MOORE Kingston Smith

2020 IN REVIEW: AN EXTRAORDINARY YEAR FOR M&A IN THE MARKETING SERVICES AND MEDIA SECTORS

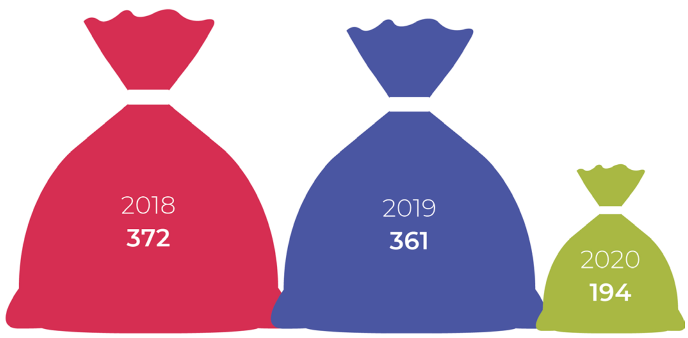
Well, what a year that was. Our 2019 review of UK M&A in the marketing services and media sectors expressed optimism that worries about Brexit, which had dampened activity for the last few years, would soon be alleviated, and the increase in deals that we had started to see in the final quarter of 2019 would continue throughout 2020.

That was before "Coronavirus", "lockdown", 'furlough" and "uncertain times" entered common parlance. We also underestimated how long it would take to strike a trade deal with the EU, with the prospect of a no-deal Brexit going right down to the wire, and a deal agreed in the final gasps of the transition period only covering goods and not services. Clearly marketing and media falls largely within the definition of services, as does 80% of the UK's economy.

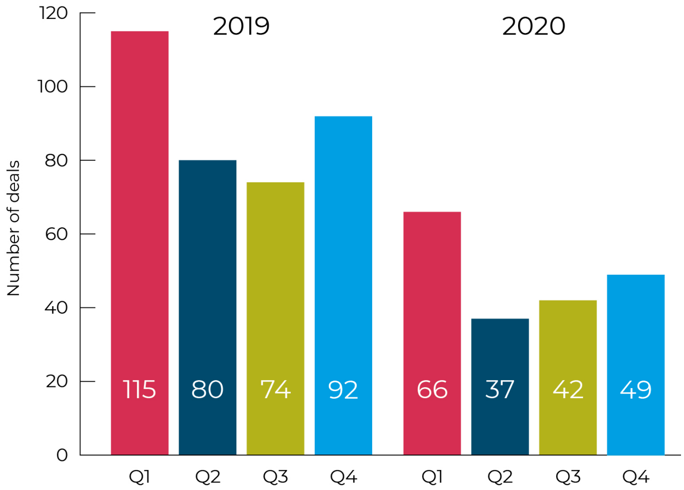
So 2020 did not turn out as forecast and, as we look back at the year now, we can see how the extraordinary events of the year have affected M&A activity.

2020 produced 45% fewer deals than in 2019 – a huge reduction when compared with the previous year-on-year declines of 3% in 2019 and 5% in 2018.

NUMBER OF DEALS IN THE MARKETING SERVICES AND MEDIA SECTORS



This sharp fall in activity was most noticeable in Q2 of 2020, just after the UK had gone into its first period of lockdown. While Q3 and Q4 did show some small increases in the numbers of deals being done, they were not sufficient to return the UK market to more normal levels. Just 49 UK deals in the marketing services and media sectors were recorded in the final quarter, which is 17% up on the previous quarter, but is still 26% down on Q1, and 47% down on the comparable figures for Q4 2019.



"2020 was an extraordinary year, and we are therefore not surprised to see that deal numbers have been adversely affected," says Nicola Horton, Corporate Finance Principal. "However, with vaccine roll-outs underway, we are optimistic that there is light at the end of the tunnel, even if that tunnel is likely to be a little longer than we might have hoped."

