MOORE Kingston Smith

MEDIA OUTLOOK SURVEY RESULTS
2023

2023
Average operating profit margin predicted of **12.3%**
Average revenue growth predicted of **9.6%**

2024
Average operating profit margin predicted of **15.4%**
Average revenue growth predicted of **10.1%**

Introduction

Each year we conduct our annual Media Outlook survey to find out the expectations of senior management and owners of marketing services businesses in relation to the forward looking future financial prospects of the industry. We use this to supplement the data that we gather in our more formalised annual survey on the Financial Performance of Marketing Services Companies which looks back at actual results achieved.

Profit margin and growth predictions

Following an improvement in predictions for 2023 profit margins to 12.3%, 2024 sentiment is even more bullish at 15.4%!

When we ran the Media Outlook survey in spring 2023, the bullish predictions in the survey prior to that which had preceded the “mini budget” budget had softened somewhat, as economic woes took their toll on the sector. Agencies were forecasting a fall in operating profit margins from a predicted 13.6% for 2022 to just 11.5% in 2023. This was coupled with a very downbeat forecast for income growth for 2023 at just 3%. When one considers this in the context of inflation it was very modest indeed – a growth rate less than inflation isn’t really growth at all!

So, how did all of this compare to the results from our Annual Survey on the Financial Performance of Marketing Services Companies which looks at filed results at Companies House? Well, the Media Outlook survey prediction of 13.6% for 2022 turned out to be very consistent with the actual average operating profit margin achieved – of 13.4% – so a good indicator.

The next question is how have the predictions for 2023 margins changed between our Media Outlook survey in spring and autumn 2023? Back in spring 2023, agencies were predicting a profit margin of just 11.5% for 2023. However, with a lowering of inflation and a settling of interest rates on the horizon, agencies were a little more optimistic by the autumn and had boosted their forecast margins a little to 12.3%. Albeit this would be roughly a percentage point behind what was actually achieved for 2022 given the challenges in the sector this doesn’t feel unrealistic.

One would expect improved confidence in profit margins to follow more bullish confidence in fee income growth. So, what did we see here? Back in spring 2023, agencies were very gloomy about their growth prospects for 2023 – predicting just 3% revenue growth, which of course given inflation rates at the time really wouldn’t have been any real growth at all. However, by autumn 2023 agencies were rather more optimistic and were estimating growth in revenues of 9.6% from 2022 to 2023. These growth rates still look less healthy once inflation is considered – but nevertheless, if they were accurate, they should have been enough to pave the way for the predicted 12.3% margin for 2023.

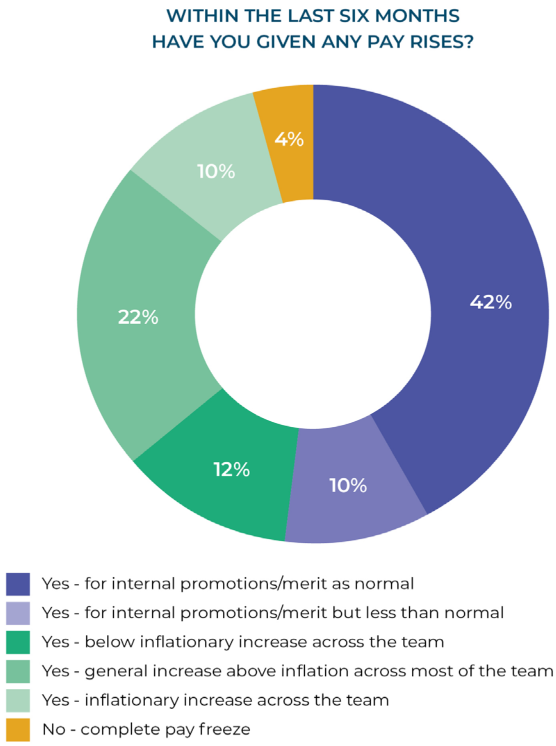
There were similar predictions around revenue growth from 2023 to 2024 at 10.1%, which of course given inflation has reduced gives a much more optimistic level of real growth for 2024. However, whether this is enough to support a predicted 2024 profit margin of 15.4% remains to be seen. Given the ongoing challenges with cost of talent, 15.4% does feel rather high, particularly in the context of the huge proportion of agencies that have said they have either not increased their rate cards or have

