



HOULIHAN LOKEY

# SPOKEN AUDIO

MARKET UPDATE | SUMMER 2021



# Houlihan Lokey Spoken Audio Market Update

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Dear Friends and Partners,

As we witness the spoken audio industry (audiobooks and podcasts) evolve, it is important to remember its very humble beginnings; a once dormant form of entertainment, embraced by niche audiences, has become one of the fastest growing segments in entertainment. This growth was catalyzed by the proliferation of smartphones and other connected devices, which have allowed authors and podcasters to reach new audiences. As the number of listeners multiplies at a rapid pace, content creators and strategics alike have rushed in to capitalize on the boom. In the following pages, we will discuss these trends and other takeaways we have gleaned from recent events:

- Demand for spoken audio content continues to accelerate at a rapid clip, with 24% YoY projected growth supported by new technologies.
- Audiobooks are becoming an increasingly important component of total books sales—representing nearly one-fourth of sales across formats for best-selling titles.
- Direct-to-consumer audio platforms looking to gain an edge in a crowded market are vying for ownership of spoken audio content and exclusive distribution rights; in an effort to counter declining print sales, traditional book publishers increasingly insist on acquiring audiobook rights.
- In an attempt to build portfolios of premium video IP, producers and studios are pursuing book and spoken audio rights: “The Handmaid’s Tale” bolstered Hulu’s streaming service presence; Blumhouse Productions is adapting Gimlet Media’s podcast “The Horror of Dolores Roach.”
- Incumbent publishing models are being disrupted as breakthrough audiobooks and podcasts have reached audiences without requiring creators to cede ownership of IP.
- M&A and other deal activity has increased in lockstep with the market boom, which is highlighted by Amazon’s acquisition of podcast production company Wondery; Sony’s acquisition of U.K.-based podcast producer Somethin’ Else; and Tencent’s acquisition of Lazy Audio, an audiobook platform.

We hope you find this update to be informative and that it serves as a valuable resource to you as you navigate this burgeoning market. Given the fast-changing landscape, we would be happy to discuss these developments in real time and look forward to staying in touch with you.



**Roy Kabla**

Managing Director  
Global Co-Head of TMT Group  
[RKabla@HL.com](mailto:RKabla@HL.com)  
212.497.4193



**Josh Rothstein**

Vice President  
[JRothstein@HL.com](mailto:JRothstein@HL.com)  
310.788.5388



**John Focosi, CFA**

Associate  
[JFocosi@HL.com](mailto:JFocosi@HL.com)  
310.788.5236












































**Andy Shu, CFA**

Financial Analyst  
[AShu@HL.com](mailto:AShu@HL.com)  
310.789.5780

# Select Audio Industry Transactions

Houlihan Lokey's professionals have unparalleled experience in advising audio companies.

 <p>has acquired</p>  <p>supported by the successful placement of a senior secured credit facility</p> <p>Buy-side Advisor &amp; Placement Agent</p>	 <p>has been acquired by</p>  <p>Sell-side Advisor</p>	<p>Cadence13</p> <p>has been acquired by</p>  <p>Sell-side Advisor</p>	 <p>has been acquired by</p>  <p>Sell-side Advisor</p>
 <p>has raised equity from Wood Creek Capital to acquire</p>  <p>Financial Advisor*</p>	 <p>has been acquired by</p>  <p>Sell-side Advisor</p>	 <p>has completed a financing transaction in connection with its acquisition of</p>  <p>Fairness Opinion</p>	 <p>parent company of</p>  <p>has received financing from</p> <p>Coran Capshaw Founder of</p>  <p>Sell-side Advisor</p>
 <p>has been acquired by</p>  <p>A portfolio company of</p>  <p>Sell-side Advisor</p>	 <p>has been acquired by EV Events Center, LLC a joint venture between Brooklyn Sports &amp; Entertainment and AEG Presents with its regional partner The Bowery Presents</p>   <p>Sell-side Advisor</p>	 <p>CORE MEDIA GROUP*</p> <p>has completed a "pre-arranged" Chapter 11 Plan of Reorganization</p> <p>First Lien Group Advisor</p>	 <p>has confirmed a Chapter 11 Plan of Reorganization, restructuring approximately \$450 million of debt</p> <p>Second Lien Noteholder Advisor</p>
 <p>\$50,000,000 Financing</p>  <p>Financial Advisor*</p>	 <p>has been acquired by</p>  <p>Financial Advisor*</p>	 <p>investment from</p>  <p>Financial Advisor*</p>	 <p>has been acquired by</p>  <p>Financial Advisor*</p>
 <p>has divested its equity stake in</p>  <p>to</p>  <p>Financial Advisor*</p>	 <p>has acquired</p>  <p>Financial Advisor*</p>	 <p>a portfolio investment of</p>  <p>Valuation Opinion</p>	 <p>has been acquired by</p>  <p>Financial Advisor*</p>

\*Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey or by professionals from a Houlihan Lokey joint venture company. Tombstones included herein represent transactions closed from 2008 forward.

