

▶ M&A market report 2H 2019

Digital Marketing





“POINT OF NO RETURN”: DIGITAL ADVERTISING OVERTAKES TRADITIONAL



An estimated 57 per cent of the world population now conduct their business and social lives online, and hundreds of millions make the switch to digital every year. This new digital realm is driving the progress, adoption and popularity of digital marketing technology – advertising solutions, marketing automation, experience management and digital agencies among them. In fact, the world of billboards and primetime TV slots is quickly being overtaken by these more nimble, embedded and content-driven online experiences. It is in this context that digital marketing’s watershed moment is best understood: for the first time ever, digital ad spending worldwide is estimated to be higher than all other traditional channels.

The normalisation of digital as a key marketing channel is exemplified by the acquirers who are currently active in the market. Large media networks such as Publicis and Omnicom are making fewer purchases than in the past, while McDonald’s and brokerage firm Willis Towers Watson inked digital marketing deals worth a combined \$1 billion so far this year.

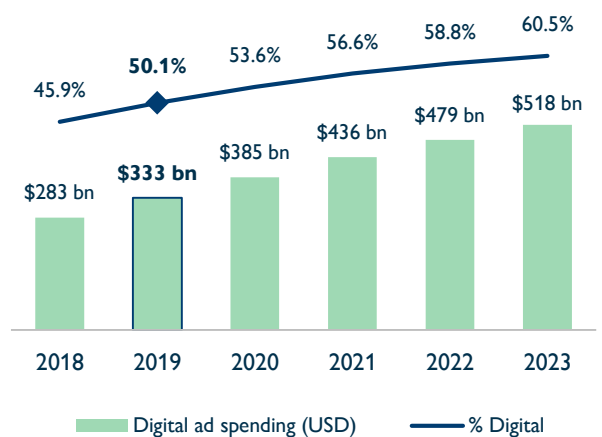
Evidently, understanding customer preferences and targeting them accordingly is more crucial than ever. As “traditional” digital tools such as banners and email

become more challenging, marketers are turning to increasingly sophisticated CRM and customer analytics tools and improving customer interaction via chatbots and messenger apps. Many advances are necessitated by evolving supply chains, with capability required to address drop-shipment, click-and-collect and successively more “instant” fulfilment.

Today, agencies – the classic creators of marketing campaigns – need social media, AI and other emerging technologies in their core offerings to stay relevant. It is no surprise, therefore, that they experienced a drop in exits in the first half of 2019.

Global digital ad spending 2018 – 2023 (USD)

Source: eMarketer (2019)





M&A SUMMARY

Stable deal counts mask major disruption

Transaction volume for digital marketing has remained strikingly consistent and virtually predictable, as the 2019 tally of 162 being stable and squarely in line with recent trends. Fluctuating more greatly is aggregate deal value, which totalled just under \$3.5 billion, down from almost \$11 billion in 2H 2018– although, critically, the figure does not capture the raft of deals that are not disclosed.

With regard to valuations, median revenue multiples have continued to creep up, now standing at 2.5 times

sales and being driven primarily by boosts in marketing software valuations.

On an EBITDA basis, valuations have also remained remarkably consistent, at just over 13 times earnings, generally in line with other sectors across the technology spectrum.

Our outlook for digital marketing M&A, therefore, remains upbeat: evidently, nimble, forward-looking companies are able to navigate the great disruption – and opportunity – this sector promises.