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Nicola Horton
Corporate Finance Principal

M&A IN THE MARKETING AND MEDIA SECTOR 2020

SECTOR ACTIVITY – DIGITAL MARKETING REMAINS MOST POPULAR ACQUISITION TARGET

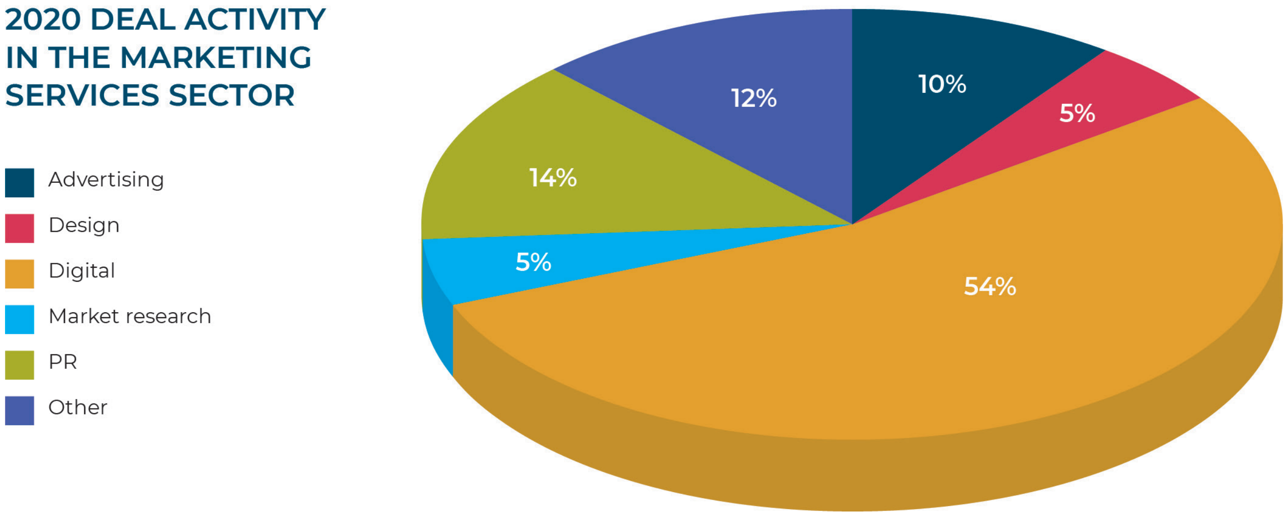
Even in a depressed environment, the marketing services sector has continued to be the most active, accounting for 58% of deals completed in 2020. This is an increase on the 50% we recorded in 2019. Mediatech made up 32% of deals done, compared with 37% the previous year.

However, the most interesting changes can be seen in the sub-sectors of marketing services. Digital marketing is the out-and-out leader accounting for 54% of all marketing services deals, up from 44% in 2019. PR comes second, but a long way back with 14% of deals.

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 skillsets within these businesses are increasingly valued by corporate acquirers.

The digital arena is one where Moore Kingston Smith's corporate finance team has been particularly active this year. In January 2020, we advised on the sale of digital media monitoring and optimisation services provider Digital Decisions to Ebiquity, the AIM-listed independent marketing and media consultancy. In March 2020, we advised on the sale of a majority stake in global digital commerce and design agency Redbox Digital to the SQLI Group, a digital services group listed on the Euronext Paris. In October 2020, we assisted with the sale of full-service digital agency Coast Digital to management consultancy Elixirr, marking Elixirr's first acquisition since its IPO on AIM in July 2020.

2020 DEAL ACTIVITY IN THE MARKETING SERVICES SECTOR



GLOBAL NETWORKS MORE INWARD LOOKING

2020 has proved challenging for all companies, regardless of size, and the global networks have largely focused on their existing businesses rather than new acquisitions. Overall spend on M&A by the networks remains low compared with historical levels but there were still some notable deals completed by networks in the year.

Dentsu kicked off 2020 with a flurry of acquisitions. In January 2020, it acquired California-based E-Nor and folded that into its own marketing analytics consulting arm, Cardinal Path. Less than a fortnight later, it made another purchase in the US, acquiring Digital Pi, a Dallas-based provider of marketing automation consulting services in the B2B sector, for its performance marketing agency Merkle. This was swiftly followed by Merkle acquiring 4Cite, a leading data services technology company in the e-commerce sector, based in Albany, New York and Peterborough, New Hampshire.