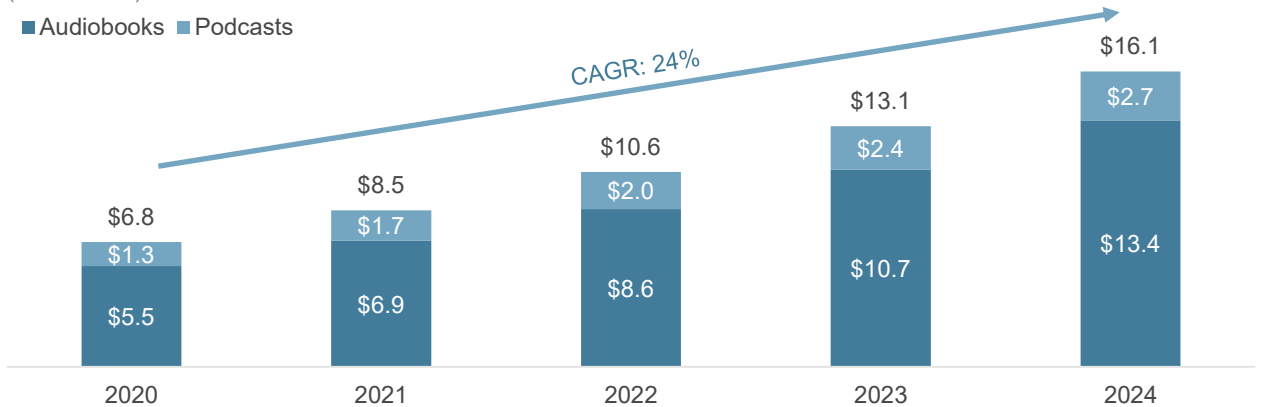
# Demand for Spoken Audio Creates Opportunity...

Rapid expansion and increasing demand in both audiobooks and podcasts will continue to spur growth in the coming years, especially when compared with other entertainment mediums.

## Spoken Audio Will Be a \$16 Billion Market, Driven by Audiobooks

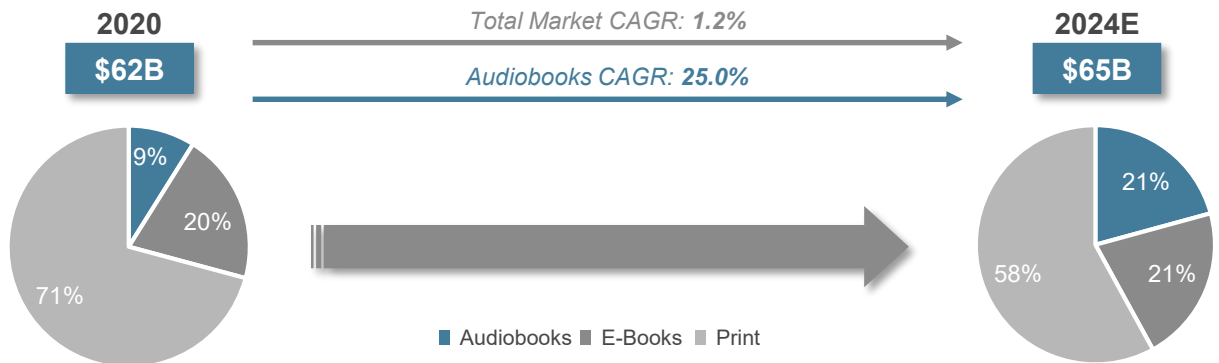
(\$ in billions)

■ Audiobooks ■ Podcasts



## Audiobooks Increasing as Percentage of Total Book Sales...

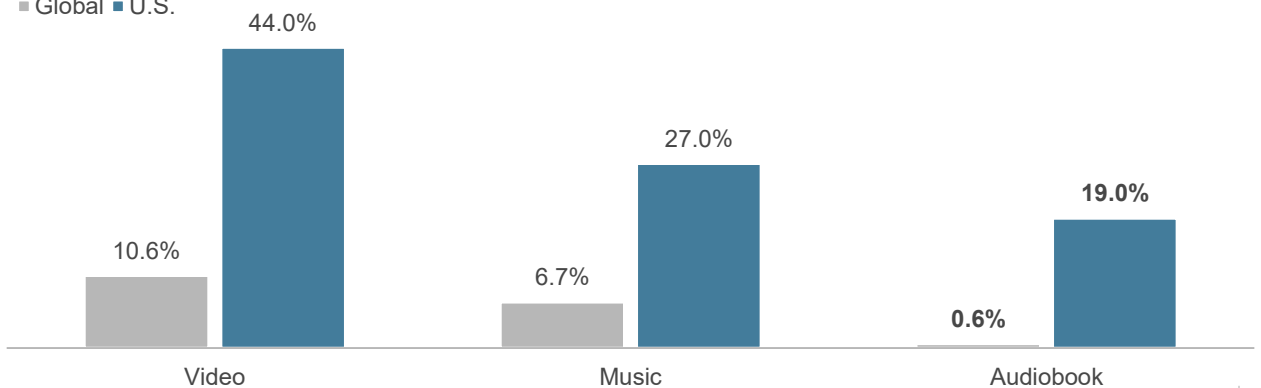
(Global consumer book market)



## ...With DTC Upside Compared to Video and Music

(2019 global and U.S. streaming penetration by service type)

■ Global ■ U.S.