Digital Agencies & Marketing Services Providers

67

Transaction volume 1H2019

12.6x

Median Trailing EV/EBITDA

\$1.42 bn

Total disclosed transaction value

Marketing Application Software

95

Transaction volume 1H2019

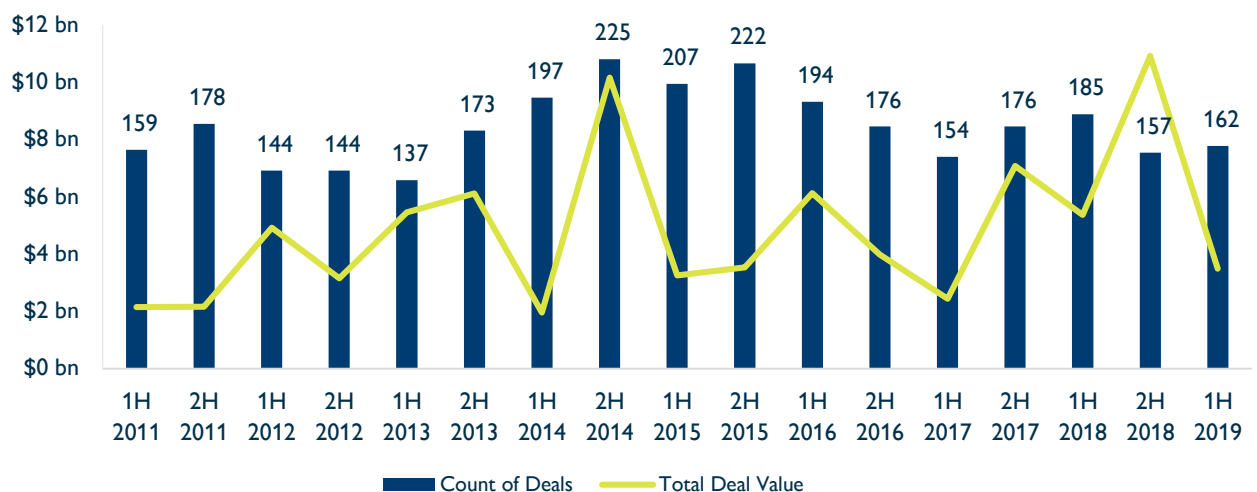
15.7x

Median Trailing EV/EBITDA

\$2.06 bn

Total disclosed transaction value

Total number of Digital Marketing M&A deals 2011 – Present



Our Digital Marketing report covers the two-and-a-half-year period between January 2017 and June 2019. All totals and median values refer to the entire period unless otherwise stated. Median multiples plotted in the graphs refer to the 30-month period prior to and including the half year.



TOP ACQUIRERS



Number of active acquirers over the past 30 months



Number of acquirers that made >1 acquisition



Median disclosed transaction value over the past 30 months

Acquirer	Acquisitions in 30 months	Three most recent acquisitions
	40	Redder Advertising Vietnamese digital marketing services Happy Marketer digital marketing services BJL Group digital & traditional marketing services
	25	Autumn Worldwide social media marketing & analytics 2Sales international Amazon marketing services Hirschorn Zuckerman Design Group digital & traditional marketing
	20	Shackleton digital & traditional marketing services Droga5 digital marketing & web design services Storm Digital digital marketing & web design services
	6	iContact Corporation email marketing SaaS Communicator Corporation email marketing services & SaaS StreamSend email marketing SaaS
	6	That Lot social media marketing services Axiom (Marketing Solutions business) customer data & marketing services Cappuccino digital marketing services
	5	Planning-Inc marketing analytics SaaS Activate Marketing Services digital marketing services Technical Associates Group digital marketing & analytics
	5	Interactive Thinking digital marketing services June 21 digital marketing services Adaptive Lab digital business design consultancy services
	5	Bonobot Technologies customer analytics conversational AI SaaS Rebelmail email marketing SaaS Datorama marketing performance intelligence & analytics

Dentsu maintains M&A lead over rivals

Dentsu Aegis Network, the UK-based digital marketing arm of Japanese ad giant Dentsu, opened 2019 with a total of four agency acquisitions, adding to its impressive list of 40 digital marketing purchases in the past 30 months. WPP remains in second place with 25 acquisitions across 2017 and 2018. However, it made none in 1H 2019: thus, it seems that WPP's prodigious buying spree under erstwhile CEO Martin Sorrell may be coming to an end.

When it comes to professional services firms, Accenture leads the charge with 20 digital marketing buys, mostly in the agency space, but is rivalled by peers such as Capgemini and Deloitte as it taps into this lucrative, highly localised and incredibly fragmented sector. The diversification of professional services firms into marketing capabilities was noteworthy some years back but is clearly common now.



TOP TRENDS IN DIGITAL MARKETING

- Benefits of **data analytics tools** are no longer theoretical, as companies leverage new tools to access and use previously untapped data from multiple sources.
- The traditional digital agency model – and its associated buyers – is being upended by developments in **AI solutions, nearshoring and in-housing.**
- Emerging trend of **messenger marketing** opens a critical channel that is better suited to address increased mobile commerce and millennial customer base.
- Increasing importance of **platform competence** for agencies and marketing software providers, with Amazon know-how crucial.
- **Headless software architecture** is going mainstream as marketers harness commerce software solutions and progressive web apps.
- Email marketing, banners, and other first-wave martech tools are giving way to **retail media and embedded content.**

The retail media revolution

Retail media as a concept has been discussed for almost a decade, and its application is rapidly becoming mainstream as platforms continue to burgeon on the internet. The term describes various site monetisation programmes which allow retailers to sell promoted and sponsored content. At its heart, it carries the notion that ad placement is significantly stronger for ROI on a platform than a search engine.