January's three deals for Dentsu were followed by a fourth US acquisition in February, when Merkle bought a majority stake in New York-headquartered Media Storm, a data-driven audience planning and targeting agency. However, as Coronavirus hit, Dentsu's acquisition activity paused, and aside from a couple of small venture investments, the group reported no further deals in 2020.

WPP increased its ownership stake in UK-based advertising agency The&Partnership in February 2020, and acquired US-based marketing technology consultancy XumaK in the same month. The following month, it acquired Sandtable, a UK company specialising in behavioural analytics and advanced simulations, for its

GroupM technology practice. Like many of the other networks, it then fell silent in Q2, returning to the fray in September with the announcement that its Wunderman Thompson division had acquired French customer experience consultancy Velvet Consulting.

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. However, WPP Chief Executive Mark Read played down the prospects of big, transformative deals. "The number one thing we have to do is deliver organic growth," he said. "I don't want to be distracted from that by an acquisition spree."

In March 2020, Havas Group announced the acquisition of UK-headquartered Cicero Group, a full-service communications and market research agency, specialising in corporate PR, public affairs, market research and digital communications. In August, Havas acquired leading Australian media agency Hyland and then, in September 2020, a majority stake in US-based Camp + King, a creative agency combining brand storytelling with expertise in digital, social and content development.

S4 Capital completed three transactions in 2020, acquiring Latin American data and analytics consultancy Digodat and Australian analytics firm Lens10, as well as London-based data analytics and measurement consultancy Brightblue Consulting. On the first business day of 2021, S4 Capital announced it had completed two more US-based acquisitions – Decoded Advertising and performance agency Metric Theory – and stated that it intended to pursue its aggressive growth strategy even faster now that uncertainty surrounding the Brexit process had largely lifted.

CONSULTANTS ACTIVE BUT LOOKING OUTSIDE THE UK

Our survey of UK deals found no major UK deals involving any of the larger consulting firms in 2020. However, this is not to say that they have ceased all M&A activity during the year, just they have been targeting non-UK markets.

After a busy 2019, Accenture demonstrated a continued appetite for the sector in 2020, with several deals announced. These included February's acquisitions of maihiro, a provider of SAP-based customer experience, customer relationship management and commerce services with offices across Germany and Austria, and Eindhoven-headquartered product design and innovation agency VanBerlo. In April, Accenture announced it had acquired Seattle-based B2B marketing services agency Yesler and, in August, it snapped up New York-headquartered content production company CreativeDrive.

In February, Capgemini revealed its acquisition of Purpose, a social impact agency and hub for campaign innovation, headquartered in New York with outlets across the globe. It was announced that Purpose will integrate with Capgemini Invent, the digital innovation, consulting and transformation brand of Capgemini.

In March, EY announced its acquisition of Swedish design and innovation firm Doberman, enabling it to strengthen its capabilities within innovation, customer experience and digital design. It followed this in August with the acquisition of Argentinian company Inter-Cultura, a design, user experience and customer experience agency. Then, in November, EY announced the acquisition of Texas-headquartered Zilker Technology, a digital consultancy focused on creating lasting and valuable customer experiences.

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.

> The number one thing we have to do is deliver organic growth

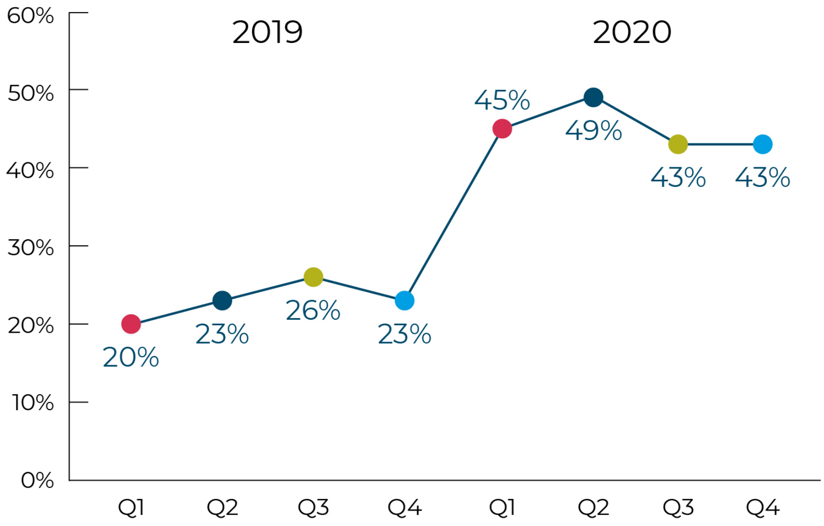
Mark Read, CEO of WPP, commenting on the group's long-term objectives