# ...Driven by Consumer Adoption of New Technologies

Smartphone ownership, internet access, and audio-streaming capabilities have supported the rapid development of audiobook consumption, with additional tailwinds from personal smart speakers (e.g., Amazon's Alexa).



**500 million** people listen to audiobooks, whereas **~1 billion** people listen to podcasts monthly.



Frequent audiobook and podcast listeners are primarily under the age of 45, with a skewness toward educated, urban dwellers.



**~27% of Americans** (age 12+) now own a smart speaker, with **66%** of owners listening to an audiobook or podcast weekly.



**75% of audiobook** listeners also listen to podcasts.



**6.8 audiobooks** streamed on average in 2018 among audiobook listeners.



**Increasing** number of audio titles, with **~500,000 titles available** throughout the industry and **growing** at an estimated **6%**.



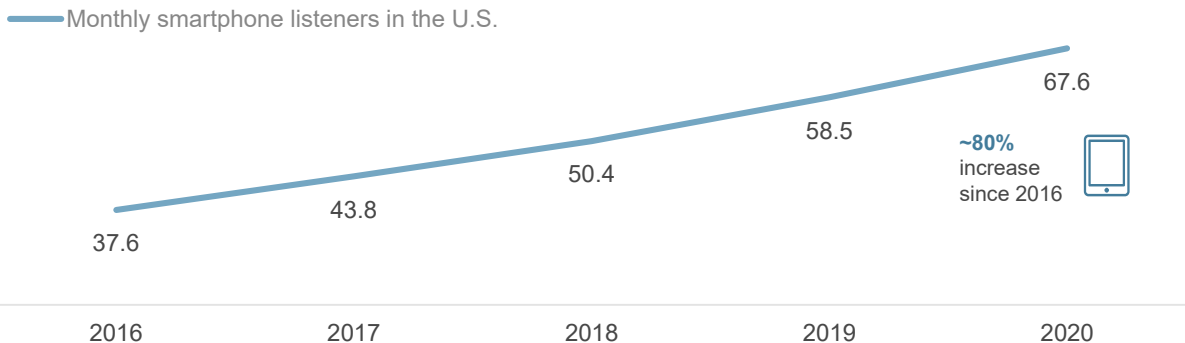
Continued improvements in technology are supporting **greater audio device integration**, allowing individuals to listen more frequently.



**Rising awareness** among consumers and authors, as evidenced by some **authors writing directly for audio** format rather than print.

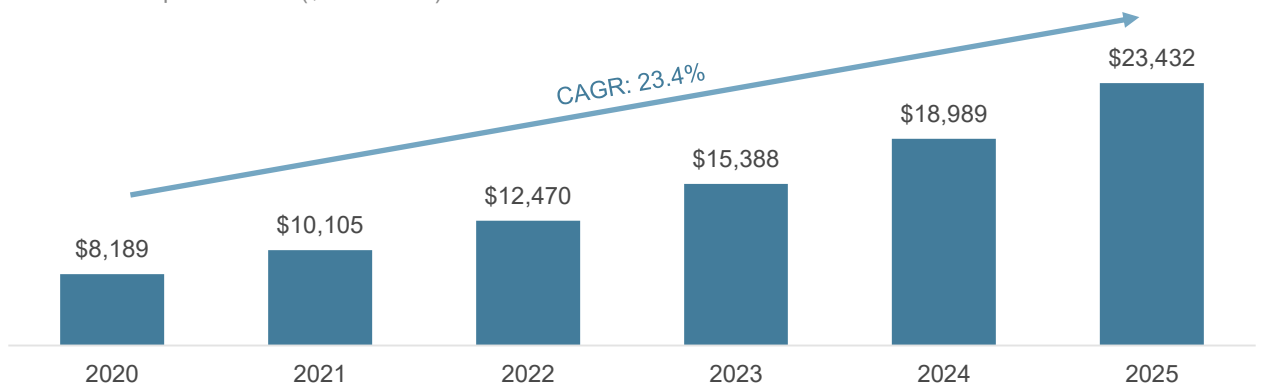
## Smartphones Drive Spoken Audio Consumption<sup>(1)</sup>

Average number of listens, watches, or downloads of spoken audio over the prior 30 days (in millions)



## Smart Speakers Creating Additional Tailwinds<sup>(2)</sup>

Global smart speaker TAM (\$ in millions)



(1) The Infinite Dial 2018–2020.  
(2) PR Newswire.

# IP Ownership Will Drive Value Creation

As audiobook consumption expands, the “Big 5” publishing companies are increasingly looking to obtain and control audio IP; DTC streamers are trying to lure authors away from mega-publishers with preferable deals.

