Autumn 2022

Clearview

Digital Marketing

Digital marketing agency M&A continues to gather pace, as investors look to capitalise on specialist capabilities.

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Market overview

Appetite for digital marketing businesses remains buoyant, with 311 acquisitions from 2021 to date. Buyers are capitalising on the opportunity to target a global internet user base that now exceeds 5bn. With 78% of marketing now digital and 60% of businesses projected to increase their digital spend, the medium-term growth trend remains intact.

Automation is starting to revolutionise digital agency business models, with technology driving significant margin improvement. Many agencies in the influencer and search marketing spaces can now achieve profit margins of 30%+, alongside more customer contracts. Such attractive financial profiles have brought many new investors to the sector.

311

acquisitions of digital marketing businesses from 2021 to date

78% of marketing expenditure is expected to be directed towards **digital methods of communication**

60%

of businesses projected to increase their digital marketing spend

Spotlight on specialist capabilities

Specialist capability is hard to develop organically, exacerbated by an acute talent shortage. With an increase in channels leading to added complexity for many in-house marketing departments, agencies that are sector specialists and often use technology to differentiate their proposition, are prime acquisition targets.

Influencer marketing

Influencer marketing was once dismissed as a fad, but with over 4.6bn social media users and an increasing cynicism towards mainstream media, agencies that provide algorithm led campaigns are in demand. Often driven by ambitious entrepreneurs who are more social media savvy, large global blue-chip clients are turning to specialist agencies, to access niche market segments.

Labelium acquired 1,000 heads in a deal worth over $100m in 2022, after less than a three-year hold by its private equity investor Phoenix. WPP acquired US based Village Marketing, to bolster its capability in the space. Meanwhile, Inflexion-backed Goat experienced over 80% revenue growth last year alone.

E-commerce enablement

With the growth of new e-commerce platforms from vendors such as Shopify, Big Commerce and Magento; acquirers have focused on agencies with the ability to build and manage online stores. Bridgepoint-backed IDHL acquired Shopify plus agency Statemen, whilst WPP bought Cloud Commerce Agency.

With a recognition that winning the contract for website development opens the door to cross-sell other services such as SEO and PPC, further consolidation is expected as these software platforms continue to mature.

B2B specialists

B2B agencies have historically struggled to be as enticing to new talent as their B2C counterparts. Through an increased recognition of this specialised skillset and enviable long-term contracts with blue-chip clients, private equity has turned its focus to the segment. Horizon invested in The Marketing Practice, whilst Elysian acquired Gravity Global.

