

MERGERS AND ACQUISITIONS IN THE MARKETING AND MEDIA SECTORS

A review of Q1 2019

2019 has got off to a reasonable start for mergers and acquisitions in the marketing and media sectors, with 63 deals recorded, meaning the quarter kept pace with the final quarter of 2018. The data is from the latest [Moore Kingston Smith Marketing & Media Deal Tracker](#).

While the headline figures are relatively encouraging, there are nuances to consider. Firstly, though Q1 2019

kept pace with Q4 2018, those last three months of 2018 were that year's lowest-activity quarter. Secondly, according to Moore Kingston Smith intelligence, the first quarter of each year since 2016 has tended to be a relatively high-activity quarter – so in fact the latest three months are around a sixth lower than the same period a year ago. If the quarterly trend holds true for this year, it is likely activity will wane and full-year figures will fall short of 2018's year-end totals.

QUARTERLY VOLUME

Number of transactions

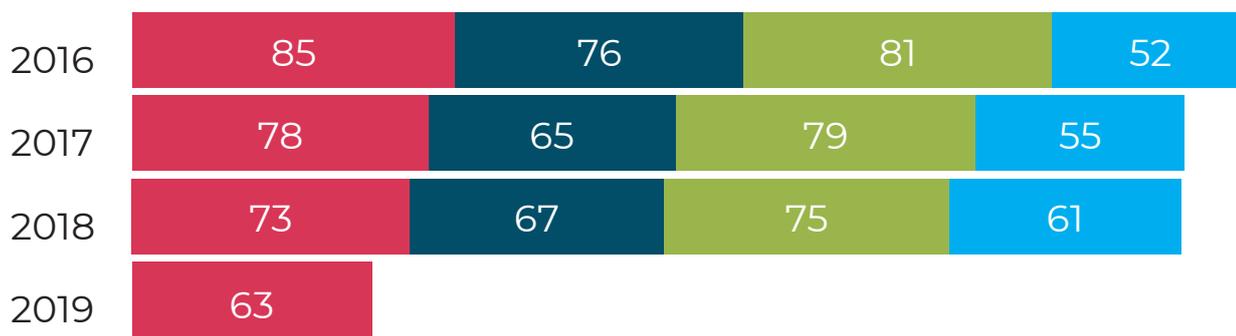


“The slowdown we anticipated for 2019 has started to materialise,” comments Mandy Merron, corporate finance partner, “probably due to concerns about Brexit. However, against that backdrop, Moore Kingston Smith’s corporate finance team has actually recorded our strongest-ever quarter for M&A in the marketing and media sector, so it may be a case that we are doing deals before the environment worsens. It may also be the allure of the sector – companies realise they need to bring in new skills and so are acquiring robust companies as an efficient way of doing so.”

Around half of the deals we reviewed were cross-border (31), with 45% of buyers of UK businesses being international, likely supported by a weak pound making inbound M&A more financially attractive. This makes the remaining 55% of cross-border deals in Q1 – UK businesses buying foreign companies – less obvious to explain. It may be that the increased prominence of private equity in the space – whether as outright buyers or as backers of buyers – is helping foster global expansion through select M&A.

DEALS PER QUARTER

Number of transactions



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ACTIVE PLAYERS IN Q1 2019

Big agencies remain hungry to acquire, as do consultants...

Dentsu Aegis clocked up a hat-trick of transactions in the quarter which revealed the firm's desire to buy local businesses rather than stick to major city locations. In February, Dentsu acquired Manchester-based creative agency B JL, and intends to have it remain a standalone business along the lines of Dentsu's previous Scottish acquisition, Whitespace. Dentsu also acquired Vietnamese agency Redder as well as Singaporean digital creative agency Happy Marketer, which will be integrated with Merkle.

The firm's hunger for global businesses isn't new: last year Dentsu acquired four US firms and did five deals, all international, in Q4.

Next 15, a digital communications group, resumed its acquisition spree in Q1, following a slow end to 2018. The year started with the group's £6.3 million acquisition of predictive analytics and data specialists Planning-inc, which will continue as a separate brand following the deal. The firm's newly formed research division, Savanta, then bought Wealth-X's custom research division. The purchase was made just four weeks after Savanta was formed from bringing together four research brands from within Next 15's MIG Global.