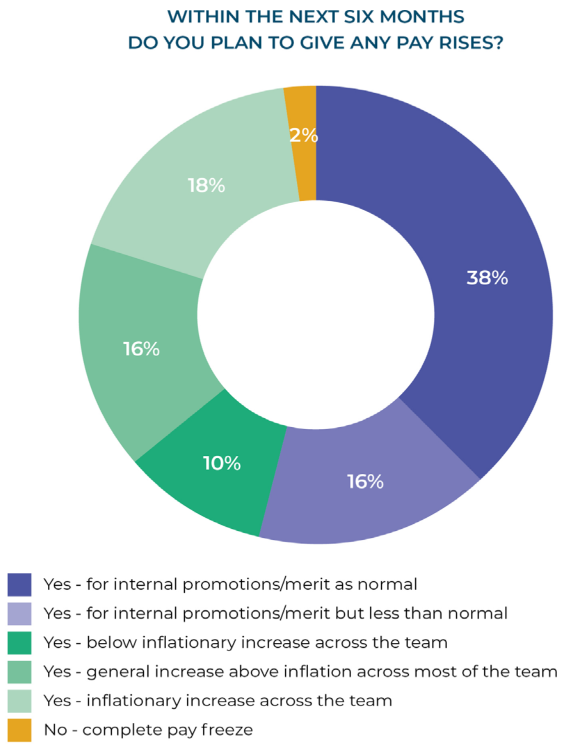
done so below inflation – more of that to follow. However, we would of course be delighted to be proven wrong, and if we were, it would be the first time the average exceeded our recommended minimum target of 15% for an agency.

Pay rises

Despite the continuing tough economic climate, over the last six months 32% of agencies have been able to give pay rises at or above inflation to most employees (slightly higher than the predicted 24% back in spring 2023). However, this was down from 49% in the preceding six months before that. The current heightened pressures of attracting and keeping talent will no doubt be tougher for the 68% who haven't been able to keep up.

Looking ahead to the next six months, a similar percentage – 34%, will be providing such increases. Whilst thankfully inflation is slowing, it is still a live issue, and the cost-of-living crisis continues to bite hard. Therefore, given it is an employee's market, talent who may otherwise have chosen their employer agency on more creative criteria may be forced to focus more on salary. Agencies not keeping up with inflation will need to work hard to retain and attract talent. From an agency perspective, it is very important to ensure pay rises are immediately reflected in rate cards to ensure the profit margins are sustained. However, this does not appear to be happening across the board!



