

Ad Tech's Top Investment Banker on Who Will and Won't Survive the Pandemic Paralysis

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Key insight:

- Digital has brought a level of complexity to enable targeted marketing and is set for accelerated consolidation.

Despite online audiences and engagement spiking amid global stay-at-home orders, the economic impact of the Covid-19 pandemic has not spared the digital ad market.

The pandemic has laid waste to bottom lines and upped the pressure for companies to bulk up or bow out. Yet despite it all, some players are still finding ways to thrive.

Ahead of his scheduled NexTech appearance later this month, Terence Kawaja, founder and CEO of noted investment bank LUMA Partners, shared his thoughts on how ad tech will fare amid this environment.

This interview has been edited and condensed for clarity.

Adweek: Given the headwinds of third-party cookie deprecation, plus the economic impact of the pandemic, do you foresee an acceleration or slowing down of “deals” in ad tech before 2022?

Terence Kawaja: We confidently predict continued consolidation across a variety of mar-tech and ad-tech sectors in the coming years. The digital marketing sector has always been complex and dynamic, so significant changes are nothing new. We believe the net effect of Covid-19 will be to act as an accelerant to preexisting trends.

The ad slowdown will likely come and go, but certain consumer-driven trends have accelerated during the lockdown. These include an accelerated shift to streaming video, which will accelerate CTV deals; a spike in gaming and app usage, which will drive app monetization deals;; a rise in podcasting, leading to more audio deals; and the rapid acceleration of ecommerce as people are forced to order goods online.

In addition, we predict strategic activity in the identity space as companies position for privacy-centric data capabilities as the changes announced by Google (cookie deprecation) and Apple (IDFA deprecation) ripple through the market, as well as CCPA enforcement.

Do you have any thoughts on which companies are going to fall by the wayside and which ones will exit, but with diminished expectations?

The companies best positioned to win in this environment are companies that are on the right side of these trends. As the market is changing rapidly, large companies looking to take advantage will default to inorganic growth options (acquisitions) to position themselves with the right technology.

To clarify, we focus on strategic deals. There will likely also be a wave of capitulation deals as startups on the wrong side of the current funding squeeze resort to forced sale outcomes.

Advertisers are paying a lot more attention to ad tech after a PwC report found that only 51% of media budgets make their way

to publishers. Do you think brands will accelerate in-housing, or even buy their own ad tech?

The tech tax narrative is a bit overblown and distorted. Digital has brought a level of complexity to enable targeting and attribution. It is logical that as the sector goes through a phase of consolidation and rationalization that we end up like other media channels where there are fewer intermediaries with larger volumes and lower take-rates. It happens in every industry, and ad tech is no different.

Ad tech is different in that it achieved a level of fragmentation beyond that experienced in most sectors. Blame it on a perfect storm of large total addressable market, an abundance of venture capital, and ease of new company formation, the result of which is thousands of companies comprising a fragmented supply chain.

The larger brands may in-source certain capabilities and expertise, as they did with search, but we think it is unlikely they will want to own much proprietary technology, nor are they likely to become buyers.

What kind of ad tech might they be interested in? For instance, you are well-noted for your belief that identity is a key area of interest to buyers. Are there other areas that are hot right now?

We do see the large consumer data companies likely to beef up their mar-tech capabilities as they take advantage of a large and growing market. These types of strategic buyers often wait for a sector to reach a level of maturity—code for scale and profitability—before entering.

Terence Kawaja will participate in a conversation about post-Covid dealmaking at NexTech 2020, a four-day summit beginning July 27. Register now for this complimentary virtual event.

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