## Evolution of Models Creates Opportunity

(Representative share to audio content publisher, based on IP share/ownership)

IP Source	Audiobook Publisher Share	DTC Platform
Publisher Created IP	\$\$\$	\$
Direct From Author	\$\$	\$
Third-Party Source	\$	\$

## As Traditional Publishers Fight to Retain Power...

“**Several major publishers**, including Penguin Random House and HarperCollins Publishers, say they generally **won’t buy a new book without audiobook rights**... As e-book sales decline and hardcover sales flatten, **publishers need audiobook rights to boost their bottom line.**”

WSJ Feb. 2018



## ...And DTC Platforms Attempt Disruption

“...**Audio has also made some traditional publishers nervous**... as Audible strikes deals directly with writers... This has set off a new **turf war over audio rights**, pitting Audible against **traditional publishers**, who are **increasingly insisting on producing their own audiobooks**...”

The Seattle Times June 2018



# Strategics Stockpiling Spoken Audio IP










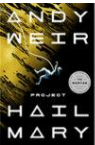
To build premium video libraries, strategics are looking at books and podcasts for new IP.

## Producers Go on a Book-Buying Spree...

The content “arm’s race” resulted in studios and agents aggressively pursuing books rights.

CAA has packaged and sold ~175 book titles throughout 2020, a 5x increase from 2019.

### Notable Titles Recently Acquired

				
				
<b>The Upper World</b>	<b>The Vanishing Half</b>	<b>Untamed</b>	<b>Little Fires Everywhere</b>	<b>Project Hail Mary</b>

“The bright side for agencies is that **studios and streaming services are still salivating for intellectual property, and books are ideal targets...** ‘The Handmaid’s Tale,’ based on the Margaret Atwood book, helped **put Hulu’s original content business on the map...** Streaming services are offering writers \$1-million-plus deals with increasing frequency.”

**Los Angeles Times** October 2020

## ...And Seek to Capitalize on Podcasting Boom

The growth in podcasting has made audio programming a viable new source for original content.

Production companies are securing deals with early-stage podcasting companies.

### Select Recent Podcasting Deals

				
<b>NBC acquires Dr. Death from Wondery.</b>	<b>Chernin and Spotify enter first-look deal.</b>	<b>Blumhouse adapting Gimlet Media’s “The Horror of Dolores Roach.”</b>	<b>Mick Jagger signs development deal with Warner for seven-part podcast series.</b>	<b>Cadence13 launches new podcasting platform to serve as “IP Incubator.”</b>

“**Hollywood’s hunger for podcasts is one part of a feeding frenzy among film and production companies** hunting for source material they can turn into film, television and premium streaming video, with books, video games, and even magazine articles are all available in a growing bazaar that has, for years, been a seller’s market.”

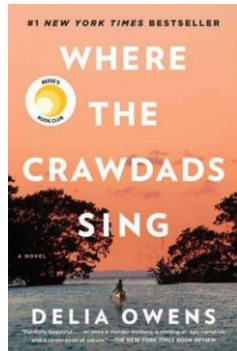
**DIGIDAY** June 2020

# Independent Platforms Will Be Key for Creator Community

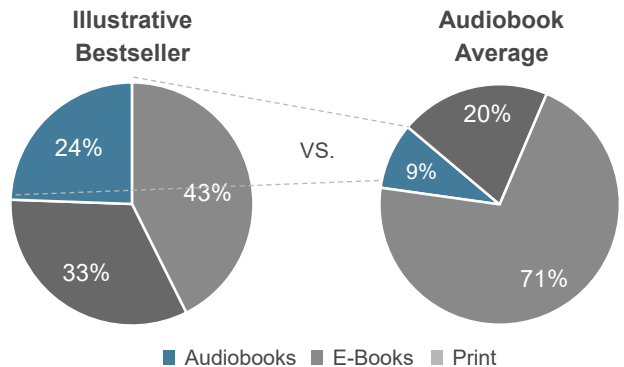
Among popular books, audiobooks represent a greater share of total unit sales. With a growing number of indie titles that reach commercial success, there will be opportunities to acquire audio rights of potential breakout authors.

## Bestsellers Over-Index in Audiobook Segment...(1)

(2019 U.S. sales of *Where the Crawdads Sing*, by format)

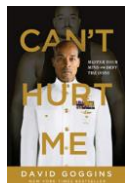


Format	Rank	Sales
Audio	No. 1	1.1M
E-Book	No. 1	1.4M
Print	No. 1	1.8M
<b>Total Unit Sales</b>		<b>4.3M</b>



## ...Disrupting Existing Publishing Models

More authors are electing to self-publish or go directly to audiobook platforms



**Can't Hurt Me**

David Goggins

2018 Release

**Self-Published**

**No. 5 audiobook 2019, New York Times bestseller, 540,000 audiobooks sold in 2019**

Audiobook: Lioncrest Publishing

"When writer **Michael Lewis** had an idea for his next book... **Instead of publishing** the story in Vanity Fair, he **sold it to Audible**... He is part of a **growing group of A-list authors bypassing print and releasing audiobook originals**, hoping to take advantage of the exploding audiobook market."

**The Seattle Times** June 2018

## Creating Opportunity for Author-Friendly Distribution

**Better monetization for authors from split rights.**

**Antitrust concerns (e.g., Audible attempting to backdoor print rights).**

**Creative flexibility (e.g., order of audio vs. print publishing, special audio editions).**

**Retain derivative IP rights for audio-first titles (e.g., upstream IP from audio to screen).**

(1) Statista, Audio Publishers Association.