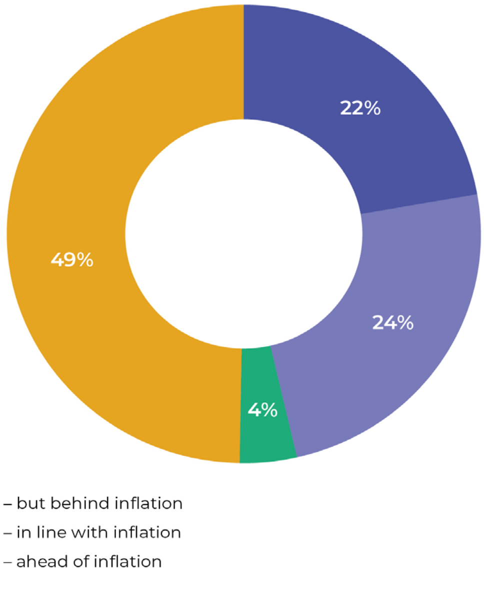


Charge out rates

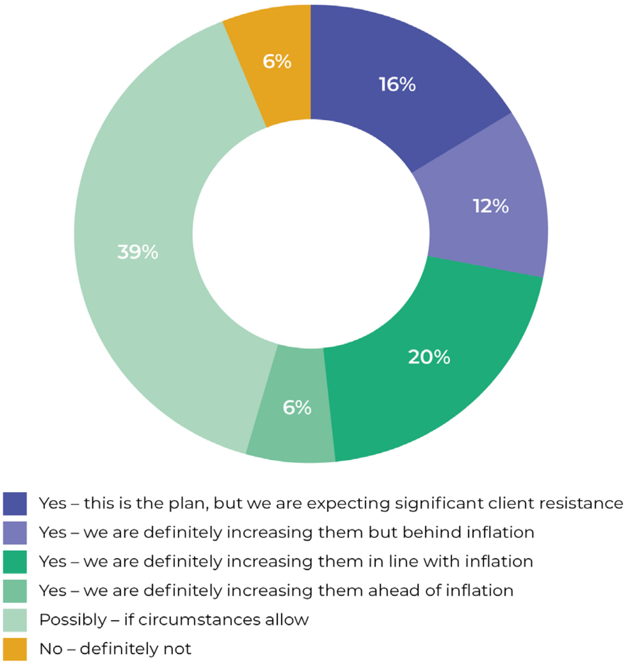
Just 29% were able to increase their rate cards in line with, or ahead of inflation over the last six months. This was roughly the same percentage of agencies that gave pay rises. As the high inflationary environment continues, it is important that agencies continue to reflect increased staff costs in day rates.

Over the next six months, a similar percentage, 27%, are definitely increasing rates in line with or ahead of inflation, diverging slightly more from the percentage giving pay rises in the next six months. Increasing rate cards regularly is vital and clients will expect it even if they don't like it. In contrast it's almost impossible to get it back if you miss a rate rise – this matters more than ever whilst inflation is so high.

WITHIN THE LAST SIX MONTHS HAVE YOU INCREASED YOUR RATE CARDS?



DO YOU THINK YOU WILL BE ABLE TO INCREASE YOUR RATECARD WITHIN THE NEXT SIX MONTHS?



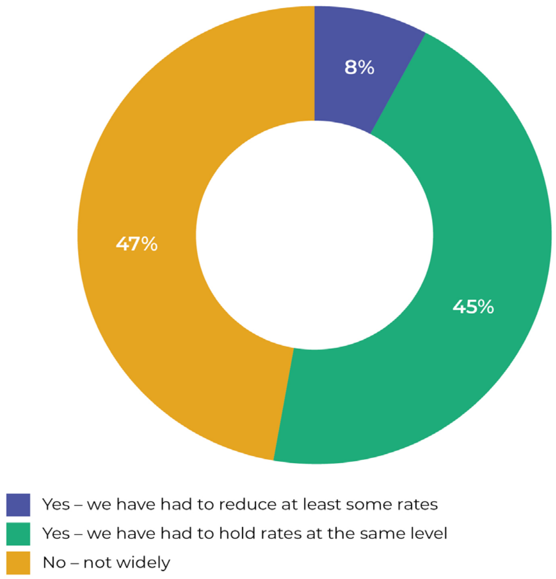
49% have not been able to increase their rate cards over the last 6 months