With 4.6bn social media users,

marketing budgets are finally starting to follow the eyeballs

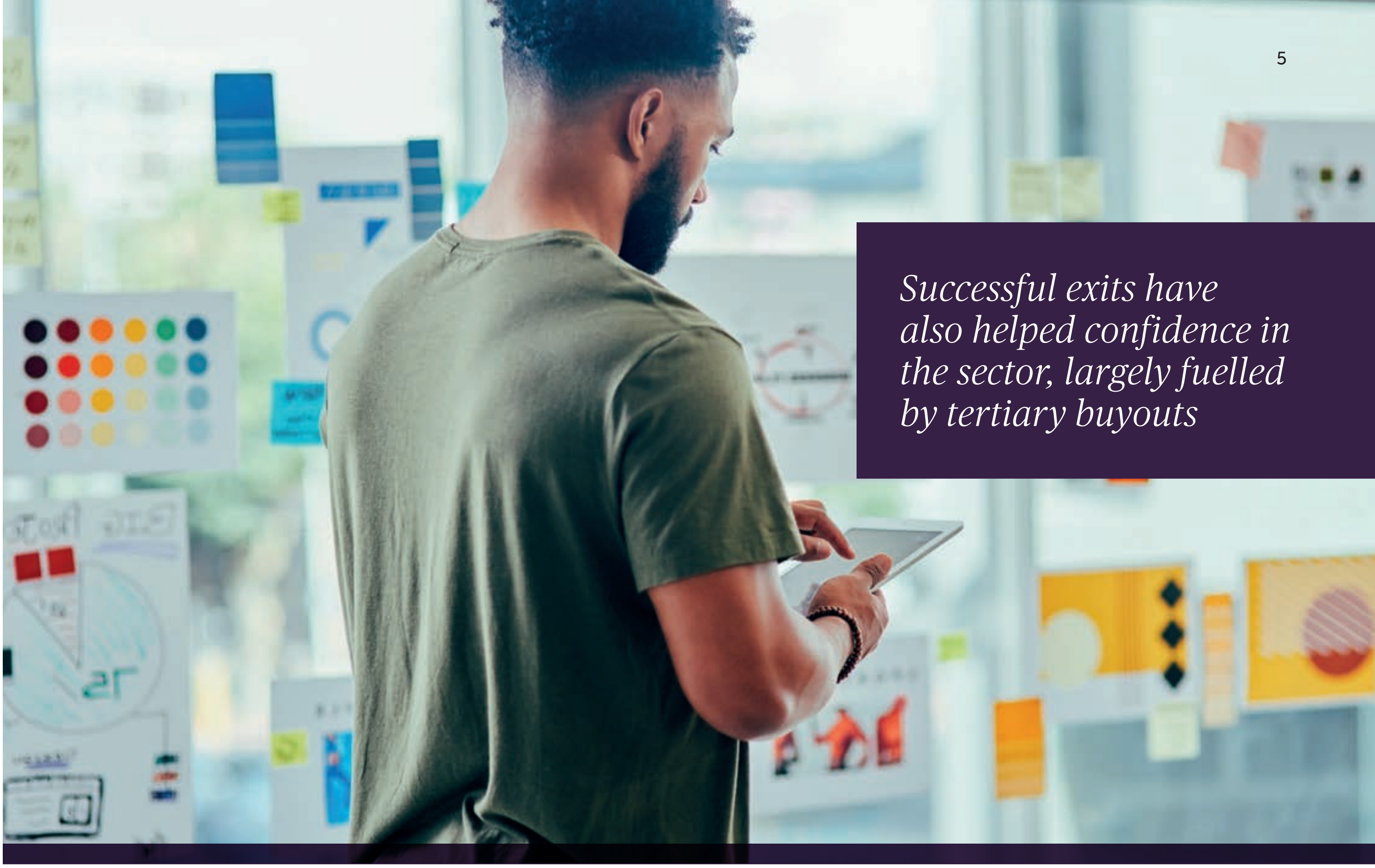
From 2021 onwards, private equity participated in over a third of transactions

Record private equity investment

Historically, there were only a handful of investors who were active in the sector, with M&A dominated by trade purchasers. Customer concentration, a lack of earning visibility and a dependency on a handful of key personnel, were regularly barriers to private equity getting opportunities through investment committee.

Yet from 2021 onwards, private equity participated in over a third of transactions. This has been driven by the advent of agencies underpinned by technology platforms. Tangible IP has made investors more comfortable than just people-led expertise, with greater predictability of revenue streams and a point of differentiation in a crowded market. Successful exits have also helped confidence in the sector, largely fuelled by tertiary buyouts such as Bridgepoint's investment in Equistone-backed Inspired Thinking group.

With many investors opting for a buy and build model for platform assets, business owners have been attracted to a quasi-private equity deal structure, with the ability to capitalise on the benefits of a future exit.



Successful exits have also helped confidence in the sector, largely fuelled by tertiary buyouts

Date	Target	Acquirer	Description
July 2022	CoxReps	One Equity Partners	US advertising agency
July 2022	CTI	LDC	UK digital agency
March 2022	Inspired Thinking Group	Bridgepoint	Technology based advertising agency
November 2021	Cure Media	Equip Capital	Swedish influencer marketing agency
September 2021	Gravity Global	Elysian Capital	UK B2B marketing agency
August 2021	Bounteous	New Mountain Capital	US digital development agency
August 2021	Jungle Creations	Livingbridge	Media and digital marketing agency
July 2021	Labellium	Charterhouse	France based online marketing firm
May 2021	We Are Social	CVC	UK based social agency
April 2021	Scorpion	Bregal Sagemont	US SEO and email marketing firm
April 2021	The Marketing Practice	Horizon	UK B2B marketing firm

Sources: Mergermarket, Capital IQ and Clearwater International intelligence

S4 has grown into a
£800m
company in just four years, through an aggressive acquisition policy

New digital first agencies determined to rip up the rule book

The big agencies were once the most acquisitive in the market, but their purchasing activity has slowed, with M&A being replaced by complex internal restructuring processes. The landscape has become increasingly challenging, as customers seek heightened scrutiny of marketing expenditure. This applies to media planning in particular, resulting in cost cutting and returns to higher margin services.

This has also left a gap for new digital agencies to become key acquirers. Their focus is on data driven propositions and promise faster, better and more accountable services. The old model of sister agencies competing against each other has been abandoned, in favour of collaboration and cross-sell capabilities. Deal structures invite business owners to subscribe into the top company, rather than incentivising shareholders through complex earn-out structures.

