Is It Worth that Amazon Takeover MGM

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Abstract. Amazon bought MGM for $8.45 billion, and MGM, which has been "selling" for a long time in the Hollywood filming market, finally found its owner. So, we will talk about the cost performance of this trade and the meaning for MGM and Amazon. This paper analyzes the reason why Amazon have this trade, the benefit Amazon can get from this trade, the cost and risk of this trade, and influence this trade will bring to the whole industry.

Keywords: Amazon, M&A, Business Analysis.

1. Introduction

On Tuesday (March 15, 2022), local time, the EU antitrust regulators approved Amazon's acquisition of MGM, an American film studio, for us $8.45 billion, without imposing any conditions on the transaction [1]. Amazon completed the acquisition of MGM in a very short time, the most time spend in this business is the antitrust investigation. So, we can see from it, both MGM and Amazon want to this transaction be successful as quickly as possible. This is a very significant thing for Amazon, which means that it will develop a new business and enter a new industry.

Amazon set up in 1995, is a one of the easiest companies started E-commerce. It only carried out business on books, such as buying book online or e-books at first. But Amazon seized the opportunity, it developed other aspects of online business and expanded itself in an amazing speed. Now, it is one of the largest internet online retailers in the whole world. This trade is for a video website named prime video belong to Amazon. Prime video's launch time is 2006. 9. 7, it has 150 million users. Prime Video is a platform. Its video platform is embedded in the wider range of services it provides (especially its music platform, Alexa assistant and its broader e-commerce business). This is the strategic approach for Amazon Prime to enter the audio-visual market. It is not a TV provider, but a video product seller closely connected with the multilateral markets such as retail, advertising, music, data, and finance [2].

MGM is an American filming firm with a long history, set up in 1924. It has many famous works, for example Tom and Jerry， Gone with wind. It was one of the top eight film companies in Hollywood in the past. But in 1990s it started losing their market due to more competitors appeared like Dreamwork or Pixar and it did not access to new technologies. For 21st century, MGM became worse and worse. In 2005, Sony decided to purchase MGM, but when financial crisis came in 2008, Sony chose to give up MGM. After two years, MGM applied for bankruptcy due to its huge debt. However, MGM got a big success due to the reorganization plan. It merged with spyglass Entertainment. With the lead of Gary Barber, MGM invest The Hobbit Trilogy and started 007 series again.

2. M&A Analyses

2.1 Introduction of the Acquisition

2.1.1 Why Amazon choices to buy MGM?

First, MGM is the cheapest one in American mature film companies. Warner needs at least 15 billion dollars, 20th century -Fox Corp at least 18 billion dollars. Secondly, only MGM was selling itself. Other mature companies do not want to be bought by others, since most of they have a good

operation to the companies. But MGM had waited for a buyer from 2010. So, the MGM was the best choice for Amazon.

Although Amazon has its own video website, but it does not like Netflix and Disney. It cannot bring famous films or TV series to consumers. So, it may lose its market because Netflix and Disney always have more interesting and valuable new entertainments for consumers. It will the attention of consumers. So how to have more better new entertainments is very important. But Amazon is an internet company, not a filming company, it needs more resources and experience. And setting up a brand-new company takes too long time it needs to join the competition as quickly as possible. So, buy a mature filming company is best choice. MGM has complete production team and uses cooperate with Amazon in Hobbit Trilogy. One more reason is MGM has a lot a classic and famous IPs, it can bring more new users to Prime and let more customers subscribe Prime. And these IPs will bring a lot of benefits since some of them still be hired to TV station or other ways Why Amazon buy a filming company? Because Amazon want to join the streaming media market, it needs a company with complete operating system and enough resource and talents.

2.1.2 Why Amazon join the steaming media market?

Amazon dedicated e-commerce nearly thirty years, so it needs to learn about customers to sell more goods. It needs to analyze customers from past record and information. But it needs more information and data to analyze consumers' preference from their daily life, so if it join the streaming media to get more data to sell more products. Also, due to Amazon have this technology, when it joins the competition, it can attract customers' attention more easily than competitors. It learns about consumer's more than other competitors, so may more consumers will give up using their competitors to use Amazon' streaming media. And since more attention from consumers, the profit from advisements in Prime and Amazon will increase a lot.