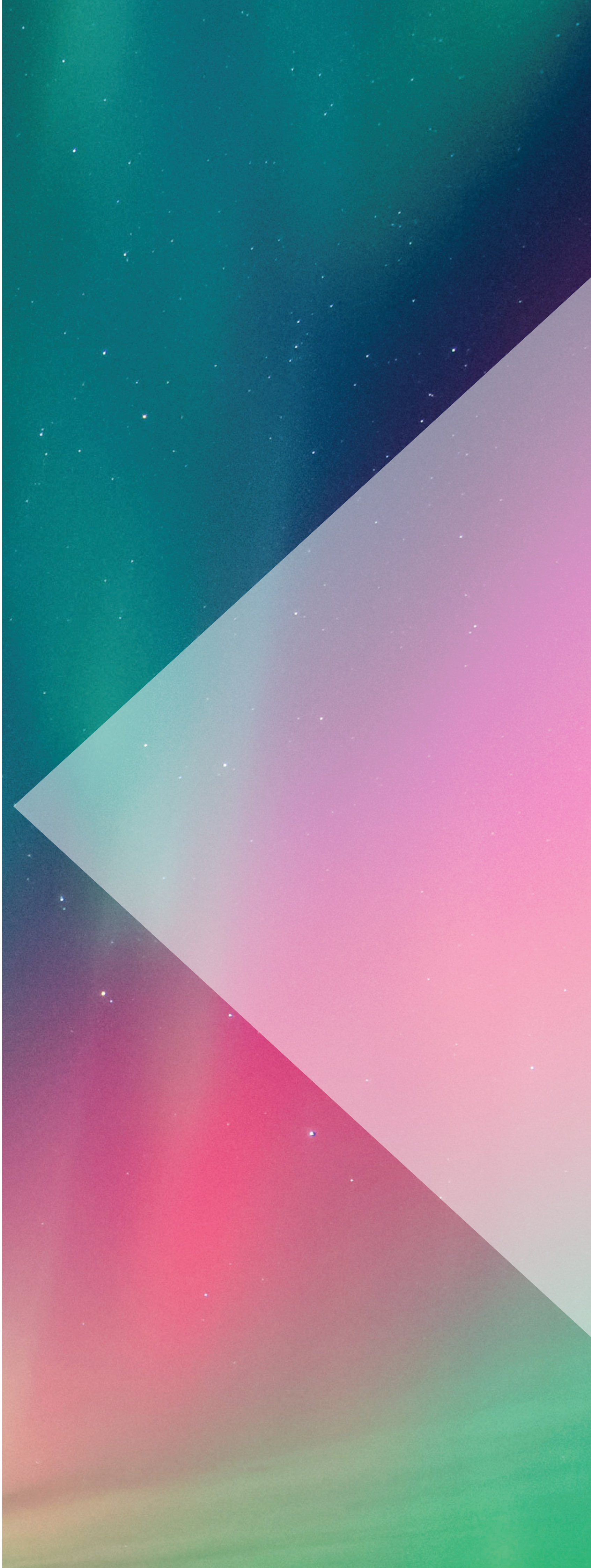
27% are increasing rates in line with or ahead of inflation

As always, the balance between income and cost of resource is a delicate one that needs to be closely monitored. We recommend a maximum of 60% of fee income is spent on talent (including freelancers). Therefore, it is important for agencies to keep rate cards in line with any pay rises, to help achieve this ratio. Agencies spending 60% or less of their fee income on talent should be capable of achieving operating profit margins of 20% or more.

Unsurprisingly, brands are trying to resist any increase in rates, with nearly 53% of agencies being under pressure to hold or reduce rates. At least it's slightly less than the 60% last spring. However, agencies need to hold firm to preserve margins. Procurement may push back, but they are certainly expecting the request – agencies need to be brave!

ARE YOU UNDER PRESSURE FROM CLIENTS TO NOT INCREASE YOUR RATECARD?





ESG creds – at what cost?

Good ESG credentials are becoming increasingly important – they help in the war to win talent, brands and suppliers regularly enquire about them, and its slowly moving up the priority list of investors and potential acquirers.

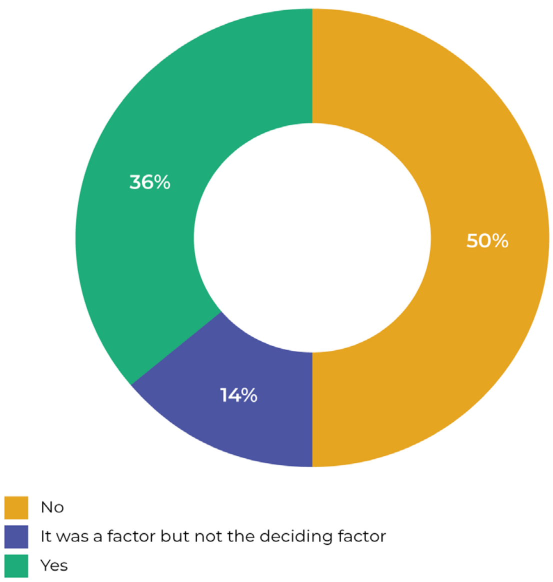
But at what cost? Some 36% of agencies had turned down work for a project from a client due to lack of fit with their ESG credentials, and for a further 14% it was a factor in the decision making process. A principle isn't a principle until it costs you something and it looks as though agencies are generally being fairly principled about their decision with regards to work taken on.

