



GREEN SHOOTS OF RECOVERY?

M&A in the media and marketing services sectors Q1 2021

After the extraordinary year that was 2020, we are optimistic that 2021 will see a return to more normal levels of M&A activity in the UK media and marketing services sectors. Vaccine roll-outs, expectations of significant growth in the UK economy, trade acquirers and PE houses with substantial funds to deploy and business owners' concerns about possible changes to the capital gains tax regime all suggest an upcoming resurgence in the number of deals being completed.

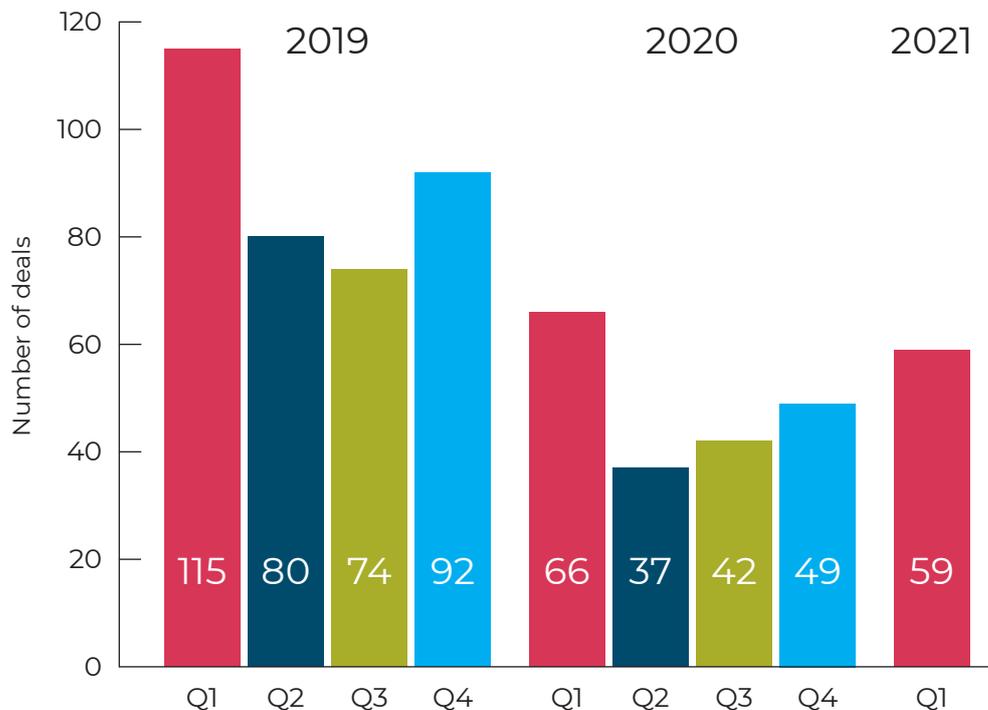
Certainly 2021 has got off to a strong start. Moore Kingston Smith's deal tracker recorded 59 UK media and marketing services deals in the first quarter, which is 20% up on the final quarter of 2020 and continues the upward trend we started to see in the latter half of last year. However, the level of activity is still somewhat below that achieved in Q1 2020, which was the last 'normal' period before the UK went into lockdown. M&A transaction processes can take many

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months to conclude, so we would not be surprised to see a slow but steady increase in deals rather than an immediate bounce-back. Nevertheless, the early signs are encouraging.

“The market is continuing to strengthen, with a lot of high-quality PE-backed acquirers with cash to spend. We are very busy working on new sale mandates so we expect the upward trajectory to continue,” says Paul Winterflood, Corporate Finance Partner at Moore Kingston Smith.

QUARTERLY DEAL VOLUME IN THE MEDIA AND MARKETING SERVICES SECTORS



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DIGITAL CONTINUES TO BE MOST ATTRACTIVE TO ACQUIRERS

Regarding the types of deals that were most common in Q1 2021, the marketing services sector occupied the top spot (just as it did throughout 2020). It accounted for 63% of the deals we analysed, with mediatech coming second at 25%.

Within marketing services, digital marketing took the lion's share, 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 businesses' turnover and profits increase, and the skillsets within these businesses are increasingly valued by corporate acquirers.

Many commentators expect digital advertising to go from strength to strength in 2021. Sir Martin Sorrell has predicted that digital advertising spend will increase by as much as 20% this year, driven by an increase in online spending thanks to the pandemic, which has led to structural changes in consumer behaviour.