Also, due to COVID-19, the physical filming industry hit down. However, streaming media represented by Netflix has ushered in a rare development opportunity. According to the data of CIRP, an American market research company, Amazon attracted about 30million new members from 2020 to 2021. By the end of last year, the number of Amazon members had exceeded 200million. Moreover, the repurchase rate of members is also very high. The data shows that the renewal rate reaches 94% after one year, and the renewal rate reaches as high as 2 years later [1]. So, Amazon join the market to get more benefits from this industry, and MGM was sold in a comparative low price. Then Amazon join the market with a comparative low cost. The competition of whole internet industry is aggravating. If Amazon cannot have more new advantages, it will be eliminated by the industry. Also, since 2004 Wall Street put more and more money and attention on media. The ability to monetize the content catalog through the streaming media platform is a profitable opportunity for financialization [3]. If Amazon can join the streaming media successfully, its share price and investment will all increase.

3. The Process of M&A

3.1 The Cost of Trade

Table 1. film companies' financial situations

Acquirer	Target	Year	Tran Value	TV/Revenue	TV /EBITDA
DIS	21st FOX	2017	83,3	2,87	11,95
T	Time Warner	2016	109,8	3,85	13,87
CMCSA	SKY	2018	36,3	2,82	18,79
Viacom CBS	Viacom	2019	20,4	1,59	7,33
Lions Gate	Starz	2016	4,1	2,54	10,69
Discovery	Scripps	2017	15	4,33	10,96
CMCSA	Dreamwork	2016	3,8	4,04	37,73

DIS	Pixar	2006	5,8	20,19	26,92
DIS	Marvel	2009	3,8	5,33	11,88
Amazon	MGM	2021	8,45	5,63	27,5

Data in the form comes from these film companies' official website and annual report. From the form above, we can see that Amazon paid a high premium for the acquisition of MGM. In this industry, TV (transaction value) / revenue and tv/ EBITDA are 3.00 times and 12.30 times respectively [4]. In the case of Amazon's acquisition of MGM, this multiple has reached 5.32 times and 17.46 times. Amazon's bid for MGM is obviously too higher. But Amazon giving a high price is very necessary, due to Apple also want to purchase MGM. Since Apple provided just over 6 billion be refused [5], Amazon need a high enough bid.