PRIVATE EQUITY APPETITE REMAINS STRONG

Private equity-backed investments accounted for 45% of all deals completing in 2020, up from a quarter of deals made in the sector in 2019 and 2018.

The UK public markets proved a particularly fruitful hunting ground for private equity in 2020.

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



The UK public markets proved a particularly fruitful hunting ground for private equity in 2020, with several listed companies taken private in the year by PE-backed acquirers.

In May, US PE house Clayton, Dubilier & Rice completed its acquisition of healthcare and communications business Huntsworth for an enterprise value of £575 million. Huntsworth subsequently delisted from the LSE's main market.

In August, Arsenal Capital partners, another US 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.

MSQ Partners completed its acquisition of the Be Heard Partnership, the parent company of MMT Digital, Freemavens and Agenda 21, and delisted Be Heard from AIM in September. 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.

Other notable PE deals in 2020 included Bridgepoint's acquisition of UK-headquartered medical and healthcare communications agency Fishawack in April. Fishawack was previously backed by LDC, which had supported the group in a series of acquisitions since 2017. Following the investment by Bridgepoint, Fishawack stated it intended 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. Fishawack finished the year with the acquisition of healthcare communications business Hive from Kin + Carta.

Throughout the year, private equity-backed buyers kept the market alive.

Paul Winterflood
Corporate Finance Partner

In a difficult year for the VFX industry in which the mass halting of live action shoots forced several facilities to downsize, London-based Framestore took the opportunity to consolidate its market position through acquiring US-based creative services group Company 3/Method. The acquisition was financed by private equity houses Aleph Capital and Crestview Partners, which are now Framestore's majority shareholders. With the acquisition of Company 3/Method, Framestore has become the world's second biggest VFX company by headcount.

"Throughout the year, private equity-backed buyers kept the market alive, accounting for just under 50% of transactions," says Paul Winterflood, Corporate Finance Partner. "This was driven by a requirement to keep deploying capital and build on the investments they had made over the past few years in the sector as they seek to capitalise on digital growth in particular. We expect this trend to continue into 2021, particularly as we're expecting an increase in companies coming to market, which will provide increased opportunities for private equity-backed acquirers to transact."

OUTLOOK

2020 has been a torrid year and represents a historical low point for UK M&A activity. 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 as lockdowns have been reintroduced or extended.

The arrival of a new variant of the Coronavirus in the UK at the tail end of 2020 was especially unwelcome since it heralded further restrictions for businesses that were just starting to think about growing their operations. We expect severe restrictions to remain in place for some months, which will naturally have an impact on businesses and the M&A environment in the short term. However, the prospect of an eventual return to normality is there with the promise of fast-moving vaccination programmes.

The picture for the UK M&A market in the latter part of 2021 appears much more promising.

The UK government has continued to extend its support packages for businesses, meaning that the distressed M&A that we would normally expect to see during a recession has not materialised to any significant degree. However, that support will eventually start to wind down and we anticipate seeing more businesses in financial difficulties in 2021 looking for the support of a stronger partner.

Additionally, the level of national borrowing underpinning these government support packages does eventually have to be repaid. We expect further details of possible changes to capital gains tax rates and reliefs in the 3 March Budget. If these do not come into force immediately but are instead signalled as something that is likely to come in the medium term, we expect many business owners will start thinking about arranging an exit before any such changes come into effect.

In short, we believe we still have a few difficult months ahead, but the picture for the UK M&A market in the latter part of 2021 appears much more promising.

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