

Clearview

Autumn 2019

Design and Digital Agencies

The proliferation of new and diverse acquirers combined with a fragmented market sets the stage for plenty of M&A activity in the year ahead.

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Consolidation opportunities

Fragmented market

Although the global market for design and digital agencies has seen lots of M&A activity in recent years, it is still a fragmented market both locally and internationally. Alongside the big six networks which have a significant global presence – Dentsu, Havas, IPG, Omnicom, Publicis and WPP – there are a number of mid-tier and smaller agencies with a localised and niche capability focus.

The well documented problems of WPP have also led to many new entrants seeing an opportunity for consolidation. This is also combined with criticisms that major networks have become too complex to manage with large amounts of debt to service and little incentive for sister agencies to work collaboratively. Both S4 Capital, led by former WPP executive Martin Sorrell, and You & Mr Jones, a new entity by former Havas executive David Jones, have entered the market and become aggressive consolidators.

The landscape becomes ever more competitive with over half of marketing services acquirers last year coming from non-marketing services on a global scale. As the lines between traditional consulting and marketing services have become increasingly blurred, many traditional consultants and BPO providers have seen the benefits of adding design and digital implementation capabilities alongside their traditional advisory models.

Consultancies have a huge advantage over their marketing services counterparts via their access to powerful consumer insights collected over many decades. With many consultancies pushing for this data to work harder and bring in new revenue streams, creative services is a logical next step.

Private equity

Historically, private equity's appetite for marketing services assets has been lukewarm at best, and as such this is a sector that has been largely dominated by trade deals. Although this is starting

to change. There have been a number of new investments across the UK in 2019, including Phoenix's investment in 1000heads, Livingbridge's investment in Brainlabs, LDC's investment in both MSQ Partners and Instinctif partners, as well as Bain Capital's investment in Kantar Group.

These private equity investors are typically focusing on assets with a digital and technology-led offering, with own IP helping to offset the perceived risks of a people focused sector.

However, although private equity appetite has started to build, only 10% of acquirers in 2018 came from a private equity or investment background, with consulting firms therefore making the biggest splash in terms of M&A activity.

As the agency world is largely a people business, the cultural aspect remains an increasingly important factor to both target and acquirer, with many of the consultancies opting to keep their marketing services businesses as separate entities to their consulting practices, recognising the clear differences between the two.

It also means the initial dependency on previous owners is often relatively high from both a cultural perspective, but also in regard to client relationships, which implies that a buyer will require a financial commitment from the seller to align interests in the future. That said, a recent trend amongst a landscape of more aggressive competition, is of acquirers offering more cash up-front as firms look to win out in competitive auction processes, a trend that will continue to benefit future sellers/targets as M&A levels rise.

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New digital channels

Consolidation drivers

Last year saw 1,084 marketing services transactions completed globally, and the proliferation of new and diverse acquirers alongside a fragmented market sets the stage for equally aggressive M&A activity this year.








Such activity is being driven by the emergence of new digital marketing channels which require a greater level of content and more intensive operational management. Content creation was one of the most talked about marketing services asset classes a couple of years ago, and multiples have remained relatively high. Equally the need to access specialist competencies to deliver even more complex solutions, a shortage of skilled employees in the industry, and access to new customers which typically exhibit loyalty to their existing service providers, have all been powerful reasons to invest.

With technology disrupting every element of marketing services from media planning and buying through to content creation and execution, many traditional players are using digital acquisitions, encompassing new technologies such as artificial intelligence to significantly transform their business models. Technology and software led assets have become marketing services' new hottest property. Expect high multiples for those firms that can interpret and action company data in a meaningful way to enhance overall customer experience.

Market transactions

Date	Target	Country	Buyer	Country
Sep-19	Instinctif Partners	UK	LDC	UK
Aug-19	Make Us Proud	UK	YLD	UK
Jul-19	1000heads Group	UK	Phoenix Equity Partners	UK
May-19	Celerity Information Services	UK	Paragon Group	UK
May-19	MSQ Partners Group	UK	LDC	UK
Apr-19	Latitude Digital Marketing	UK	Jellyfish Group	UK
Mar-19	Vertical Measures	US	Investis Digital (ECI Partners)	UK
Mar-19	Brain Labs Digital	UK	Livingbridge	UK
Mar-19	Model Citizens	UK	Unlimited Group	UK
Feb-19	Blue Dog Design	UK	Lucid Group (LDC)	UK
Jan-19	Gravity Thinking	UK	Vivaldi	US
Jan-19	Inside Ideas Group	UK	You & Mr Jones	US

Recent Clearwater International transactions

 <p>EQUISTONE</p> <p>invested in</p>  <p>Buy-side Undisclosed</p>	 <p>CREATIVE ENGAGEMENT GROUP</p> <p>sold to</p> <p>HUNTSWORTH</p> <p>Sell-side €28m</p>	 <p>mouseflow</p> <p>sold to</p> <p>OFFSPRING CAPITAL</p> <p>Sell-side Undisclosed</p>	 <p>LDC Private Equity Less Ordinary</p> <p>MBO of</p> <p>FISHAWACK group of companies</p> <p>Buy-side €44m</p>	 <p>CREATOR</p> <p>sold to</p>  <p>Sell-side Undisclosed</p>
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Case study



Clearwater International advises Equistone on its investment in Inspired Thinking Group

Clearwater International has advised private equity firm Equistone Partners Europe (Equistone) on acquiring a majority stake in marketing services provider Inspired Thinking Group (ITG) from Bridgepoint Development Capital alongside management in an undisclosed deal.

ITG provides marketing content and campaign services to key clients including Heineken, Sainsbury's and Audi. The company has grown rapidly since being founded by Simon Ward in 2009, supported by a series of locally funded transactions which saw Livingbridge invest in 2010 before Bridgepoint acquired a majority stake in 2014.

The company made two acquisitions under Bridgepoint's ownership - creative consultancy Vitamin in 2015 and Creator in 2016, which provides electronic customer relationship management, also advised on by Clearwater International.

This transaction allows ITG to continue expanding its range of online and offline marketing services which include a content creation studio, print management and strategic planning.

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