

WE HAVE LIFT-OFF

M&A activity in the UK media and marketing services sectors – a review of 2021

After a depressed 2020, where Coronavirus dealt a major blow to M&A in the UK media and marketing services sectors, we were hoping for renewed activity in 2021. That is exactly what we got. We first reported on tentative green shoots of recovery in our Q1 2021 review. The year went from strength to strength, most notably in the second half, where deal activity outstripped that which we saw pre-pandemic.

Seller confidence and buyer appetite have come back with a vengeance, driven in the latter half of the year by the easing of lockdown measures, the strength of the UK economy and its swift return to pre-pandemic levels. The pandemic has led to a strategic reset for many businesses, which are now much more focused on investing to thrive rather than simply survive. The pursuit of growth is back on the agenda and M&A is, for many, the preferred strategic option to accelerate growth.

Private equity and trade acquirers have become increasingly competitive for deals, while many private business owners have reassessed their priorities during the pandemic and found themselves more amenable to a change in control.

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However, it is the quarterly data that reveals the bigger picture. It demonstrates that the initial trickles of recovery we were seeing in Q1 2021 became a veritable torrent of deals by the end of the year.

With easy access to capital, low interest rates and a recovering UK and global economy, the environment for M&A is an extremely positive one. We hope to see 2022 continue in a similar vein. There are, however, a few darker clouds on the horizon that we need to keep an eye on.

In our Q3 update, we wondered if the wider economic impact of supply chain pinch points and rising inflation would cause decreased deal activity. This was before the Omicron variant reimposed restrictions in the UK in December, including working from home

NUMBER OF DEALS IN THE MEDIA AND MARKETING SERVICES SECTORS



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where possible. Q4's data does not reveal any great slow-down. With 116 deals, the final quarter is around 7% down on Q3, but this is still the second highest figure we have recorded in the last three years.

Nevertheless, we will continue to watch for the impact of these factors as we look towards 2022. M&A deals have a long lead time, so any negative impact may take some time to show in the numbers.

QUARTERLY DEAL VOLUME IN THE MEDIA AND MARKETING SERVICES SECTORS



DIGITAL MARKETING REMAINS MOST POPULAR ACQUISITION TARGET THROUGHOUT 2021

The marketing services sector was the most active throughout 2021, accounting for just over half the deals completed in the year. This is a decrease on the 58% we recorded in 2020 but broadly in line with the level we recorded in 2019. Mediatech made up 34% of all deals done in 2021, compared with 32% the previous year.

Together, publishing and TV, film & entertainment made up around 16% of the number of deals recorded in 2021. However, this is not an indication of their popularity among acquirers, more a reflection of the smaller number of UK companies operating in these sectors than in marketing services and mediatech. Publishing and TV, film & entertainment have benefited this year as the demand for premium content, particularly streamed content, has continued to grow.

Within the marketing services sector, digital marketing was the most active sub-sector last year. It accounted for the majority of all the UK marketing services deals we recorded in 2021, and topped the table every quarter, just as it did again in Q4.

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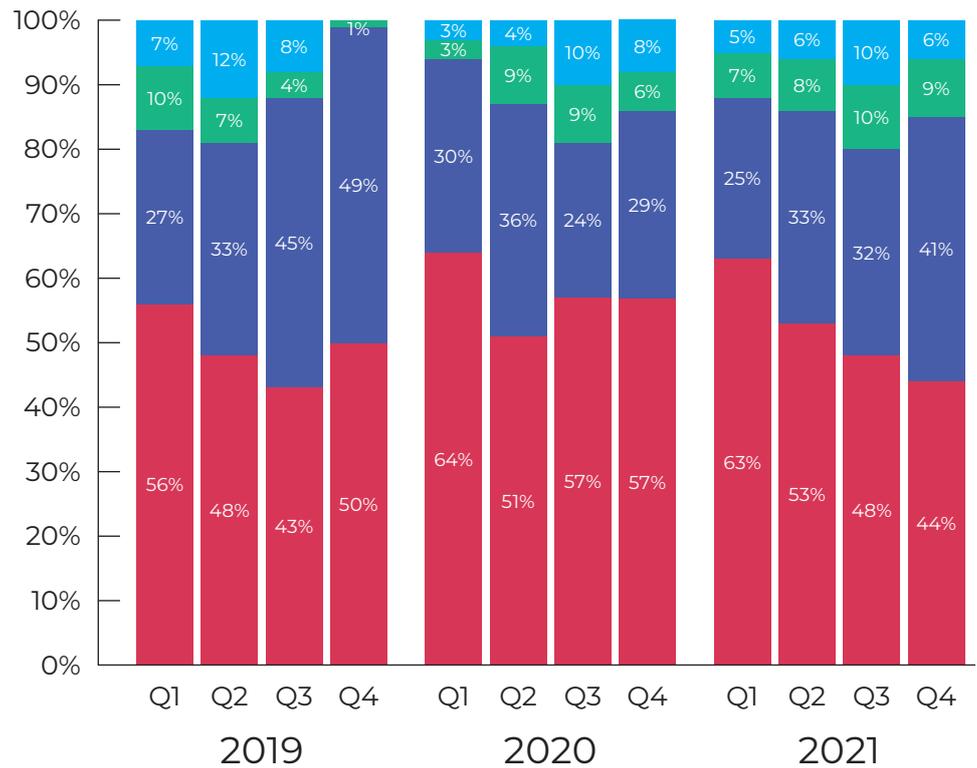
This is no surprise. Digital agencies, digital transformation businesses and companies that enable clients to pursue 'digital-first' strategies have been the real success stories of the pandemic. Many have seen their business's turnover and profits increase. Additionally, the skillsets within these businesses are increasingly valued and sought after by corporate acquirers.

