 2018, [financial report](#) indicates that it had \$143.6 million in cash and equivalents and \$228.4 million in total liabilities, of which customer deposits accounted for \$65.6 million.

Free cash flow during the six months ended June 30, 2018, was \$16.2 million.

888 is acquiring Jet's online bingo assets to add to its existing UK bingo operations.

As Itai Pazner, CEO of 888 stated in the deal announcement,

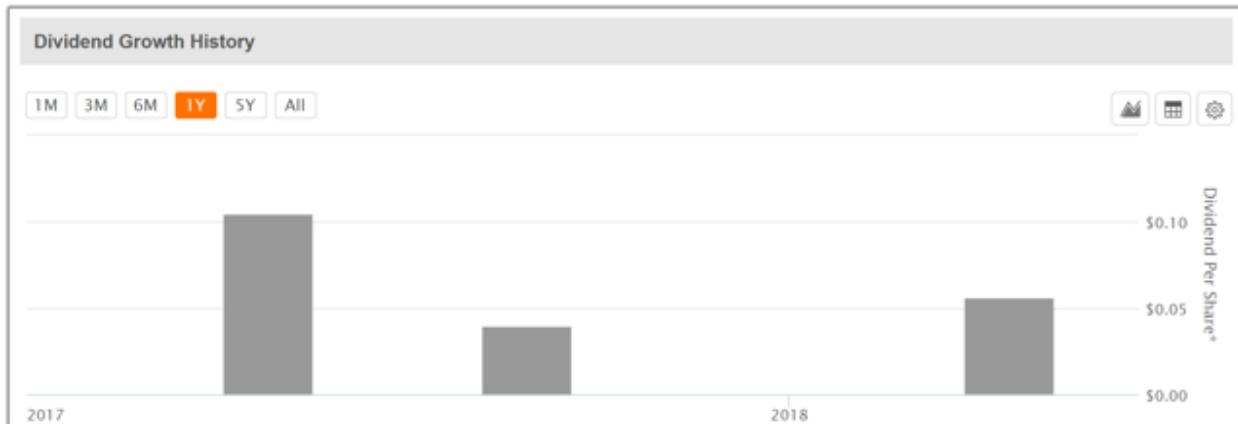
We are pleased to announce the acquisition of this portfolio of brands which includes the well-established Costa Bingo. Having been developed on Dragonfish, the Group's first-class B2B platform, we are confident that consolidating these brands into our existing B2C portfolio will deliver synergies and growth opportunities by applying the full extent of 888's core capabilities in product, marketing and customer relationship management to their operations.

In the past 12 months, 888's stock price has dropped 46.3%, as the chart below indicates:



Source: [Sentieo](#)

888's dividend history is shown below, with the most recent semi-annual declared dividend amounting to \$0.056 per share,



Source: [Seeking Alpha](#)

Commentary

888 has seen its stock drop precipitously in the wake of a stricter UK regulatory environment.

By acquiring Jet's bingo operations, 888 is effectively consolidating a larger scope of operations within a stricter regulatory regime, hoping to improve its position in the market as the costs of operating become too great for smaller operators.

Management believes that operators with the ability to create and operate their own technology solutions in regulated markets will be the comparative winners.

888 is attempting to quickly diversify its operations, and management divides its markets into what it calls 'disrupted' and 'undisrupted' markets. Disrupted markets are those that suffer from external factors such as strict regulatory restraints on operations and marketing, such as in the Netherlands and Italy.

So, 888 management is responding to these changed operating environments by consolidating with acquisitions such as Jet's bingo properties and focusing more efforts on less disrupted markets.

For example, the firm sees significant upside in its U.S. operations, with the recent betting-friendly ruling from the Supreme Court clearing the way for states to more freely regulate their own betting environments and providing greater clarity. 888 has operations in three U.S. states and is adding Pennsylvania as the fourth.

So, despite the stock's poor showing over the past 12-month period, the worst may be over as management finds ways to adapt and take advantage of new opportunities.