

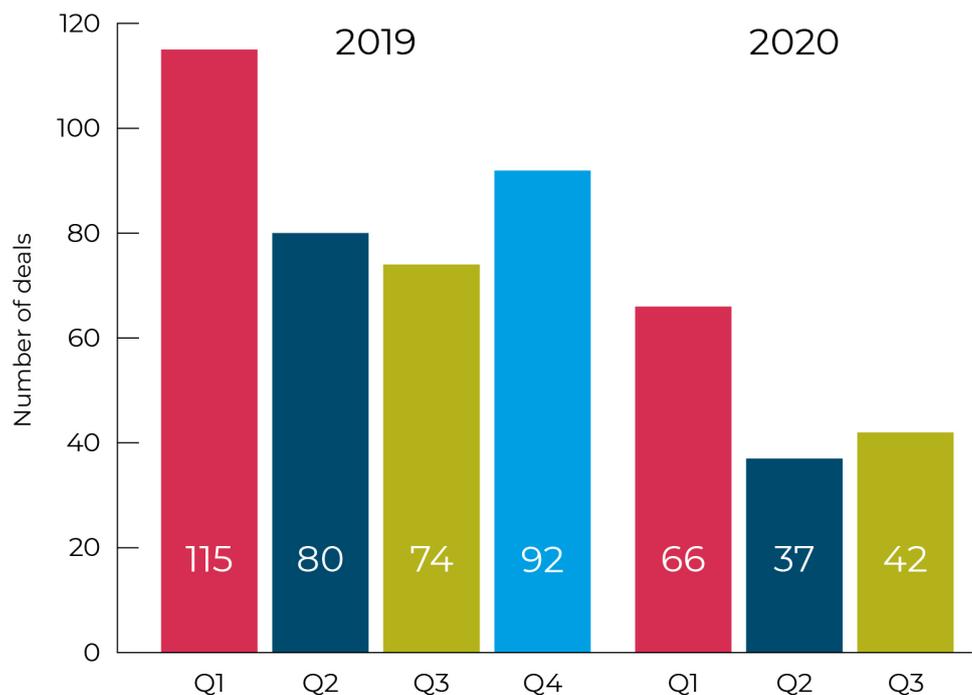
DEAL ACTIVITY – STILL SUBDUED BUT SMALL SIGNS OF IMPROVEMENT

M&A in the marketing and media sector Q3 2020

In our Q2 2020 review of UK M&A activity in the marketing and media sector, we predicted – correctly – that the reduced activity in the first half of the year would continue into the third quarter. Just 42 UK deals in the marketing and media sector were recorded in Q3 2020; which fortunately is 14% up on Q2's low point, but is still 36% down on Q1, and 43% down on the comparable figures for Q3 2019. So no return to normal just yet.

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QUARTERLY DEAL VOLUME



We were expecting Q3 2020 to show a continued shortfall in UK M&A activity, so are not surprised that deal numbers remain low by historical measures

Nicola Horton
Corporate Finance Principal

says Nicola Horton, Corporate Finance Principal. “However, we have seen some signs this quarter of a slight increase in activity, and hope the final three months of the year will present a better picture.”

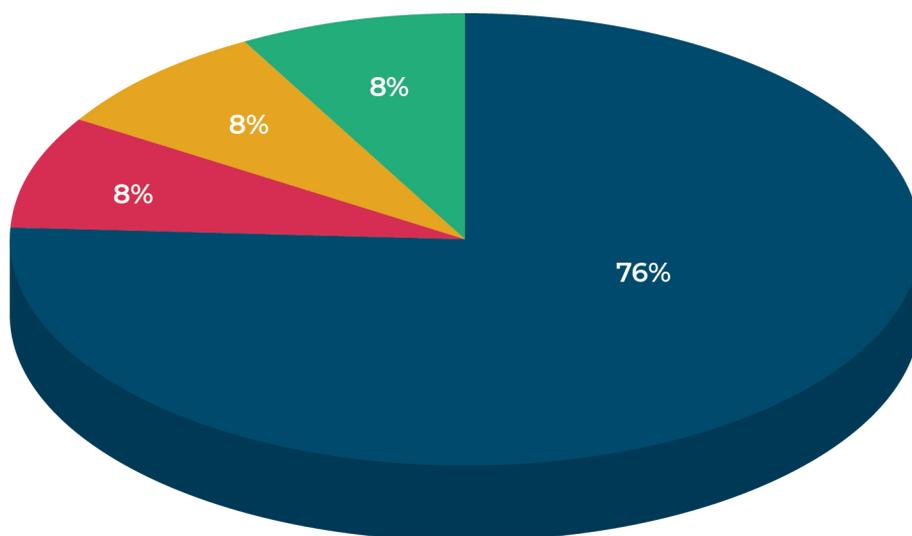
Regarding the types of deals that were most common in Q3 2020, the marketing services sector continued to occupy the top spot (just as it did throughout 2019). It accounted for 57% of the deals we analysed, with mediatech coming second at 24%.