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QUARTERLY DEALS BY SECTOR (%)

- Marketing services
- Mediatech
- Publishing
- TV, film & entertainment



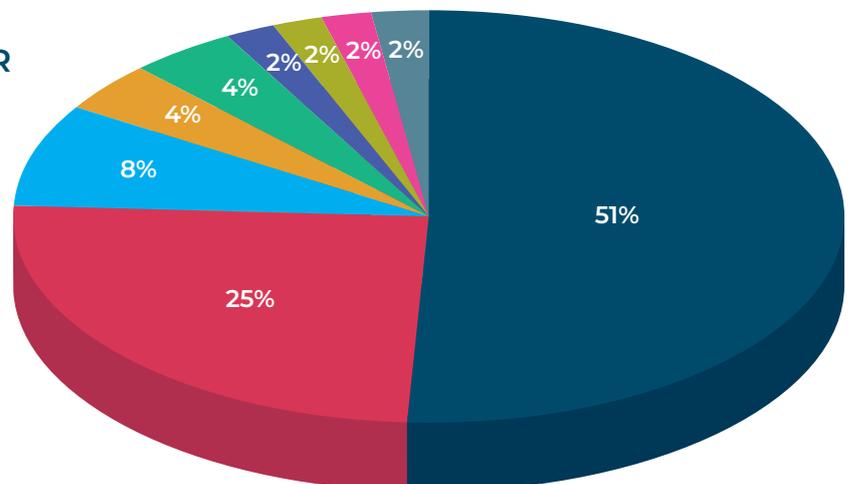
The digital arena is one where Moore Kingston Smith's corporate finance team has been particularly active. In August 2021, we provided transaction support to AIM-listed global social media and marketing company Brave Bison, which acquired digital advertising and commerce agencies Greenlight Digital and Greenlight Commerce in a £6.8 million transaction. In October 2021, we advised on the sale of Inskin Media, a specialist in multi-device, high-impact digital brand advertising, to fast-growing, pan-European digital

entertainment and media platform Azerion. In December 2021, we carried out due diligence on the acquisition of Digital 22 Online by Avidly, which is listed on the Nasdaq First North Growth Market.

Nick Thompson, Corporate Finance Partner at Moore Kingston Smith, says: "Relatively new entrants, such as Azerion, Stagwell and Fimalac, clearly see huge potential in the UK advertising sector. We expect these emerging acquirers to continue driving M&A in the advertising sector in the UK and globally."

Q4 2021 DEAL ACTIVITY IN THE MARKETING SERVICES SECTOR

- Digital
- PR
- Market research
- Advertising
- Design
- Creative
- Media buying
- Events
- Consultancy



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THE MAJOR NETWORKS CONTINUE TO MAKE STRATEGIC ADDITIONS

After an exceptionally tough 2020, in which the major listed holding companies saw their share prices plummet following a pandemic-induced decline in global advertising spend, a return to growth in 2021 has meant that M&A is back on the agenda. Overall spend by the networks was still low in 2021 compared with historical levels. Nevertheless, they have pursued strategic bolt-ons which expand their geographic reach and service offerings.

WPP has stated that it intends to pursue 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. It made five acquisitions in 2021. In Q1, it announced the takeover of Brazilian software business DTI Digital, and the acquisition of Edinburgh-based NN4M, a mobile commerce shopping app platform; in Q3, the acquisition of UK-based Satalia, a global leader in enterprise artificial intelligence; and in Q4, two more UK acquisitions – technology company Cloud Commerce Group and branding and design agency Made Thought.

Publicis was also quite active in 2021. It started the year with the acquisition of London-based B2B marketing specialist agency Octopus Group, following that in Q2 with the acquisition of Taylor Herring, one of the biggest names in the UK PR industry. In Q3, it announced the acquisition of Australia-based CitrusAd, a software-as-a-service platform optimising brands' marketing performances directly within retailer websites. It also revealed that its Benelux division had acquired Amsterdam-based creative agency Boomerang. Publicis ended the year with the acquisition of Israeli performance creative agency Glitch.