London-based marketing agency, The Big Group expanded beyond the UK for the first time in its 25-year history by acquiring two Dutch businesses in January. Brandworks and 230V will now be known as Big Amsterdam and enable Big to expand into the Benelux and European markets.

Creative heavyweight WPP commenced its "radical evolution" to return the business to growth. Announced at the end of a year which saw it halt its acquisition frenzy and lose its long-time leader, the firm made no acquisitions in Q1, focusing instead on organic growth as CEO Mark Read aims to reposition WPP with a simpler offering.

Accenture had a busy March, with two European acquisitions hinting at a post-Brexit strategy for the firm. The firm acquired Amsterdam-based Storm Digital, a full-service digital marketing agency specialising in search, social and programmatic advertising services to strengthen the capabilities of Accenture's Interactive Programmatic Services. The firm also acquired Hjaltelin Stahl, a Danish creative agency, to support Accenture Interactive's aim to create a full-service experience agency in the Nordics. In London, Accenture acquired ?What If!, a privately owned innovation firm that uses an experimentation-driven approach and proprietary metrics to help clients measure the commercial viability of a project.

The firm's acquisitions continued with gusto after the quarter end: at the start of Q2, Accenture announced its largest acquisition to date with the purchase of New York-based creative ad agency Droga5. The announcement came with much fanfare, with the press speculating on the move disrupting the marketing services industry.

Significant deals

Dentsu Aegis Network	+	BJL Group Limited
	+	Happy Marketer Private Ltd
	+	Redder Advertising Co Ltd
Next 15	+	Planning-inc Ltd
	+	Wealth-X (UK) Limited
The Big Group	+	230V
	+	Brandworks
Accenture	+	Hjaltelin Stahl K/S
	+	Storm Digital BV
	+	?What if! Holdings Limited

...and private equity-backed businesses explore acquisitive growth

Private equity firms, many with fresh capital to deploy, continue to hunt for targets in the marketing and media space. Their presence in this space is often discreet as they provide support to companies to make acquisitions, meaning it is private equity-backed M&A rather than a direct PE or traditional M&A deal.

An example of this is Moonbug, an entertainment business founded in Q4 2018 when it acquired Little Baby Bum, the world's most popular children's YouTube channel. The start-up received \$145 million in private equity backing at the end of last year to support an acquisitive growth strategy. The backers include venture capitalists (a subset of private equity which tends to invest in unleveraged and often riskier deals) Felix Capital and Fertitta Capital as well as specialist merchant bank Raine Group as lead backer. Together they are supporting the platform in its ambition to own and develop popular kids' content globally. In February, Moonbug used some of the funding to buy preschool content creators Morple TV and **Toddler Fun Learning** (which includes the popular show Gecko's Garage).

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Unlimited Group is another private equity-backed firm to have made two acquisitions in the quarter. The group is backed by DBAY Advisors, which took UK marketing services group Creston private in 2016 and renamed it Unlimited in 2017. The firm acquired DirectionGroup to support its B2B offering and analytics consultancy Model Citizens.

Talon, the UK's largest independent out-of-home advertiser, has been backed by Mayfair Equity Partners since April 2017. In March, the firm acquired the US's second largest independent out-of-home advertiser, Grandesign, based in San Diego. The deal follows Talon's appointment of a global CEO, signalling its desire to expand its international footprint.

Fishawack, backed by LDC since January 2017, acquired Philadelphia-based healthcare communications firm Dudnyk at the end of the

quarter as part of its drive to increase the range of services offered to commercial and medical affairs teams. The acquisition follows Fishawack's purchase of Blue Latitude Health in Q4.

Another LDC company, Lucid, acquired digital design agency Bluedog in the first quarter. The medical communications business received minority backing from LDC in June 2017 to support its growth.

"We are seeing increased interest from firms supported by private equity backers. Moonbug, for example, has two very experienced professionals at the helm and now a specialist media bank behind it as well as two VCs capable of providing expertise and connections. We saw first-hand while advising on Moonbug's acquisition of Toddler Fun Learning how this finance as well as experience can really super-charge a business's growth" says Paul Winterflood, corporate finance director.

