MOORE Kingston Smith

MERGERS AND ACQUISITIONS IN THE MARKETING AND MEDIA SECTORS

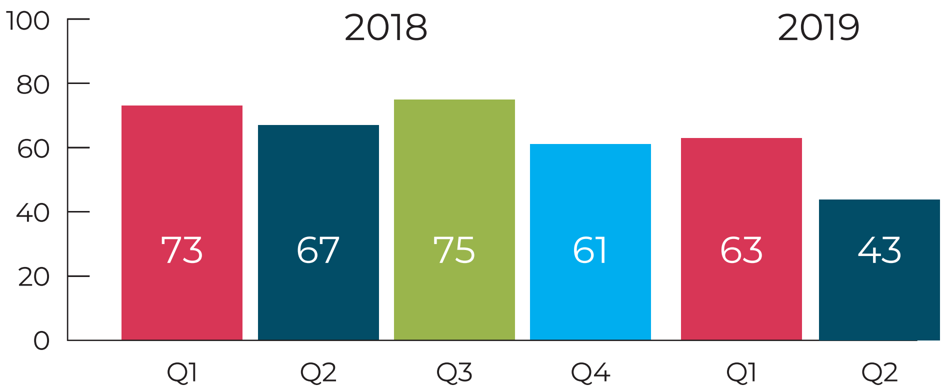
A review of Q2 2019

The reduced M&A activity level at the start of 2019 has continued into the second quarter, matching trends seen in previous years – Moore Kingston Smith intelligence shows that activity traditionally drops off in Q2 before recovering in Q3. This quarter has seen a 32% drop in M&A for the marketing and media sectors, with only 43 deals recorded. This is also in line with our prediction at the start of the year of a slowdown for 2019 which was made with Brexit concerns in mind.

With a new government now behind the Leave process, we believe the effect is likely to last into Q3 and Q4. However, it is worth noting that the continued increased acquisition activity by private equity-backed companies is providing the support the sector needs – and that does not seem to be waning.

QUARTERLY VOLUME

Number of transactions



"At Moore Kingston Smith, we are experiencing a similar pattern. Although we find sellers are erring on the side of caution and deciding to 'wait and see', there is an active appetite from buyers, particularly private equitybacked acquirers, which holds promise for later in the year," says Nicola Horton, corporate finance principal.

The trend for cross-border deals has also continued, with around half the deals being such and the percentage of international buyers of UK businesses continues to hold with 43% this quarter. The obvious reason behind this is the attractiveness of the weaker pound, yet we are still seeing over half (57%) of UK businesses buying foreign companies so we seem to be at a tipping point. We believe 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.

CROSS-BORDER DEALS

ACTIVE PLAYERS IN Q2 2019

Popularity for marketing services continues to rise

While the TV, film & entertainment and mediatech sub-categories have had a sharp drop this quarter, marketing services has risen from an already strong position. Climbing from 55% to 71%, it remains the most popular sub-category for all investors.

Accenture continued where it left off last quarter. After a busy March with two European acquisitions, it continued a Brexit strategy by acquiring Spanish brand communications agency, Shackleton. And of course, the week before this was announced, the firm made its largest acquisition to date with the purchase of New York-based creative ad agency Droga5. Both came with speculation over how this would disrupt the marketing services industry by building a new agency model.

> These deals also represent a continued trend of consultants, private equity-backed businesses and holding companies buying martech specialists rather than the platforms themselves.

"While Accenture is making bold moves by continuing to invest in creative businesses, it seems that other than rival Deloitte, it is very unlikely that other consultants will be as daring," comments Mandy Merron, corporate finance partner. "However, it is worth noting that its bravery is being recognised; it continues to rank as the world's largest digital agency network. Combine that with award-winning innovation from Droga5, and it has got an ambitious strategy ahead."

Selbey Anderson appears to be a new one to watch, having acquired three agencies within three months of opening its doors for business. Greentarget, Orckid and Hartley-Stone all officially became part of the family in April and bring experience from across the creative spectrum. Following on from a funding round in late 2018, it was quick to deploy capital. Working with the Moore Kingston Smith team in July, Flagship Consulting became Selbey Anderson's latest acquisition. We'll be watching with great interest to see how it continues to establish its business model going forwards.

On the other side, leading a trend of heavy interest from private equity in this space, mid-market firm LDC invested significantly alongside senior managers in MSQ Partners, one of the UK's fastest growing marketing communications groups, in a deal that values the business at around £37.5 million. This change of backers (from NVM in 2014) means that MSQ will go on to accelerate the roll-out of its successful multi-disciplinary model beyond London while supporting the continued growth of its individual agencies.

"MSQ's multi-disciplinary model currently accounts for 75% of the firm's London-based revenue. By rolling this out to other offices, MSQ is setting itself up for a promising return," says Paul Winterflood, corporate finance director. "Alongside this and LDC's backing, it has recently made industry heavyweight Charles Courtier its non-executive chairman who will bring over 30 years' experience to the table. We expect MSQ will return to this market to become a serial acquirer."

Martech investments look to specialists over platforms

S4 Capital is on the global digital hunt, and Sir Martin Sorrell is at the helm. Having resigned from WPP last year, he is bringing three decades of experience to clinch more deals. Most recently, S4 merged its global content arm MediaMonks with a leading Australian marketing transformation and customer experience company, BizTech.

Before this, at the beginning of the quarter, MediaMonks acquired Amsterdam-based production company Caramel Pictures and S4 Capital also purchased Brazil-based programmatic solutions consulting firm ProgMedia via another arm, MightyHive. These acquisitions will enable S4 Capital to broaden its capabilities in first-party data, content and media around the world.

