

DEAL VOLUMES DOWN BUT DIGITAL MARKETING CONTINUES TO BE POPULAR

M&A in the marketing and media sector Q2 2020

In our Q1 2020 review of UK M&A activity in the marketing and media sector, we said that we expected activity in the first half of 2020 to be severely impacted while businesses focused on more pressing concerns regarding their ability to trade through the Coronavirus crisis. Unfortunately, our latest data shows we weren't wrong! Just 37 UK deals in the marketing and media sector were recorded in Q2 2020; 44% down on Q1, 54% down on the comparable figures for Q2 2019, and by far the lowest number of transactions that we have recorded in any quarter in recent years.

We are not at all surprised to see this reduction in activity, given that the UK was in lockdown for most of this period. The virus has had, and continues to have, a significant impact on businesses throughout the UK, not least on companies in the marketing and media space. TV, film and commercial production and events companies have had no income at all, although activity is now starting to resume. Companies in the live entertainment space are still largely closed down. Agencies may be less badly affected depending on the nature of their clients, but have been experiencing project-freezes, deferments and cancellations.

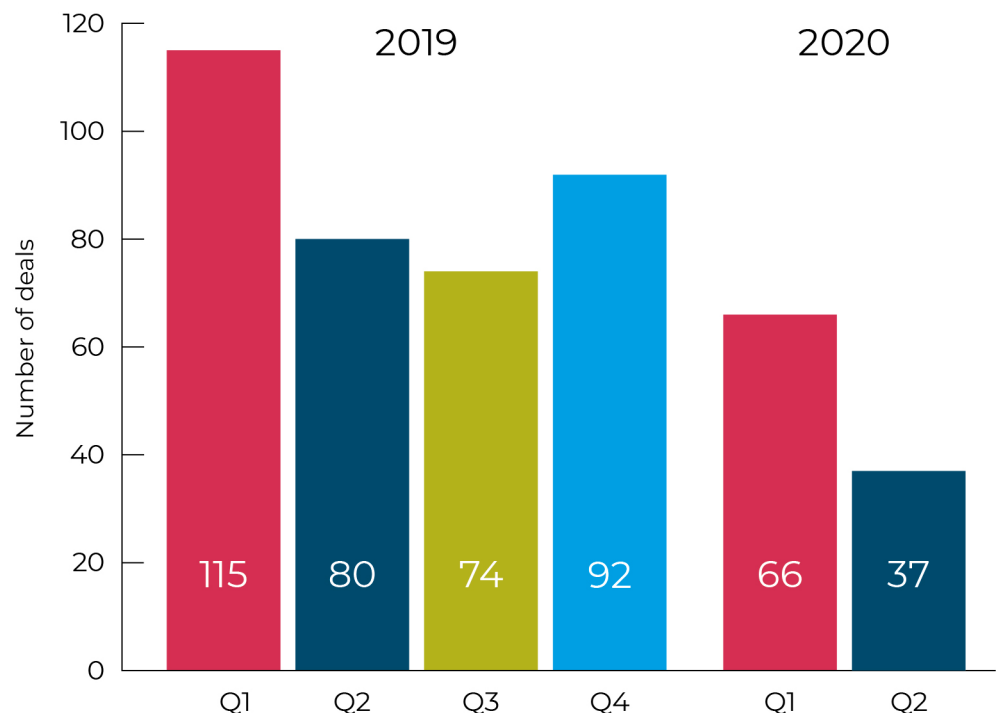
Deal-doing under lockdown conditions is difficult. Meetings between buyers and sellers over video are not entirely satisfactory, as chemistry between target

and acquiring company is essential for a successful transaction. Valuation discussions are difficult when the most recent financial information bears no resemblance to how the target company would have been trading in normal circumstances and where there is uncertainty regarding what the new normal will look like. We are aware of many M&A processes that are on hold for the time being and it is this general suspension of activity that has led to the dramatic decline in the number of deals being completed.

We do not predict any upsurge in transactions in the next quarter but are hopeful of an increase in deal-doing in the final months of the year. As economic activity increases, businesses will start to think beyond their short-term horizons and re-engage with their longer-term strategic goals. When the UK government's support packages – particularly furlough payments – start to reduce, more businesses will probably need to team up with a stronger partner, leading to an increase in so called accelerated or distressed M&A. There are willing buyers out there so we do expect deal activity to resume as prospective sellers come back to the table; driven by increasing confidence in their business's performance or by the need for a safe harbour if their business has run out of road.

There are willing buyers out there.