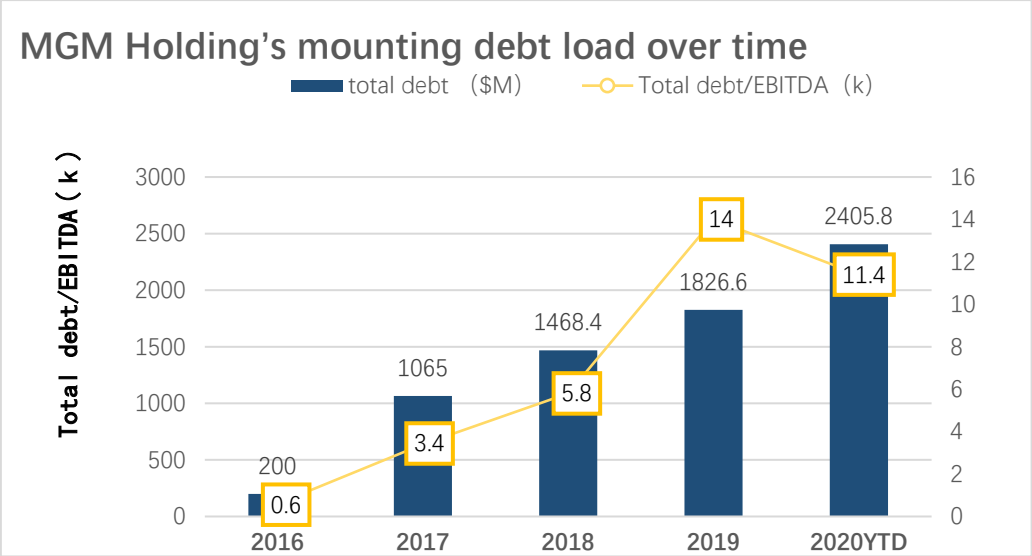


Figure 1. MGM's debt sketch map

This trade brings many voices of opposition too. At the same time, the labor union of four major trade unions representing about 4 million workers expressed opposition to the acquisition, claiming that it would only increase Amazon's market power in the entertainment industry, which might lead to anti-competitive business practices [6]. Many scholars also think it will influence the normal market. Mergers and acquisitions are common in the digital economy and have made considerable contributions to the growth of some leading companies. Its motivation is to get rid of competitors, acquire new technologies, purchase patents and other assets, increase market share and expand new markets. In recent years, the number of acquisitions of leading technology companies has surged, affecting market competition and innovation [7].

3.2 What's Risk Did MGM Have?

MGM's debt was increasing before being bought by Amazon. There are two main reasons for the increase: first, it acquired Epic, a streaming media platform, in 2017 (as can be seen from its debt surge in 2017), and second, its investment in content, because it tried to increase the number of its programs and dramas in content. From 2017 to 2019, MGM has increased the number of its programs from 21 episodes to 41 episodes. Although we cannot sure Amazon will bear all debt, it must let MGM's debt decreases. MGM's debts were more about the defeats in the investment of its business. So that the business model of MGM may hard to be successful, and Amazon may cannot earn the cost bank.

Also, MGM does not have good reputation in the film industry because the conflagration in 1980. The detrimental effects still had, this conflagration let MGM's stock price and whole hotel industry's stock price plummeted. And MGM's cash flow started to have problems. But it did not bring too many troubles to the film and hotel industry. MGM's loss was mostly taken by insurance company [8].

Moreover, there some questions haven't finished. The financial industry has a hidden and huge influence on Hollywood [9]. If MGM is not recognized by financial institutions on Wall Street, its financial situation and share price will not improve. This will even drag down Amazon's capital chain. The issue of content authorization and exclusivity will be the first key issue Amazon needs to face after its acquisition of MGM. Should we continue to sign MGM's licensing contract (at the expense of the exclusivity and core competitiveness of Amazon Prime platform itself) in exchange for the revenue generated by MGM's licensing, or should we continue to retain the exclusivity of all MGM content (at the expense of MGM's licensing revenue) in exchange for the increase of Amazon Prime subscribers? If Amazon do not solve this question carefully, it will bring harm to not only MGM but also Prime.

The benefit from MGM's IP is high? Scalability of MGM movie franchise Disney (DIS) acquired the franchise of Marvel movie universe's series of films for $3.8 billion in 2009, which is a classic case in this industry. Although the revenue sharing between the film company and marvel movie universe is half to half, this acquisition still brings Disney more than $22billion in total revenue. However, as far as MGM's franchise is concerned, it seems difficult to expand its scale. Let's take the James Bond films as an example. When other companies launch the products or games of James Bond films, the licensing is very limited. Because James Bond does not as popular as Marvel, and MGM also does not have ability like Disney to make James Bond popular again.

4. Conclusions

According to the above analysis, this transaction is very valuable because Amazon has not only gained a lot from this transaction that cannot be measured by money such as a mature team and much resource in filming but also many classic IPS and the attention of consumers they will capture. Although they pay a slightly higher premium and must bear part of the debt, this is far less than the benefits they get. Moreover, Amazon bought MGM just want to give companies scarce capabilities to promote their competitiveness in the market. Companies can consolidate their capabilities through consolidation, split new companies by dividing their capabilities, or acquire unallocated capabilities. We studied stable industry structures (stable networks), where none of these biases were profitable [10].

Of course, this is also the price they should pay to catch up with the trend of the industry. Most of its competitors can do it. If it cannot, it will be eliminated by the whole industry. However, there are still many problems that are not easy for it to solve, if it cannot solve these problems well, it will not only bring trouble to itself, but also bring a devastating blow to MGM.

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