Martin Sorrell launched S4 as a 'communications business for the new marketing age'. Despite recent troubles, the agency have grown into a £800m company in just four years, through an aggressive acquisition policy.

With Brandtech rumoured to be launching an IPO later this year on the back of a $60m Series E round, it will be interesting to see how the public markets value these new entrants. The challenge for new agency networks will be to keep their proposition enticing to potential targets, as more firms buy into its shareholding.

The old model of sister agencies competing against each other has been abandoned, in favour of collaboration and cross-sell capabilities.

Blurring between agency and consultancy

As large projects are framed around customer experience, consultancies have been looking at execution capabilities, alongside traditional advisory models. The battle between agencies and consultancies has at times been ugly. In 2020, WPP refused in to participate in any media pitches supervised by Accenture, citing a conflict of interest with Accenture Interactive.

Consultancies accounted for just under 50% of agency acquisitions in 2017, with many pushing their consumer data to work harder and bring in new revenue streams.

Yet the rate of acquisition of agencies by consultancies has slowed down this year, with many groups such as Deloitte prioritising consolidation and integration, rather than further purchases.

Having significantly built out their networks, they have started to acquire for specialist capability, as opposed to scale alone.

The rumour that a big six network will sell out to a consultancy, has so far been unfounded. The pessimistic view that agencies will have to sell out may be misplaced, with plenty of room available for both to exist.

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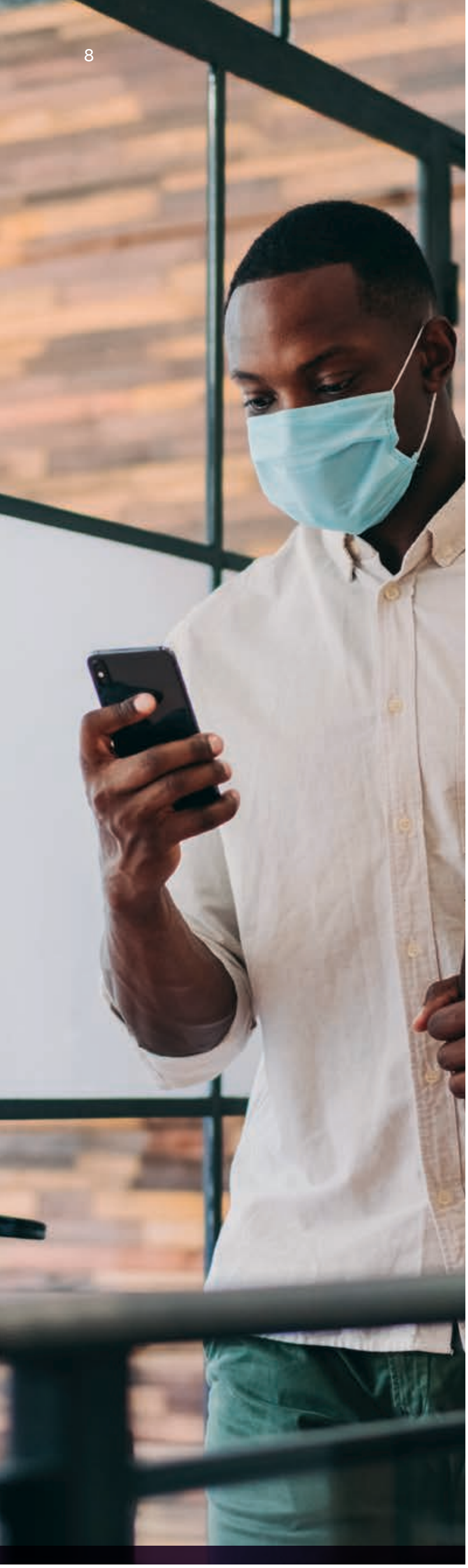

COVID-19 accelerated growth but a reset of the new normal

Digital advertising spend increased during COVID-19, as everyone lived in a virtual world. E-commerce boomed, online media consumption skyrocketed, as did the use of e-service platforms, which provided a perfect storm for online advertising.

S4 epitomised this trend, announcing 100% growth in 2021. Yet, as shares in e-commerce vendors such as Shopify dropped by 80%, there are questions around the sustainability of growth. As the world moved out of lockdown measures, S4 Capital's share price fell 86% below its highest point in September 2021. Investors have become wary of overly optimistic forecasts and spiralling costs, with a business that does not have the right infrastructure for growth.

Whilst the industry will continue to navigate a volatile global economy, trends that accelerated in COVID-19 will be here to stay. Social media users globally are likely to remain hungry for personalised content, whether they consume it on the move or at home. Equally, marketing teams will still be keen to show expertise across cost effective and measurable channels. Agencies that provide deep capabilities in specialisms will continue to be hot assets.