QUARTERLY DEAL VOLUME



M&A IN THE MARKETING AND MEDIA SECTOR Q2 2020

“We were expecting Q2 2020 to show a substantial decline in UK M&A activity, and are therefore not surprised to see these disappointing figures,” says Nicola Horton, Corporate Finance Principal. “Coronavirus has led to much planned M&A activity being put on hold and, while that is likely to continue into the next quarter, we remain hopeful of a return to a more reasonable level of activity before the end of the year.”

SECTOR ACTIVITY – DIGITAL CONTINUES TO PERFORM STRONGLY

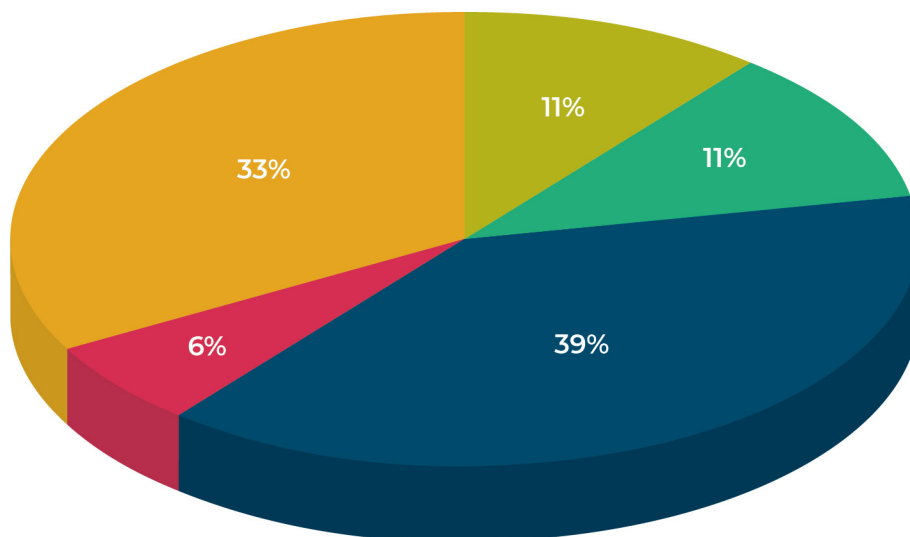
Regarding the types of deals that were most common in Q2 2020, the marketing services sector continued to occupy the top spot (just as it did throughout 2019).

It accounted for 49% of the deals we analysed, with mediatech coming a close second at 38%.

Within marketing services, digital marketing retained its pole position, representing 39% of the deals we recorded, but PR was not very far behind, at 33%. We expect continued strong interest from acquirers in digital agencies, digital transformation businesses and companies that enable clients to pursue ‘digital first’ strategies. Coronavirus has forced many companies to accelerate their digital transformation. What started as temporary solutions may become permanent fixtures in the new world of work, so clients will increasingly need support in these areas.

Digital marketing retained its pole position.

2020 Q2 DEAL ACTIVITY IN THE MARKETING SERVICES SECTOR



GLOBAL NETWORKS PRESS PAUSE ON UK M&A ACTIVITY

In Q1, we reported on a range of transactions completed by the major global holding companies, including Dentsu, WPP, Havas and McCann. However, our survey this quarter has found no UK deals involving any of the networks. This lack of activity by the major players is representative of the market as a whole – the big holding companies have been just as focused on their existing businesses as the smaller independents.

We remain hopeful of a return to a more reasonable level of activity before the end of the year.

Nicola Horton
Corporate Finance Principal

CONSULTANTS ARE STILL IN THE MARKET

While the global networks appear to have pressed pause on M&A last quarter, some of the consulting firms have remained active.

In early April, EY announced its acquisition of Swedish design and innovation firm Doberman, enabling it to strengthen its capabilities within innovation, customer experience and digital design.

In June, PA Consulting announced its acquisition of San Francisco-headquartered brand strategy and product design agency Astro Studios. PA stated that Astro would add to its global capabilities in strategy, innovation and product design while affording it a new West Coast presence to complement its existing East Coast operations.