SECTOR ACTIVITY – DIGITAL CONTINUES TO BE MOST ATTRACTIVE TO ACQUIRERS

Within marketing services, digital marketing retained its pole position, representing a huge 76% of the marketing services deals we recorded. This is no surprise. Digital agencies, digital transformation businesses and companies that enable clients to pursue ‘digital first’ strategies have been the real success stories of lockdown. Many have seen their business’s turnover and profits increase, and the skill sets within these businesses are increasingly valued by corporate acquirers.

M&A IN THE MARKETING AND MEDIA SECTOR Q3 2020

2020 Q3 DEAL ACTIVITY IN THE MARKETING SERVICES SECTOR



NETWORKS RETURN TO THE UK M&A MARKET

In Q2, we revealed that the largest global networks appeared to have pressed pause on M&A activity. The big holding companies were clearly more focused on their existing businesses than looking elsewhere. However, this quarter there have been a couple of green shoots:

In July, Omnicom's Credera announced that it had acquired a majority stake in London-based DMW Group to expand its consulting and digital transformation capabilities into Europe.

In September, WPP announced that its Wunderman Thompson division had acquired French customer experience consultancy Velvet Consulting. This acquisition is designed to support WPP's wider strategic transformation, a key part of which is investment in technology services.

Other networks have also returned to the fray this quarter:

In August, S4Capital announced that it was acquiring London-based data analytics company Brightblue Consulting, which it planned to merge with MightyHive, its existing data and digital media practice. S4Capital's Executive Chair, Martin Sorrell, said, "Data, particularly first-party data, is at the heart of S4Capital's 'holy trinity' business model. Brightblue's skills in making sense of it and using it to drive profitable growth are a timely addition to our client-focused service offering."

In September, London-headquartered Next 15 Communications Group revealed a move in a new strategic direction with the announcement of its acquisition of Mach49, a Silicon Valley-based growth incubator for global businesses. Next 15's CEO Tim Dyson said that the combination of his network's experience with Mach49's expertise in creating and

launching ventures, incubators and corporate venture capital funds will create "a unique service offering for global businesses to build and scale resilient new ventures."

Also in September, MSQ Partners completed its acquisition of the Be Heard Partnership, and delisted Be Heard from AIM. The deal, which valued Be Heard at £20.6 million, was enabled by the provision of follow-on financing from MSQ's private equity investor LDC. MSQ's CEO, Peter Reid, said that the deal would add significant depth, scale and expertise to MSQ in digital tech and data analytics, areas that he believed had become even more important during the Coronavirus pandemic.

CONSULTANTS ARE TARGETING NON-UK DEALS

Our survey this quarter found no UK deals involving any of the major consulting firms. However, this is not to say that they have ceased all M&A activity during the last few months. Some have definitely been focusing on their core businesses, rather than looking to expand via acquisition, but some have been quite active – notably Accenture. However, they have been targeting non-UK markets: mainland Western Europe appears to have been particularly popular.