PE	ACQUIRER	TARGET
Felix Capital, Fertitta Capital and Raine Group	Moonbug	Little Baby Bum
		Morphe TV
		Toddler Fun Learning
DBAY Advisors	Unlimited Group	DirectionGroup
		Model Citizens
Mayfair Private Equity	Talon	Grandesign
LDC	Fishawack	Dudnyk
	Lucid	Bluedog

SECTOR ACTIVITY: DIGITAL MARKETING BUSINESSES REMAIN MOST IN-DEMAND

Marketing services businesses continue to account for the lion's share of marketing and media deals, accounting for over half the deals in this space. B2B agency Gravity Global acquired JJ Marketing, one of a series of acquisitions Gravity plans to make over the coming years in the UK and abroad. This is to create a global, B2B-focused agency network capable of delivering a complete and fully integrated value chain. Also in this sector, Unlimited Group made its third acquisition in a year when it acquired DirectionGroup in an effort to bolster its new B2B offering. Media tech deals, the second most popular, captured just a quarter of the deals and so came a distant second. These figures reflect full-year 2018 statistics.

Digital remains the most popular segment within marketing services accounting for nearly half of all deals, up from last year's average of 40%. The proportion is up from the 30% recorded in the same quarter a year ago. Within digital, full-service digital agencies captured 44% of the deals, a large quarter-on-quarter as well as year-on-year uptick. Notably, You

& Mr Jones acquired Inside Ideas Group, a 1,500-strong firm comprised of Oliver and Dare among others, making it the largest deal of the quarter.

In the data and analytics space was another Unlimited acquisition, this time of Model Citizens, an analytics consultancy founded in 2007. Unlimited's CEO Michael Richards was quoted as saying advanced data analytics is 'one of the most exciting opportunities' in the industry¹.

Indeed the focus on data and analytics seems to be gaining ground on the back of GDPR as firms prioritise data to support effective marketing, rather than concentrating too much on cost-saving. Martin Sorrell extolled the merits of in-housing digital marketing capabilities last year as his then-new outfit S4 won its first deal (Media Monks). At the time of going to press, Publicis Groupe nodded to the importance of data when it announced its \$4.4 billion acquisition of Epsilon, giving the acquirer first-party data. its largest acquisition to date with the purchase of New York-based creative ad agency Droga5. The announcement came with much fanfare, with the press speculating on the move disrupting the marketing services industry.

¹ <https://www.research-live.com/article/news/unlimited-group-acquires-model-citizens-/id/5050942>

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OUTLOOK

The relative resilience seen in Q1 is encouraging, however we remain cautious about 2019 overall, especially as any degree of certainty about Brexit remains elusive.

While we expect many deal-doers to adopt a 'wait-and-see' approach as Brexit is pushed back, others may use the unsettled backdrop to make their businesses more future-proof. Already this quarter we saw a number of firms expand through M&A into Europe, with at least one expanding for the first time outside the UK. It is also worth noting that deals get done, even in downturns, when there are motivated buyers and sellers for the right assets.

Deals will continue to take place, but there will be a renewed focus on quality and it may take longer to get them over the line. This means if you are considering fundraising, growth through acquisition, geographic expansion or an exit, it may be wise to seek advice sooner rather than later in today's increasingly uncertain market.



"Great agencies don't rely on economic backdrops to succeed; there is always a market for strong, ambitious businesses," points out Nicola Horton, corporate finance principal. "While market dynamics previously put downward pressure on pricing in uncertain times, we are now seeing small- to mid-market firms punching above their weight in processes because they have very experienced and cash-equipped private equity firms supporting them. These investors need to deploy capital across all cycles. This may mean we see enduring appetite for the right businesses – and if there is a scarcity of such businesses owing to an uncertain market, those businesses could command a high multiple as backers with financial firepower vie for them."

2019 may see smaller players being very focused and seeking out differentiated, complementary businesses to their own. We may see more rather than fewer cross-border deals – outbound as well as in. A renewed focus on innovation and dynamism may see transformational deals take place in the mid-market, which in time may grow into some of the sector's most successful firms.

Get in touch with the **Moore Kingston Smith corporate** finance team.

We expect the unexpected this year. There will be names down the line that surprise many and even disrupt the market. It's a great time to be an innovator in this fast-moving space.

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