Omnicom had a busy Q2 but was otherwise quiet throughout the rest of the year. In April, it announced that Omnicom Health Group had acquired Archbow Consulting, a firm which helps pharma and biotech companies design, build and optimise product distribution and patient access strategies. Later that same month, Omnicom announced that its consulting firm, Credera, had agreed to acquire a majority stake in Areteans, to extend its depth in digital transformation, digital marketing and e-commerce capabilities. Having made two acquisitions in the quarter, Omnicom then announced the sale of its media inventory barter finance company ICON International to ICON's management team.

Dentsu largely restricted its activity to investing in start-up ventures rather than making wholesale acquisitions in 2021. However, in July it announced it had entered into an agreement to acquire US-headquartered LiveArea, a global customer experience and commerce agency, which was to join Merkle within Dentsu's international business.

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Havas had been looking to expand in South East Asia for some time, announcing in February 2021 that it had acquired independent Singaporean agency BLKJ. It then had a couple of quiet quarters but announced another deal in Q4: the acquisition of Nohup, an Italian agency specialising in cloud services, digital transformation processes and system integration.

Outside of the majors, we saw a great deal of activity from the challenger networks. Leading the fray was S4 Capital, which completed no fewer than 12 transactions in 2021, a substantial increase over the three deals it completed in 2020. In Q1, it announced that it had acquired US-based Decoded Advertising and Metric Theory, as well as Chinese agency Tomorrow China; German production studio Staud Studios; Google Analytics partner Datalicious in Asia Pacific; and Jam3, a Canadian design and experience agency. In Q2, it announced what it described as “a combination” between its MightyHive division and Raccoon Group, a digital performance agency in Brazil. Q3 delivered three further deals: the combination between MightyHive and Australian Salesforce specialist Destined, followed by the announcement of a merger between Media.Monks and Los Angeles-based culture and creative marketing agency Cashmere, and a second merger between Media.Monks and Colombian digital transformation services firm Zemoga. S4 Capital ended the year with the announcement of two transactions: the acquisition of Italian creative content marketing agency Miyagi and Chicago-based Salesforce specialist Maverick Digital, both of which were to combine with Media.Monks.

Other networks were acquisitive but none on the industrial scale of S4 Capital. Next Fifteen, The Mission Group, Selbey Anderson, Four Communications, HH Global and NICE Systems all made acquisitions during the year.

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CONSULTANTS RETURN TO MARKETING SERVICES IN Q4

All the larger consulting firms' M&A teams had an exceptionally busy year. However, for the first nine months of 2021, they were largely focused outside the media and marketing services arena. Instead, they snapped up other consulting firms, software engineering specialists, cloud technology companies, cyber security firms, procurement specialists and businesses with industrial robotics and retail supply chain technology expertise.

The final quarter of the year saw them return to the marketing services sector. In October 2021, Accenture announced the acquisition of Glamit, a boutique e-commerce agency based in Argentina, followed in November by the acquisition of Tambourine, a Japanese e-commerce customer experience agency, and King James Group, a South African creative agency.

Also in November 2021, Deloitte announced that it had acquired Madras Global, a content studio, to strengthen Deloitte Digital's services in content and media advertising production, marketing automation and augmented reality.

PRIVATE EQUITY FUELS THE M&A FIRE

Private equity substantially underpinned what little deal-doing there was in 2020 in the UK. It redoubled its efforts in 2021, with increasing competition between private equity houses to carve out a position in the media and marketing services space.

Private equity-backed investments accounted for 54% of all deals completing in 2021. This is up from 45% of deals made in the sector in 2020, which was a sharp increase on the 25% levels seen in 2019 and 2018.