AI - Opportunity or not?

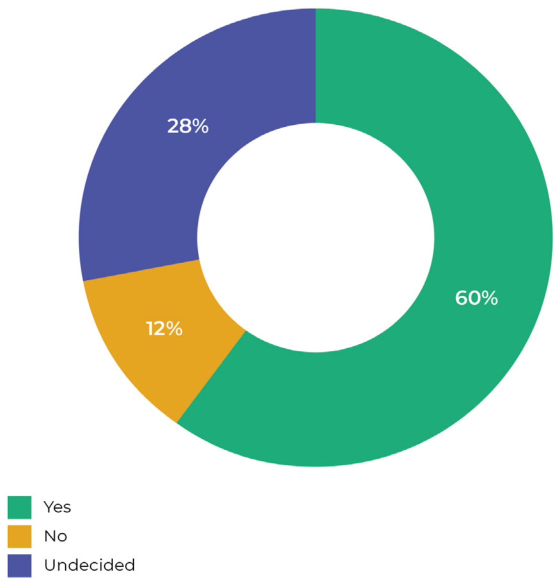
One of the hot topics of the industry is the development of AI and to what degree it's power can be harnessed by the media sector. Some 60% of agencies viewed AI as a real opportunity with a further 28% undecided on its merits. Only 12% couldn't see the opportunity for them at all.

Agencies cited reasons such as "AI is able to generate initial copy and images" and "used AI to create efficiencies in our workflows as well as a tool to use for clients". The nay sayers felt that "creativity was even more important".

HAVE YOU TURNED DOWN WORK FOR A PROJECT FROM A CLIENT DUE TO LACK OF FIT WITH YOUR ESG CREDENTIALS?



ON THE WHOLE, DO YOU VIEW AI AS AN OPPORTUNITY FOR YOUR BUSINESS?