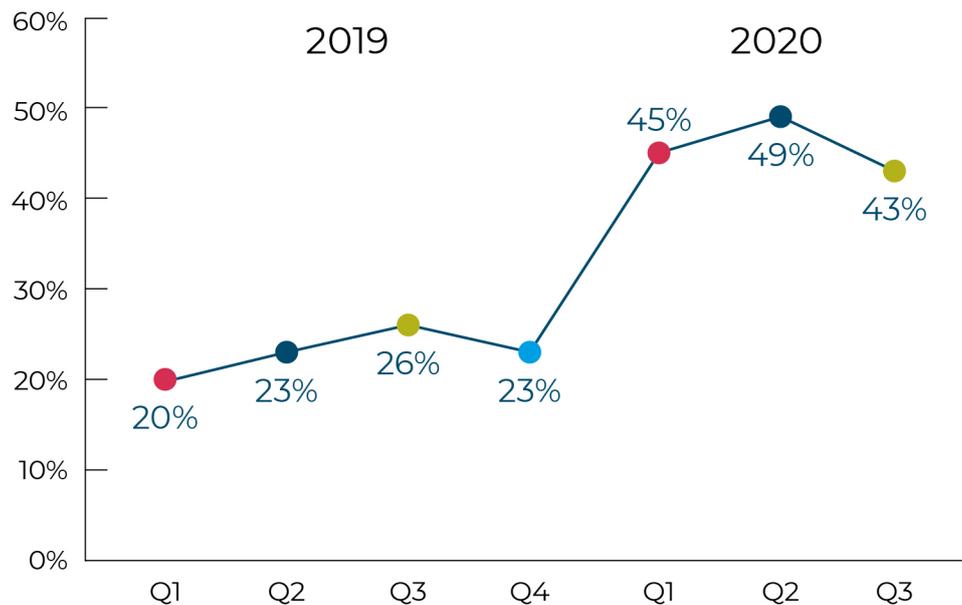
PRIVATE EQUITY APPETITE REMAINS STRONG

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 43% of Q3 2020's deals, continuing the trend that we saw in Q1 and Q2.

Notable PE deals completed in the quarter included the acquisition of the Be Heard Partnership group by MSQ Partners, which we have already mentioned. MSQ is backed by mid-market PE house LDC.

M&A IN THE MARKETING AND MEDIA SECTOR Q3 2020

PE BACKED DEALS AS A PERCENTAGE OF ALL DEALS



In August, Arsenal Capital partners, a US-based PE house, completed its acquisition of Cello Health for a total enterprise value of £181.8 million. Following the acquisition, Cello Health's shares were delisted from AIM.

We expect, as more opportunities come to market in the coming months, private equity-backed buyers will continue to feature very heavily as they have capital to deploy and will have return on investment targets to achieve for investors.

Paul Winterflood
Corporate Finance Partner

"Private equity interest in the sector remains high," says Paul Winterflood, Corporate Finance Partner. "We expect, as more opportunities come to market in the coming months, private equity-backed buyers will continue to feature very heavily as they have capital to deploy and will have return on investment targets to achieve for investors."

OUTLOOK

Q2 2020 represented a historical low point for UK M&A activity, so we are pleased to see that Q3's numbers are up from there, even if they remain way below historical norms. The economic impact of the Coronavirus has been particularly pronounced in the media and marketing services industry, and while certain sectors, such as those in the digital arena, have thrived, others allied to live entertainment or in-person events, remain under extreme pressure.

We remain hopeful of a further increase in deal-doing in the final months of the year. By their very nature, M&A processes take several months to complete, so transactions that got underway in Q3 would be

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unlikely to complete in that quarter. Certainly we at Moore Kingston Smith have started to see an increase in enquiries about M&A transactions after a relatively quiet summer.

Certain structural factors underpin this increase in interest. There is widespread speculation that a UK budget in early 2021 could result in increased capital gains tax rates and further changes to entrepreneurs' relief (now business asset disposal relief). Business owners might therefore consider an exit before any such changes come into effect. In addition, while the UK government's Coronavirus support packages have been extended beyond their original deadlines, they are less generous than before. We remain of the view that we are likely to see an increase in distressed M&A towards the end of the year, as businesses in financial difficulties realise they need the support of a stronger partner.

M&A IN THE MARKETING AND MEDIA SECTOR Q3 2020

In our Q2 report, we said that the independent agencies, particularly those that are PE-backed, were still keen to do deals and had large pools of capital to deploy but a shortage of new deals coming to market was dampening activity. We hoped that, as businesses continue to recover, shareholders would gain in confidence and start to approach acquirers who are keen to see new opportunities. That remains our hope. However, we are cautious about the continuing economic impact of a Coronavirus resurgence as we head into winter, and the possible effects of local and new national lockdown measures on business confidence generally.

The early signs of improvement are welcome but it is likely that the UK M&A market will continue to experience some bumps in the road in the months ahead.

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



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SOME OF OUR M&A TRANSACTIONS

Media
Sale of Digital Decisions to Ebiquity



Lead Adviser

Technology
Sale of majority stake in Redbox Digital to SQLI Group



Lead Adviser

Marketing Services
Sale of Synergy Creative to McCann Worldgroup



Lead Adviser

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