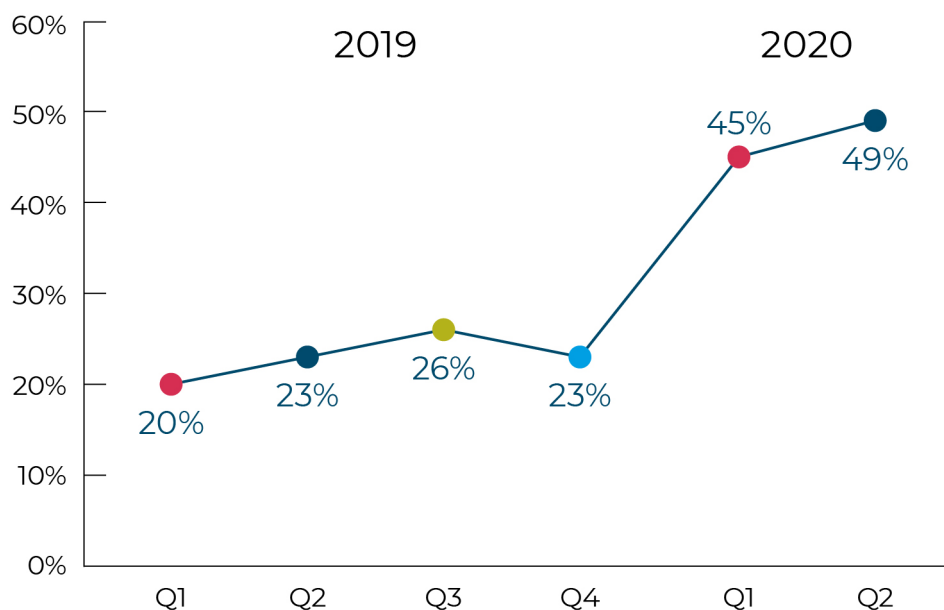
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PRIVATE EQUITY APPETITE REMAINS STRONG

While the overall UK M&A market is clearly subdued, private equity involvement has remained a key feature of those deals that have managed to get over the line in the period. Private equity-backed investments accounted for 49% of Q2 2020's deals, continuing the trend that we saw in Q1.

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PE BACKED DEALS AS A PERCENTAGE OF ALL DEALS



Notable PE deals included Bridgepoint's acquisition of UK-headquartered medical and healthcare communications agency, Fishawack, in April. Fishawack was previously backed by mid-market private equity house LDC, which had supported the group in a series of acquisitions since 2017. Now that LDC has been replaced by Bridgepoint, Fishawack intends to use its increased firepower to expand its global presence still further. Indeed, the same day as the deal with Bridgepoint was announced, Fishawack revealed it had acquired Skysis, a US strategic and market access consultancy, focused on the pharma and biopharmaceutical industry.

Continuing the interest in medical and healthcare communications, Dutch firm Waterland Private Equity bought a significant majority stake in UK-based consultancy Integrated Medhealth Communication in May. Waterland said it would be looking to pursue a buy-and-build strategy with follow-on funding to support the company's global expansion plans across

the UK, North America and EMEA, as well as enhancing the group's existing digital and technology capabilities.

Not included in our Q2 data because the transaction has yet to complete but worthy of note is the announced planned acquisition of the Be Heard group by MSQ Partners. If the transaction is approved by Be Heard's shareholders, MSQ will become the new parent company for MMT Digital, Freemavens and Agenda 21. MSQ is backed by mid-market PE house LDC.

"The increase in the proportion of private equity transactions is in line with our expectations from the end of last quarter," says Paul Winterflood, Corporate Finance Director. "Private equity houses remain very interested in this sector. They are making investments in additional platform opportunities as well as continuing to invest in their existing portfolio companies in the form of bolt-on acquisitions to deliver the required growth and ROI."

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OUTLOOK

We had always expected Q2's numbers to be lower than Q1's, so are not surprised by the disappointing figures. It is still too early to say how deep or prolonged the economic impact of the Coronavirus will be. However, the gradual reopening of the UK economy gives us hope that, even if Q3's numbers remain low, we will see some recovery in M&A activity in Q4.

While the global holding companies may have temporarily withdrawn from the UK M&A scene, we are aware of keen would-be buyers – independent

As economic activity increases, businesses will start to think beyond their short-term horizons and re-engage with their longer-term strategic goals.



Private equity houses remain very interested in this sector.

Paul Winterflood
Corporate Finance Director

agency groups and PE-backed businesses. In particular, institutional investors still have large pools of so called dry powder to deploy. They remain keen to support their portfolio companies in their growth plans, while also looking for new platform deals. If anything is dampening activity as far as they are concerned, it is the apparent shortage of new deals coming to market. Would-be sellers may have delayed launching their M&A processes for fear of market uncertainty and how that might impact on valuations. However, we hope that, as businesses continue to recover, shareholders will gain in confidence and start to approach acquirers who are keen to see new opportunities.

In addition, we expect to see more accelerated M&A or rescue deals as the government's support packages start to fall away. Companies in financial difficulties will be looking to find a safe harbour for their people and clients, and will merge with or be acquired by stronger partners.

For more information, get in touch with the Moore Kingston Smith corporate finance team.

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