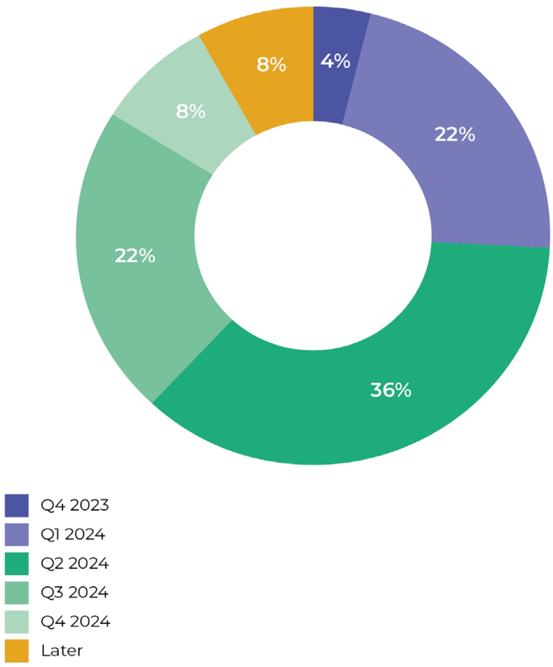


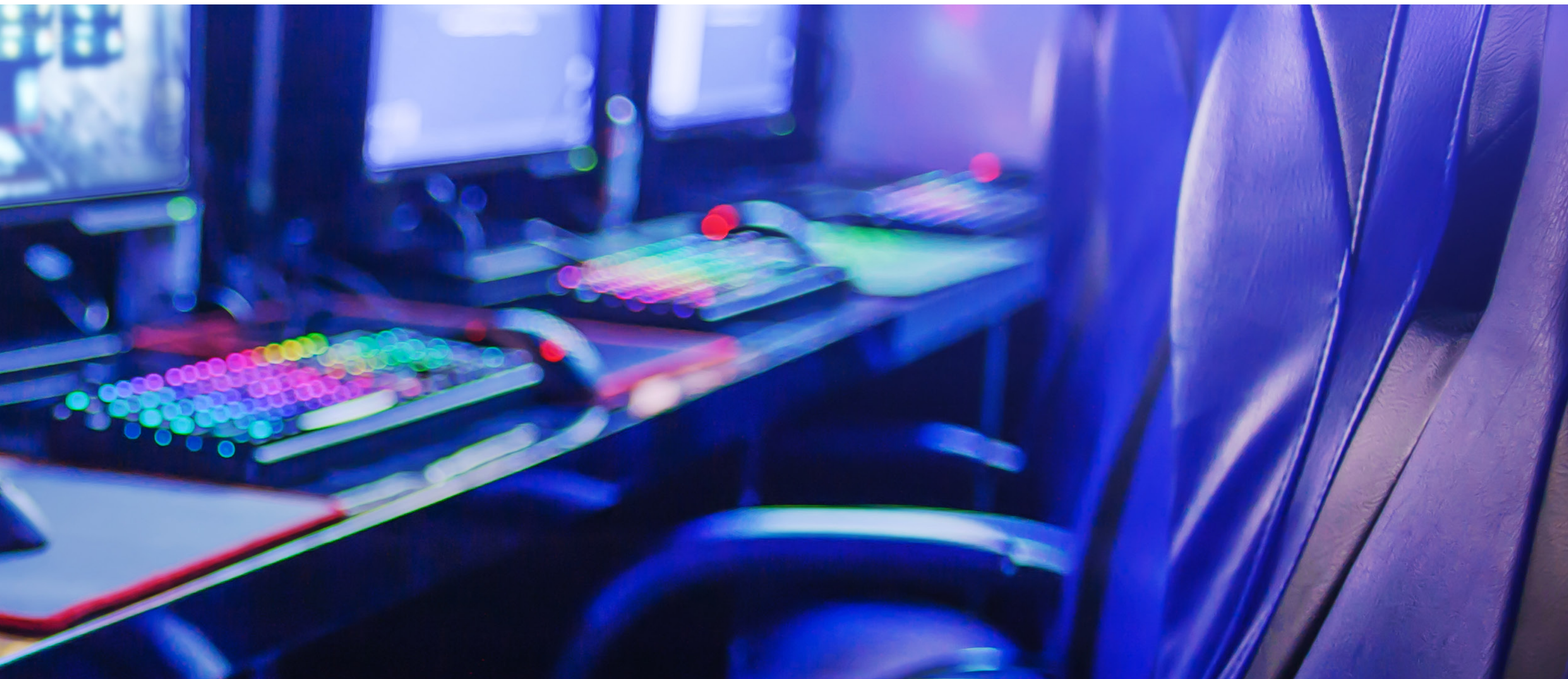
When will client spend recover?

The stabilisation of the economy has resulted in some upward predictions around revenue growth and some rather bullish predictions around 2024 profit margins. However, for this to play out client spend needs to recover. So, when do agencies think that will happen? Just over one third predict this will happen in the Q2 of 2024 with a fifth thinking this will happen in Q1 and another fifth thinking we will have to wait until Q3. With a reduction in inflation and interest rates stabilising, let's hope that the earlier predictions are the ones to come to bear! Obviously, the sooner the better if agencies are to achieve their predicted 2024 margins of over 15%!

58% believe that client spend will recover in the first half of 2024

CLIENT SPEND HAS GENERALLY SLOWED DOWN OVER THE COURSE OF THE YEAR - WHEN DO YOU THINK IT WILL RECOVER?





ABOUT MOORE KINGSTON SMITH MEDIA

Moore Kingston Smith is the only firm of accountants and advisers with a dedicated office of over 100 media specialists that proactively support the broadest range of needs of owner managed media businesses – covering marketing services, film & TV and entertainment, theatre and mediatech.