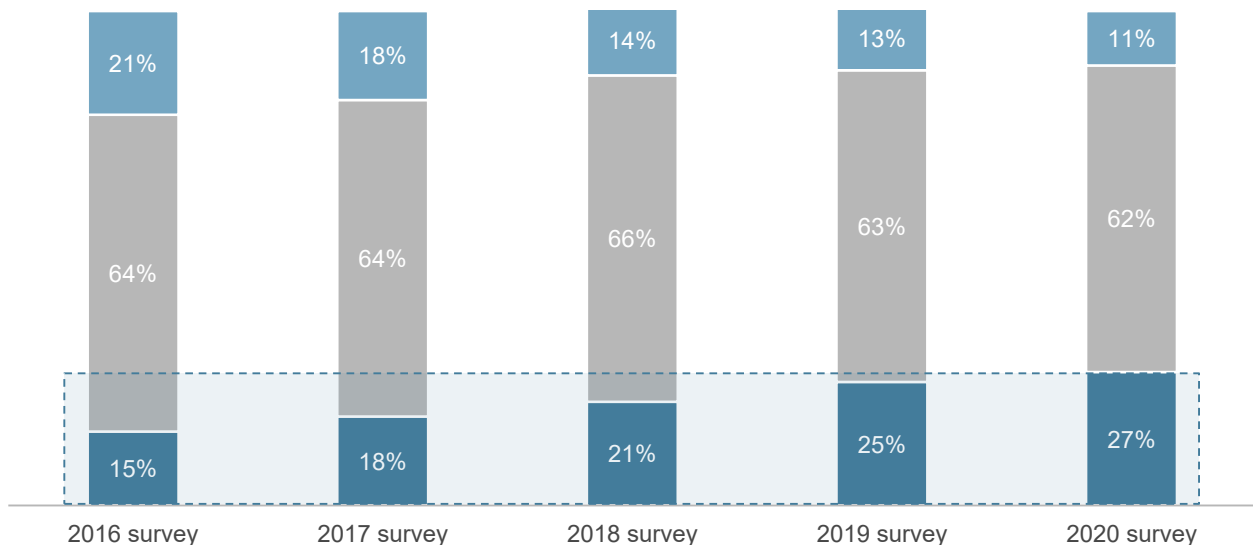


# Podcasting Core to Major Media Audio Strategies

Podcasting M&A remains active amid the subsector's continued growth.

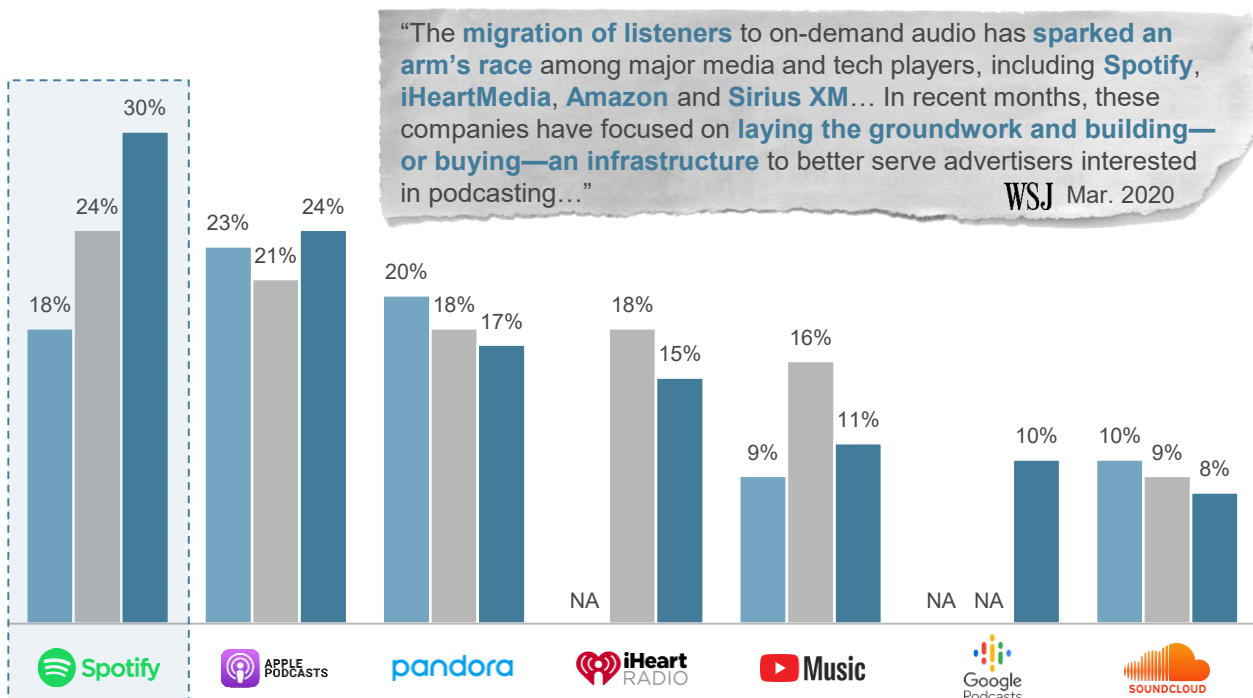
## Podcasts Are an Increasingly Integral Part of the Audio Ecosystem...