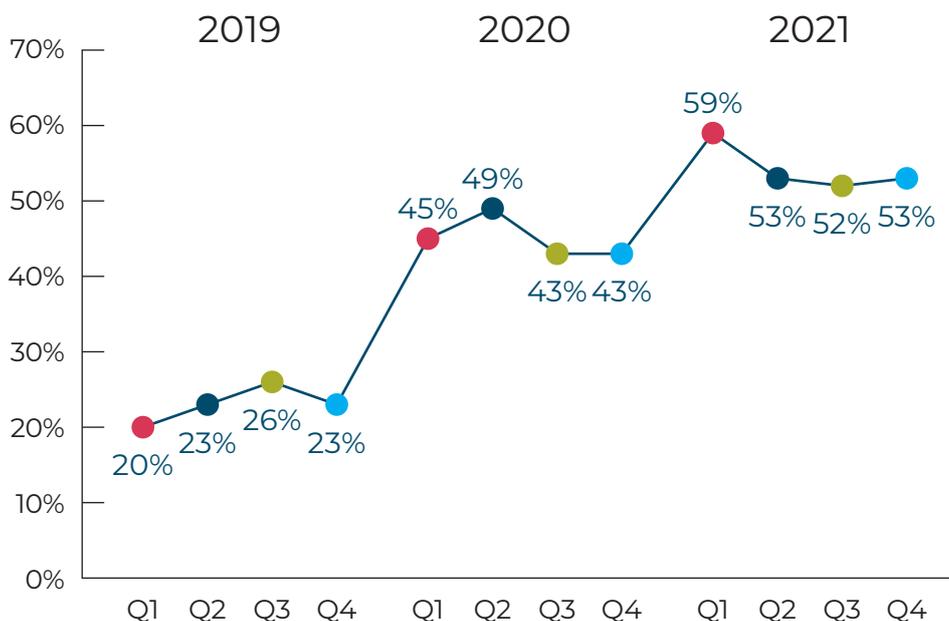
PE houses have really woken up in the last year to the potential for growth in the media and marketing services sectors. As a result, they are prepared to pay high prices, either directly or through their existing portfolio companies, for the leading businesses in those spaces. They have now made strategic investments in media and marketing services businesses and are actively backing those companies in their expansion plans, fuelling the M&A market.

Key PE-backed acquirers in 2021 included Jellyfish, which announced the acquisition of five separate companies in February, all in the digital space. Jellyfish has been on something of an acquisition spree since taking investment from the PE arm of Fimalac Group in 2019.

Livingbridge investee company, Brainlabs, has had a busy 2021. In February, it acquired Manchester-based User Conversion, a conversion rate optimisation agency. It followed this in August with the acquisition of Canadian programmatic agency MediaNet, and then announced the acquisition of international Amazon agency Molzi in September. It finished the year with the acquisition of US-based social advertising creative studio Consumer Acquisition in December.

In March 2021, independent digital agency group Sideshow announced it had taken significant investment from Waterland Private Equity to support

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



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its ambitious growth plans. Following that investment, Sideshow announced several deals in the second half of 2021. In July, it acquired TRGT Digital, a performance marketing agency with a global remote workforce and a significant presence in the UK, Spain and India. It followed this in September with the acquisition of UK-based Catch, a digital experience platform specialist, and Canada-based Widerfunnel, which provides conversion rate optimisation and experimentation services to blue chip clients. Sideshow finished off the year with the announcement of the acquisition of Manchester-based digital agency Access and Kent-based SEO specialist Reddico in November.

Paul Winterflood, Corporate Finance Partner at Moore Kingston Smith, says: “The trend of private equity-fuelled M&A activity will continue in 2022 as acquirers continue to pursue buy-and-build strategies. With the clamour for e-commerce, data and analytics, and martech capabilities being particularly sought after by private equity-backed acquirers, as well as the networks and challengers, this is leading to high valuations.”

OUTLOOK

2021 has been a stellar year for UK M&A deals in the media and marketing services sectors. The second half of the year reveals that activity has more than recovered from the pandemic and is running at a level not seen in the last three years.

The economic impact of Coronavirus was particularly pronounced in the media and marketing services industry and certain businesses, such as those reliant on live entertainment or in-person events, suffered

extreme pressure during periods of lockdown. It is no surprise that 2020 saw deals grinding to a halt. However, it is pleasing to see how the market has bounced back in 2021, reflecting optimism about an eventual return to normality.

The arrival of the Omicron variant at the end of 2021 heralded the reintroduction of some restrictions for businesses. With these being less severe than those imposed in 2020, Omicron looks more like a bump in the road than the major dent we saw earlier with Coronavirus.

Damian Ryan, Corporate Finance Partner at Moore Kingston Smith, says: “Positive macro factors – such as a global anticipated increase in adspend, ongoing investment in martech, major events such as the World Cup and (as matters stand) a post-pandemic reality – point to a positive market in 2022, continuing the momentum built up in 2021. This is despite the headwinds for businesses of inflationary concerns, ongoing tensions between East and West, and the ongoing race for capacity, talent and greater resources. My recommendation to acquirers will be to seek out those opportunities that demonstrate commercial strengths to counteract these risk factors.”

We remain extremely optimistic about the outlook for 2022. We are in contact with an ever-growing pool of motivated acquirers prepared to pay for well-managed, successful businesses. Now is an excellent time for shareholders in media and marketing services companies to consider their exit options.

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

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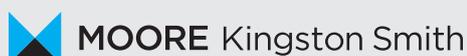
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In compiling our Dealtracker we use Pitchbook, an international financial data provider that gives access to comprehensive data on the private and public markets. We analyse every deal with either a UK buyer or UK seller (or both) and where the target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

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

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