Another similar deal is the merger between OSF Commerce and Blueleaf. Blueleaf's niche Salesforce Commerce Cloud experience has been added to OSF's wider Salesforce Commerce product knowledge, and will become OSF Commerce UK to cover multi-cloud and internalisation projects.

These deals also represent a continued trend of consultants, private equity-backed businesses and holding companies buying martech specialists rather than the platforms themselves, a turnaround in their behaviour in recent years. As we have seen, specialists are needed to support marketing services more than ever.

Communication in healthcare strengthens

Focusing on the need for integrated solutions for clients' pressing health challenges, the market's leaders are joining forces. Starting with Huntsworth, this quarter it has expanded its offering by acquiring health communications specialist Kyne to create a 100-strong global healthcare agency.

On top of this, it has also bought 70% of Luxembourgbased strategic market access, health economics and outcomes research consultancy Creativ-Ceutical (CC) which will be added to the group's medical division, Medistrava.

Deals in this space continue to be popular. Avenir Global acquired Hanover, a top 10 independent UK public relations consultancy with healthcare sector experience to add to its offering. Incisive Health was acquired by UDG Healthcare plc which owns Ashfield Healthcare Communications to ensure it can offer a wider range of services over increasing geographies while keeping its focus on health.

"We expect the popularity of deals in this space to continue as healthcare is a growth sector with strong demographics,'' says Nicola Horton, corporate finance principal.

International growth is sustained

As illustrated by the expansion that S4 Capital's expansion this year, global growth is where a lot of investors are looking to sustain their businesses.

The deal that dwarfed all others, and came in just at the end of the quarter, is Publicis's acquisition of data business Epsilon for $3.95 billion (£3.373 billion). This proves the importance of first-party data and analytics and how this trend will continue to grow, especially when we consider that IPG's acquisition of Acxiom last year was for a mere £1.76 billion. It is interesting to note Publicis will be combining creative agencies which were also acquired in the deal.

International investors are continuing to make the most of the UK's weak pound. Belgium-based marketing automation leader ACTITO acquired SmartFocus to develop its martech growth plans throughout Europe and as an alternative to US marketing cloud solutions. Following the pattern in Q1, this also reflects the need for companies to adapt to the constraints of European privacy regulations.

Quill, the UK's multi-language ecommerce content production leader, was acquired by French media group Webedia. This acquisition is another to reflect the need for content at speed, and this one is tracking to generate over £7 million in content bookings this year – a 40% year-on-year growth rate.

Private equity-backed buyers are also dominating with 33% of the deals in this quarter being led by them. Take Phoenix Games Group's acquisition of Well Played Games for example. The group is led by serial gaming entrepreneur and investor Klaas Kersting and this won't be the last we hear from him (he has already got 35 investments and 15 exits under his belt).

33% of the deals in this quarter were led by private equity backed buyers.

Within the global networks, life is a little more insular. After a hat-trick of transactions last quarter, Dentsu has quietly continued its UK local diversification with the purchase of Newcastle-based commercial production company re:production. This will add to Dentsu's northern operations that provide media, digital, creative, data and technology services. We are likely to see WPP back on the acquisition trail with chief executive Mark Read announcing recently that investment and acquisitions could feature in the agency's future strategy.

International acquirers

Publicis	Epsilon
ACTITO	SmartFocus
Webedia	Quill
Phoenix Games Group	Well Played Games
Dentsu	re:production

OUTLOOK

Businesses with strong fundamentals will remain attractive but we don't anticipate a significant uplift in deal volumes until 2020. Compared to the same period last year, which was a particularly active year for M&A, the drop in deal numbers this year seems high. While still a reduction, when compared to the same period in 2017, the difference is less alarming and the continued resilience which has been upheld by sustained private equity investment is encouraging. Although less action has been taken, those that havetransacted are making their businesses future-proof.

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We're seeing that there is a refocusing for all, and investors are seeking out differentiated, complementary businesses to their own. Cross-border deals – both in and outbound – will continue to grow. If the rest of the year is quiet then this is the time for internal transformations, promoting innovation in order to grow the mid-market into the sector's most successful firms.

Paul Winterflood,
Corporate finance director

We expect the next quarter to feature strategic approaches. S4 Capital has already stated that there is more on the horizon for it, and Next 15 is another one to watch, having just completed its second and third deals of 2019, purchasing Market Making at the end of July and Communicate Research at the start of August. Its chief executive confirmed the company has "lots of scope" for acquisitions this year, and will be watching the emerging digital trends while it plans to move into innovation consulting. The allure of the sector remains – businesses realise they need to bring in new skills, and acquiring robust companies is an efficient way of doing so.

For more information or to find out how we can help you, please get in touch with the Moore Kingston Smith corporate finance team. Moore Kingston Smith is a member of Moore Global Network, an international family made up of over 30,000 people across more than 100 countries.

CONTACT US

Mandy Merron
Corporate finance partner
mmerron@mks.co.uk

Nicola Horton
Corporate finance principal
nhorton@mks.co.uk

Nick Thompson
Corporate finance partner
nthompson@mks.co.uk

Paul Winterflood
Corporate finance director
pwinterflood@mks.co.uk

In compiling our Dealtracker we use Zephyr, Bureau van Dijk's international database of global M&A deals and rumours. We analyse every deal and where the target company classified as marketing services, media tech, publi shing or TV, film & entertainment, the transaction is entered into the Dealtracker. We categorise marketing services into eight sub-categories, and of those, the digital agencies ar e further classified into fifteen sub-categories.

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