S4 announced
100% *growth in 2021*

yet its shares declined over
80% in 2022 inline with e-commerce vendors such as Shopify

Social media users are likely to remain hungry for personalised content

Valuation ranges are extending

Nathaniel Cooper
Partner, UK

"The evolution of leading digital business models has resulted in very attractive valuation multiples in the private market. These have persisted through recent market turmoil. We have seen EBITDA multiples of mid-teens current year EBITDA and almost twice that on a historic EBITDA basis for the best businesses.

We note that if the business has not evolved, the valuation remains in-line with historical norms. However, the top end of this range will extend for those exploiting technology, data and high growth specialisms underpinned by high margins and recurring revenue streams".

Publicly traded agency groups have had a tough nine months, with our equally weighted index now trading at an average of 6.7x EBITDA. S4 now trades at the average multiple of 6.7x, after a series of profit warnings and concerns over spiralling staff costs. Amongst a volatile macroeconomic backdrop, it remains to be seen how multiples progress over the next quarter and beyond.

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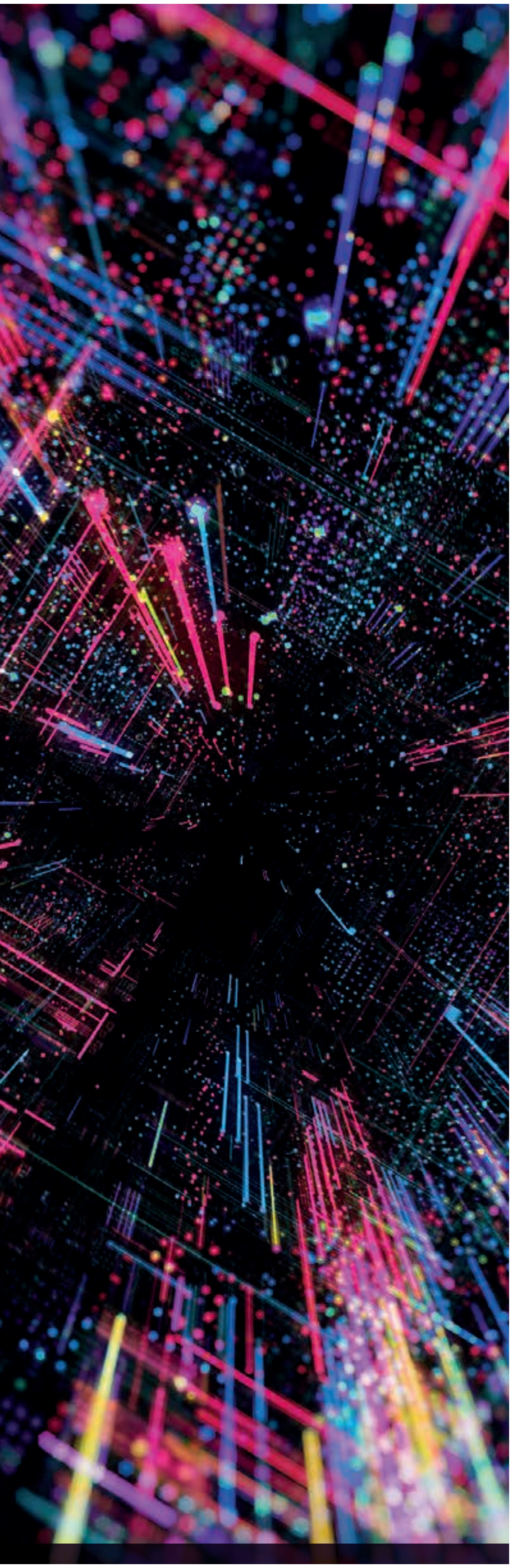

Our recent transactions

We have built up an extensive network and knowledge of the sector, becoming a trusted adviser for many of the world's leading players. With more than 270 successfully completed deals, our unique TMT transaction experience covers a range of areas.