(% of total respondents using podcasts) ■ Podcast users ■ Aware but don't use ■ Unaware



## ...With Spotify Establishing an Early Lead

(% of podcast listeners using select services) ■ 2018 survey ■ 2019 survey ■ 2020 survey



“The migration of listeners to on-demand audio has sparked an arm’s race among major media and tech players, including Spotify, iHeartMedia, Amazon and Sirius XM... In recent months, these companies have focused on laying the groundwork and building—or buying—an infrastructure to better serve advertisers interested in podcasting...”  
 WSJ Mar. 2020

# Spoken Audio Emerges as the Next Battleground

Tech and audio companies continue to evolve their product and service ecosystems to win and retain consumers.

## Amazon, Google, Facebook, and Spotify Are All Fighting for Position

### Tech Platforms

“**Amazon** music service is **launching into podcasting Wednesday**, becoming the **latest entrant to the rapidly expanding medium**... While the company is joining a competitive field, executives said the service can tack differently from rivals—**as it has with music streaming**—and bring in new podcast listeners, particularly through its voice-activated home speakers.”

WSJ Sep. 2020

### Strategic Audio Players

“**Spotify** is recruiting a **head of audio books** for its **Spotify Studios** division... responsible for the creative oversight, content strategy, editorial and programming, and **execution of our Audiobook strategy**... This is an opportunity to **imagine new possibilities for what AudioBooks can be**...”

music:)ally Aug. 2020

“...**Nest Audio** to automatically tune itself to whatever you're listening to: **music, podcasts, audiobooks** or even a response from Google Assistant. And Ambient IQ lets Nest Audio also adjust the volume of Assistant, news, podcasts and audiobooks based on the background noise in your home, so you can hear the weather forecast over a noisy dishwasher.”

Google Sep. 2020

“**Spoken Word, Non-Music Content Is Now a Serious Spotify Category**... ambition towards audio domination—of which music is just a subset. Those ambitions became glaringly clear earlier this month, when Spotify dropped more than \$300 million on two podcasting companies.”

DIGITAL MUSIC NEWS Feb. 2019

“**Facebook is building its own in-app podcast player**, the company confirmed today. The company's interest in podcasts makes sense. It says more than 170 million people connect to podcast pages, and more than 35 million people are members of fan groups around shows. Plus, podcasts are still primarily an ad-based product, meaning Facebook **could gather data about shows and listeners and target its own ads against them, possibly giving creators a cut**. Facebook's formal entry into the podcast player space would mean nearly all the tech giants run their own podcast products, including Apple, Google, and Amazon, and other smaller apps.

THE VERGE April 2021

# Audio Sector Selected Transaction Snapshot

M&A activity and exclusivity deals have accelerated across audio sectors.



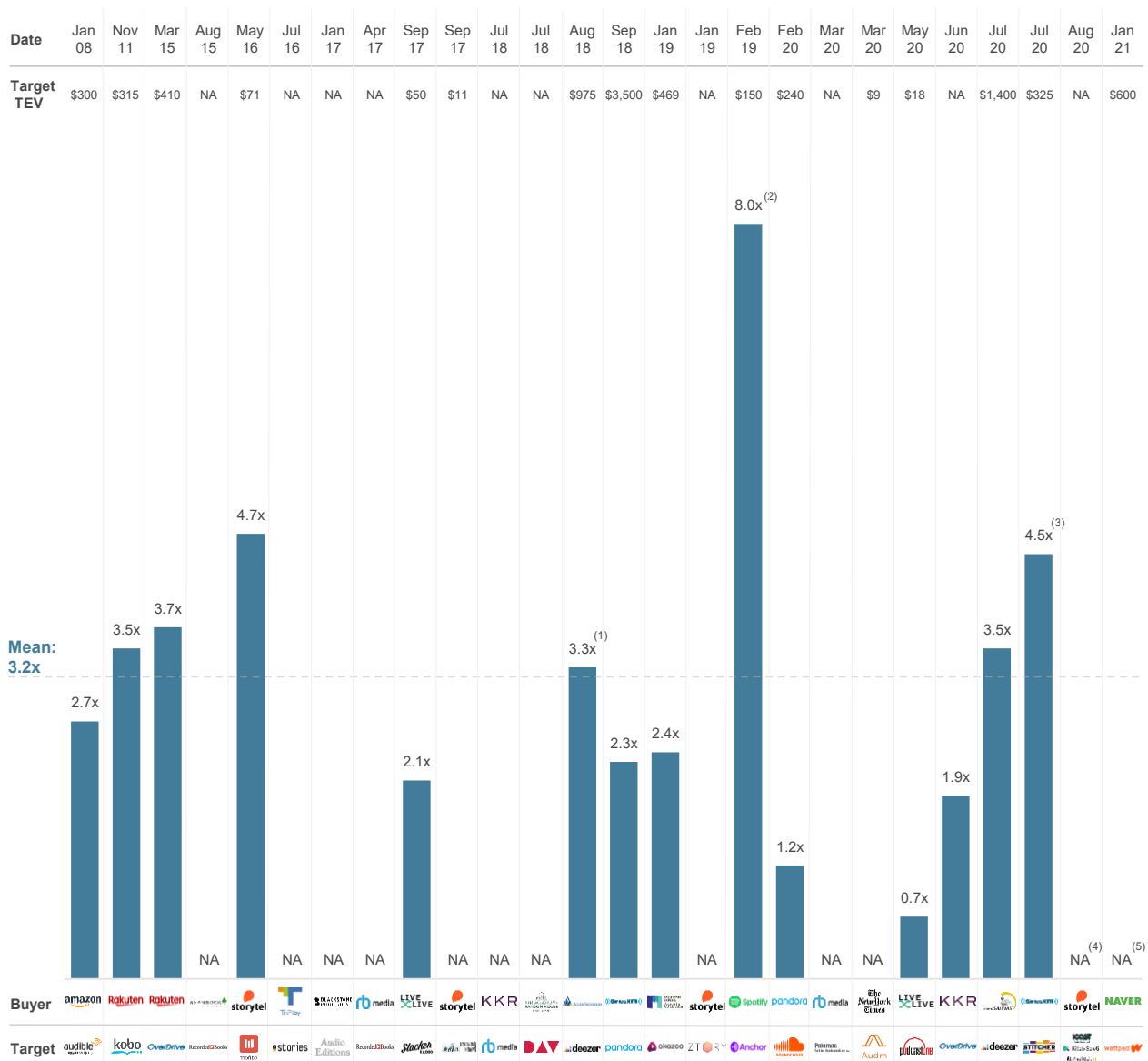
Sources: Company filings, other publicly available information.