We know it's not just about the numbers. As well as providing accountancy, tax and corporate finance services, over the years, by working with some of the industry's most successful companies, we have developed a deep understanding of what drives media businesses. As your trusted advisers we use this experience to work in partnership with you to help maximise your growth and profit potential. We conduct extensive research into industry performance every year with a view to understanding not just the benchmarking data but also identifying what the best performers do to achieve exceptional results. Our well-developed structured approach to our strategic advisory services helps you effectively manage risks, build sales, attract and engage people, and identify key opportunities to improve performance and enterprise value.

All this means we can support you throughout the whole of your business lifecycle:

- Start up and small businesses - let our one stop shop approach take care of all your needs, including set up, company secretarial, legal, outsourcing, payroll, accounts and tax including R&D .
- Growing and mature businesses - we can support you as your business grows with our award winning technology enabled audit approach, accounts preparation, tax compliance and advisory services such as HR and employee incentives.
- International - we can leverage Moore Global's network of accountancy and advisory firms in over 100 countries to take the pain out of expanding into unfamiliar territories. We are also well placed to deal with international audit requirements, and co-ordinate international tax advice.
- Exit planning - our media specialist award winning M&A team, with hundreds of transactions under their belt, will ensure you are well prepared for any transaction and maximise the proceeds from the value you have created within your business.

We have hundreds of clients across the media sector who all benefit from our very personal partner led approach, providing the very best guidance, expertise, and specialist sector insights.

In short, we're more than just accountants who count your numbers – we're business partners whose ambition is to help you grow your numbers so that you realise your fullest potential.

ABOUT OUR CORPORATE FINANCE TEAM

Moore Kingston Smith's Media Corporate Finance team are a team of award-winning corporate finance specialists trained in M&A, accountancy and strategic advisory services. We help media and marketing services businesses grow, make acquisitions, and ultimately sell. We work alongside clients, helping shape their vision and develop the sound planning that takes them from good to great. We are well connected throughout the industry and through these active relationships with acquirers and investors both in the UK and overseas, we can source buyers with the right strategic and cultural fit for your business. As part of a leading international multi-disciplinary advisory and accountancy firm, we also provide an unrivalled integrated service, providing transaction tax advice and accountancy support, as well as personal tax and legal advice, alongside our full range of corporate finance services, all delivered by sector experts.

The team have completed over 30 deals in the last three years. Recent highlights include: the sale of AI consultancy Vixen Labs to House 337, part of Next 15, the sale of purpose-driven creative agency 23Red to Capgemini; the sale of brand and culture agency People Made to Black Sun and the management buyout of data led B2B consultancy CRC, backed by Coniston Capital. In addition to this, over the last few years the team have also been involved several other high profile media transactions including: the sales of The Edge Picture Company to Zinc Media Group, the buy-out of Sony Music Entertainment's stake in Syco Holdings on behalf of Simon Cowell, the sale of Blippi to Moonbug Entertainment Ltd and the acquisition of HQ Theatres & Hospitality by Trafalgar Entertainment..

Our media corporate finance team also speak at sector conferences and various trade body events, as well as hosting quarterly 'Selling Your Business' webinars aimed specifically at the media and marketing services sectors. In addition to this, we produce a quarterly analysis of M&A activity in the media and marketing services sectors in the UK.

M&A HIGHLIGHTS

Lead Adviser
Sale
Marketing services

Lead Adviser
Sale
Marketing services

Lead Adviser
MBO
Marketing services
CRC Group

Lead Adviser
Sale
Media services

Lead Adviser
Buyout
Media services

Lead Adviser
Sale
Marketing Services

Who completes our outlook survey?

Respondents were generally independent with a good mix between different marketing services sectors such as advertising, design, digital, PR, media buying etc. In terms of size, around 20% had 0-25 employees, nearly a quarter had 26-50 employees, nearly a quarter had 51-100 employees and just over a third had over 100 employees. All were UK based companies, and around 70% derived at least half their business from the UK.

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