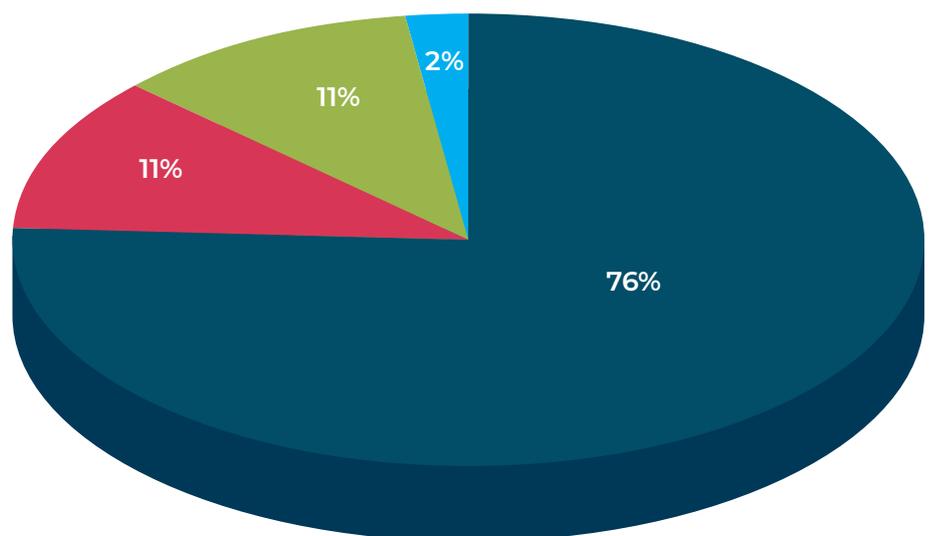
Leading the digital acquisition trail this quarter was Jellyfish, which announced the acquisition of no fewer than five separate companies in February. Jellyfish has been on something of an acquisition spree since taking investment from the PE arm of Fimalac Group in 2019. Commenting on the most recent transactions,

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Chris Lee, COO of Jellyfish, said: “These acquisitions bring powerful enhancements to our portfolio of services by expanding our depth of expertise, geographical reach, and our offerings across several continents and regions.”

The media and live entertainment sector has been particularly badly affected by the pandemic. Nevertheless, there have been some more optimistic signs recently. In March, Trafalgar Entertainment acquired the UK's major regional theatre operator, HQ Theatres, which operates 11 venues across the UK, in a deal described as a vote of confidence for the sector as a whole. Moore Kingston Smith was delighted to have been able to advise Trafalgar Entertainment on this substantial transaction.

Q1 2021 DEAL ACTIVITY IN THE MARKETING SERVICES SECTOR



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NETWORKS CONTINUE TO MAKE STRATEGIC ADDITIONS

2020 was a tough year for major holding companies and their overall spend on M&A was low compared with historical levels. However, the global networks have continued to prioritise strategic bolt-ons which expand their geographic reach and service offerings.

In its December 2020 investor presentation, WPP stated that it intended to spend between £200 million and £400 million a year on acquisitions in high-growth areas to help expand the group's e-commerce and marketing technology business from 25% to 40% of revenues by 2025. So far it appears to be delivering on that promise in 2021, with the announcement of two technology and digital acquisitions in recent weeks. These were the takeover of Brazilian software business DTI Digital and, somewhat closer to home, the acquisition of Edinburgh-based NN4M, a mobile commerce shopping app platform, which it intends to fold into Wunderman Thompson.

Havas has been looking to expand in South East Asia for some time and, in February, announced that it had acquired independent Singaporean agency BLKJ. The BLKJ management team will continue to run the agency, now rebranded as BLKJ Havas.

Also in February, Publicis announced the acquisition of London-based B2B marketing specialist agency Octopus Group. Annette King, CEO of Publicis Groupe UK, stated that Publicis had been looking to "supercharge our skillset" in the B2B area for some time and Octopus presented "a great opportunity for client and agency growth".

On the first business day of 2021, S4 Capital announced that it had completed two US-based acquisitions – Decoded Advertising and performance agency Metric Theory – and stated that it intended to pursue its aggressive growth strategy even faster now

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that uncertainty surrounding the Brexit process had largely lifted. The following week, S4 Capital revealed that it had acquired Tomorrow China, the Chinese agency that was previously part of Swedish PR conglomerate H&H Group.

In March, Selbey Anderson announced that it was moving into the healthcare market with the acquisition of IGNIFI, a Sunderland-based creative agency specialising in human and animal health, pharmaceuticals and biotech. This deal followed hot on the heels of Selbey Anderson's acquisition of full-service agency LAW Creative, which was announced in January. Having only set up shop in December 2018, Selbey Anderson has delivered impressive growth through acquisition and is now able to boast total group billings in excess of £10 million.

PRIVATE EQUITY APPETITE ROCKETS

Our recent UK growth capital update, which looked at the equity fundraising environment for all sectors of the UK economy, revealed that Q1 2021 was the busiest that we had ever seen. This holds especially true for the media and marketing services sector.