# Sector M&A Activity

## DTC Audio Streaming

### Selected Transactions (TEV/LTM Revenue)

(\$ in millions)



Sources: S&P Capital IQ, public filings, Wall Street Analyst Research, other publicly available information.

(1) Represents pre-money valuation.

(2) Wall Street Research.

(3) Based on implied valuation from Grupo Salinas' \$40 million investment in Deezer as well as Deezer's CY 2018 revenue, per public sources.

(4) Storytel acquisition of Kitab Sawti and Earselect in July 2020, and acquisition of iCast in August 2020.

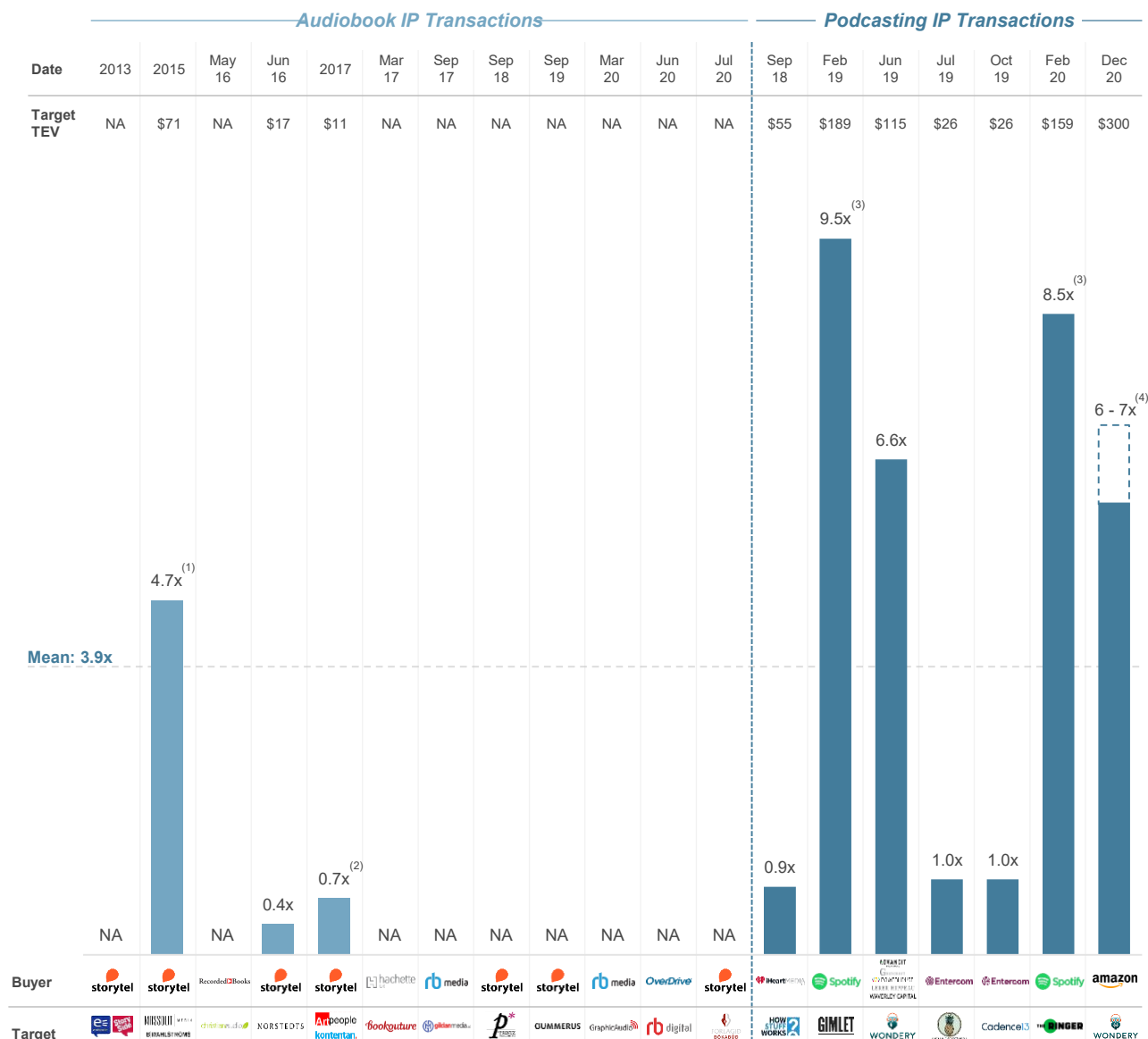
(5) Revenue multiple of 25.0x not meaningful based on reported transaction value of \$600 million and 2019 revenue of \$24 million.