Influencer Marketing

CURE MEDIA

sold to

EquipCapital

Sell-side
Undisclosed

Digital Transformation

INFINITYWORKS

on its sale to

accenture

Sell-side
Undisclosed

UX Design

hippo digital

on its investment from

gcp

Sell-side
Undisclosed

Retail Marketing Platform

EQUISTONE

invested in

itg

Buy-side
Undisclosed

Experimental Marketing

The Creative Engagement Group

sold to

HUNTSWORTH

Sell-side
Undisclosed

Salesforce Specialist

CLOUD SHIFT

sold to

Globant

Sell-side
Undisclosed

Social Media Scheduling

ContentCal

sold to

Adobe

Sell-side
Undisclosed

Influencer agency

goat

raised debt facilities

Debt refinanced
Undisclosed*

Social transformation

1000 heads

raised debt facilities

Debt refinanced
Undisclosed*

*deal completed by Partner at previous firm

Our Technology and Media team

With offices in Europe, the US and Asia, our TMT team can deliver seamless, integrated global advice to mid-market/owner-managed, corporate and private equity clients. They are supported by a number of high-profile senior advisers who are all former top tier executives, with relevant knowledge and a far-reaching network of contacts.

Senior UK digital marketing team

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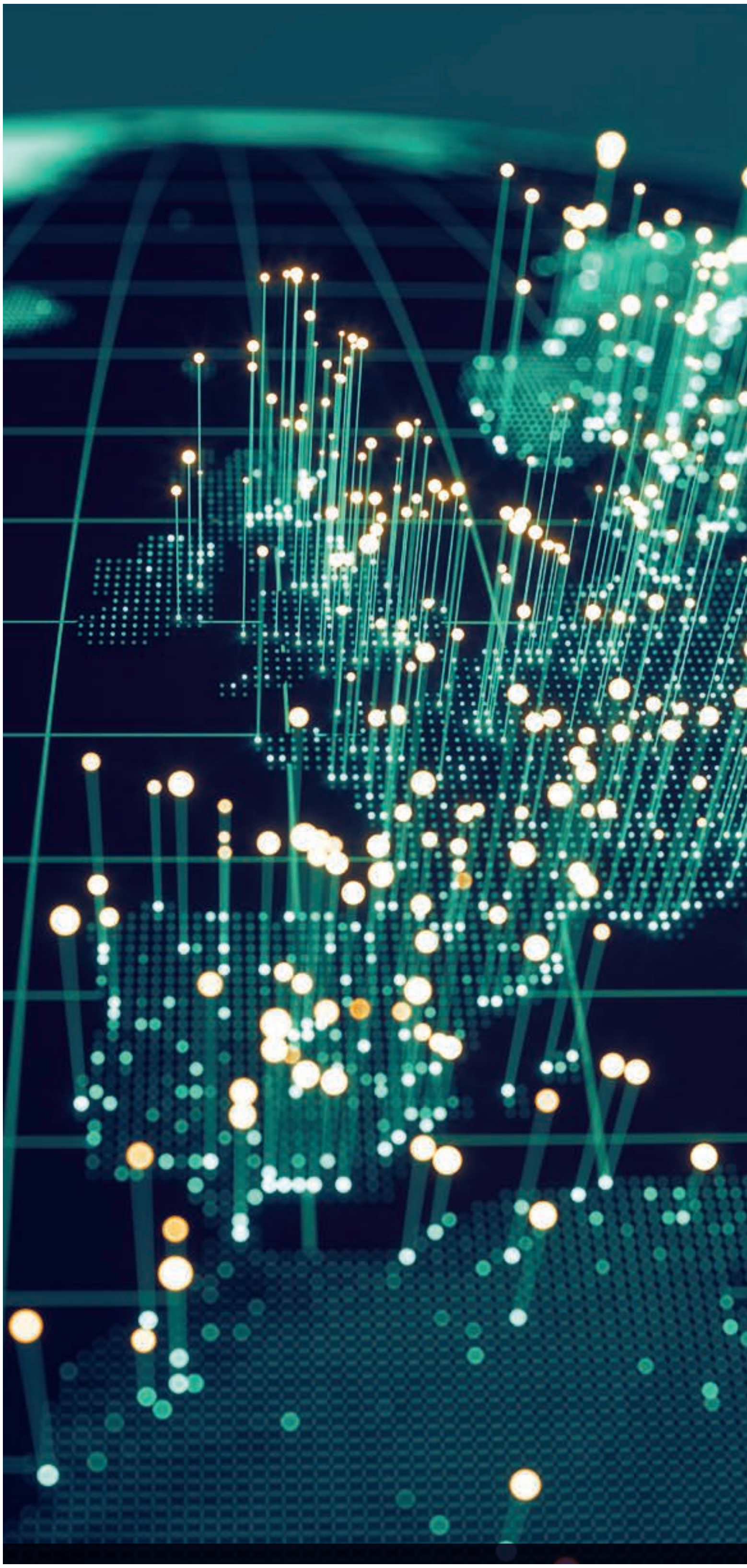

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