Private equity-backed investments accounted for a record 59% of Q1 2021's deals, significantly ahead of the 45% we recorded on average in 2020. If we look back to 2018 and 2019, PE was only involved in approximately 25% of M&A transactions in the sector. The last year has seen a transformation in the appetite of PE houses to

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back creative businesses in both their organic and non-organic growth plans, and has led to something of a competitive feeding frenzy for fast-growing media businesses with robust business models.

We have already mentioned the activity of Fimalac-backed Jellyfish in the digital arena. Other notable PE-backed deals completed in the quarter included the acquisition of UK video streaming and production solutions business Garland Partners by US-based LiveU. LiveU is majority-owned by Francisco Partners, a global technology-focused private equity firm.

Bridgepoint-backed, UK-headquartered medical and healthcare communications agency Fishawack followed up an acquisitive 2020 with the announcement of its first 2021 deal in January. It acquired StoneArch, a Minneapolis-based creative agency focusing on the medical device and health technology sector.

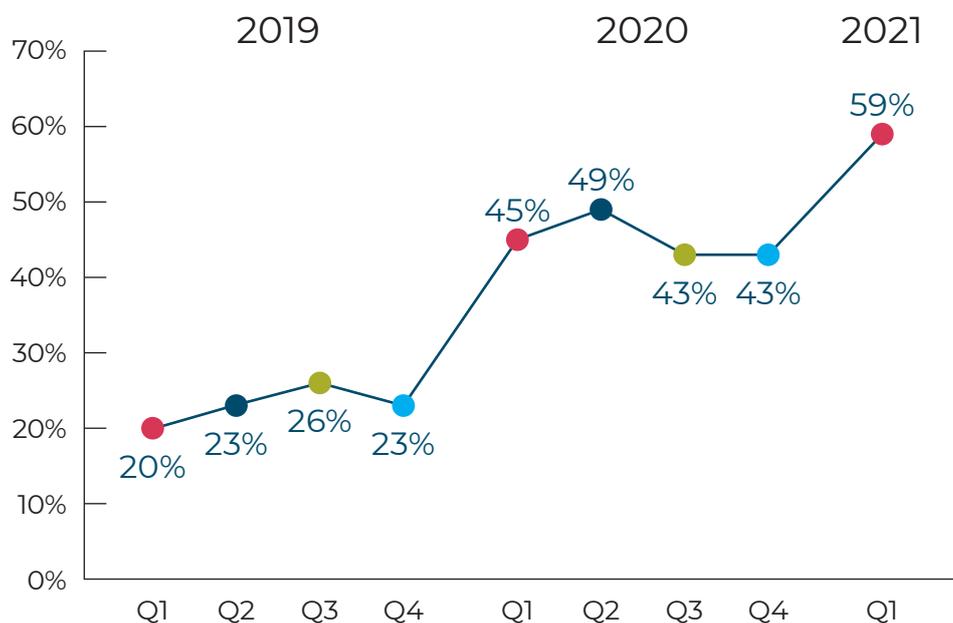
In February, Livingbridge investee company Brainlabs acquired Manchester-based User Conversion, a conversion rate optimisation agency.

In March, Sportradar Group, which is backed by Silicon Valley-based growth equity firm TCV, announced it was acquiring the UK's Fresh Eight, the operator of a personalised messaging platform in the global betting and gaming marketplace.

"The conversation with the private equity sector has changed dramatically since lockdown began. The catalyst for this change has been a widespread acceptance of the inherent value of marketing services both from a technology and people perspective. The direction of travel is now firmly towards an online 'trusted experience' and investors will seek out assets that prioritise this factor more than ever before," says Damian Ryan, Corporate Finance Partner at Moore Kingston Smith.

To read our full growth capital report for Q1 2021, please [click here](#).

PE-BACKED DEALS AS A PERCENTAGE OF ALL DEALS IN THE MEDIA AND MARKETING SERVICES SECTORS



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OUTLOOK

2020 represented a historical low point for UK M&A activity in the media and marketing services sectors. The economic impact of lockdown was particularly harsh on many businesses associated with live entertainment or in-person events which were unable to operate at anything like normal capacity throughout last year, if they were able to trade at all.

Further restrictions introduced at the end of 2020 didn't help a UK economy that was just starting to open up, but a fast-moving vaccination programme

coupled with more reassuring daily government health statistics means that we may now be entering a period of renewed confidence, which provides the necessary foundation for M&A.

Deal numbers are on the rise, albeit growth is gradual at the moment. We expect the momentum to build significantly as we move towards the latter part of 2021.

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

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In compiling our Dealtracker we use Pitchbook, an international financial data provider that gives access to comprehensive data on the private and public markets. We analyse every deal with either a UK buyer or UK seller (or both) and where the target company is classified as marketing services, media tech, publishing 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 are further classified into fifteen sub-categories. We have also used various media and marketing services companies' press releases and investor presentations as source material for this report.

All information contained herein is correct at the time of going to print.

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