# Sector M&A Activity

## Audio IP

### Selected Transactions (TEV/LTM Revenue)

(\$ in millions)



Sources: S&P Capital IQ, public filings, Wall Street Analyst Research, other publicly available information.

Note: Selected transactions primarily include early-stage, high-growth companies acquired on a revenue basis; more mature audio IP companies are typically acquired on an EBITDA basis.

(1) TEV and revenue multiple based on July 2015 Massolit Media transaction.

(2) TEV and revenue multiple based on March 2017 Arpeople transaction.

(3) Based on Wall Street Analyst estimates.

(4) Based on revenue estimate of \$40 million to \$50 million.

# Valuations at Peak Levels for New Models and Premium IP

Audio benefits from streaming tailwinds across categories.

## Implied TEV/CY 2021E Revenue Multiples



## Implied TEV/CY 2021E EBITDA Multiples



## CY 2021E Revenue Growth



## CY 2021E EBITDA Margin



Sources: S&P Capital IQ, public filings, Wall Street Research, other publicly available information.

Note: **D2C Audio Streaming** includes Entercom (DTC Business), Sirius XM, Spotify, Storytel, and Tencent Music Entertainment; **Audio IP** includes Hipgnosis, Sony Music Entertainment, Universal Music Group, and Warner Music Group.

(1) Excludes Hipgnosis (TEV/CY 2021E revenue of 9.9x and CY 2021E EBITDA margin of 67%).



Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank.

- 1,500+ Employees
- 23 Offices Globally
- \$1+ Billion of Revenue
- ~\$5 Billion Market Cap

## Corporate Finance

### 2020 M&A Advisory Rankings U.S. Transactions Under \$5 Billion

Advisor	Deals
<b>1 Houlihan Lokey</b>	<b>210</b>
2 Goldman Sachs & Co	147
3 Jefferies LLC	119
4 Piper Sandler & Co	114
4 Evercore Partners	114

Source: Refinitiv (formerly known as Thomson Reuters)

**No. 1** U.S. M&A Advisor

**Top 5** Global M&A Advisor

**Leading** Capital Markets Advisor

## Financial Restructuring

### 2020 Global Distressed Debt & Bankruptcy Restructuring Rankings

Advisor	Deals
<b>1 Houlihan Lokey</b>	<b>106</b>
2 PJT Partners Inc	63
3 Lazard	50
4 Rothschild & Co	46
5 Moelis & Co	39

Source: Refinitiv (formerly known as Thomson Reuters)

**No. 1** Global Restructuring Advisor

**1,400+** Transactions Completed Valued at More Than \$3.0 Trillion Collectively

## Technology, Media, and Telecom

### 2018 to 2020 M&A Advisory Rankings U.S. Technology, Media, Entertainment & Telecom Transactions Under \$5 Billion\*

Advisor	Deals
<b>1 Houlihan Lokey</b>	<b>133</b>
2 Goldman Sachs & Co	123
3 Raymond James Financial Inc	110
3 Morgan Stanley	110
5 JP Morgan	108

Source: Refinitiv (formerly known as Thomson Reuters)  
\*Includes acquired firm transactions.

**No. 1** U.S. TMT Practice

**TMT Investment Bank of the Year**—The Deal Awards 2020

**43** Completed Transactions in 2020

## Financial and Valuation Advisory

### 2001 to 2020 Global M&A Fairness Advisory Rankings

Advisor	Deals
<b>1 Houlihan Lokey</b>	<b>956</b>
2 JP Morgan	876
3 Duff & Phelps	802
4 Morgan Stanley	599
5 BofA Securities Inc	542

Refinitiv (formerly known as Thomson Reuters). Announced or completed transactions.

**No. 1** Global M&A Fairness Opinion Advisor Over the Past 20 Years

**1,000+** Annual Valuation Engagements

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