In approaching customers at the point of sale, brands target higher likelihood buyers with content more attuned to their immediate needs. Cision's purchase of

Post-purchase Journey

Investing in a simplified post-purchase experience will help retail reap rewards in the form of customer loyalty, repeat purchases and increased revenue, and the below statistics help explain why.

- Drive loyalty & revenue



91% of retailers agree that engaging customers after they make a purchase improves brand perception, customer satisfaction and loyalty

- Communicate



5.5x Consumers are more likely to opt into SMS communications to receive post-purchase updates than pre-purchase marketing notifications

- Don't underestimate returns



70% of shoppers say an easy returns experience would make them a repeat customer

Source: Navar

Falcon.io, a social media marketing analytics firm, for \$126 million is a good example of the merging of social network and platform e-commerce.

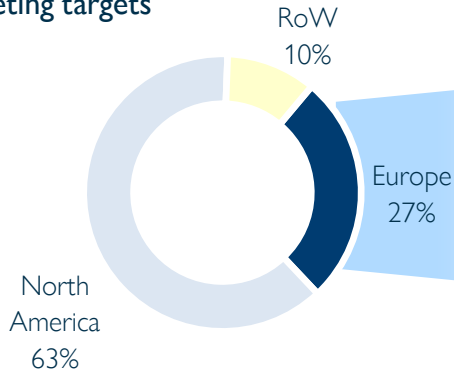
Customer feedback at the fore

Real-time recommendations are also at the forefront, as illustrated by a pair of deals: online survey pioneer SurveyMonkey made a \$80 million bet on Usabilla, a Dutch customer feedback analytics company, thus extending its capabilities in the enterprise segment. A month earlier, Kibo Software purchased Certona, an AI-based product recommendation engine, for \$60 million.

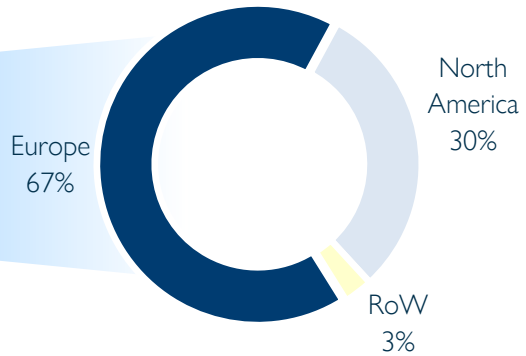


GEOGRAPHICAL BREAKDOWN

Headquarters of digital marketing targets



Headquarters of acquirers of European targets



67%



67 per cent of European assets were targeted by a European acquirer, while only 30 per cent of European targets were snapped up by North American buyers. Meanwhile, North American targets have increased their share of global deals by a small margin to 63 per cent up from 62 per cent half a year ago, and Europe's share has also marginally risen to 27 per cent.

Sub-sector breakdown



Digital agencies & marketing services providers
 Online advertising, mobile & web marketing, e-mail marketing and measurement, web design & development.

Marketing application software
 Online marketing & e-commerce software, CRM, advertising enablement, marketing automation.

LARGEST DISCLOSED DEALS OF 1H2019

\$1.2 billion	Willis Towers Watson acquires TRANZACT
31 Mar	
\$600 million	Thunder Bridge acquires Repay at 4.6x EV/S
22 Jan	
\$325 million	McDonald's acquires Dynamic Yield at 10.8x EV/S
25 Oct	
\$182 million	Hexaware acquires Mobiquity
14 Jun	
\$176 million	Taptica International acquires RhythmOne at 0.5x EV/S
04 Feb	
\$165 million	MIH PayU acquires izico Odeme Hizmetleri
11 Jun	
\$150 million	LiveRamp acquires Data + Math
24 Jun	
\$126 million	Cision acquires Falcon.io at 4.7x EV/S
03 Jan	
\$100 million	Campaign Monitor acquires Sailthru at 2.5x EV/S
15 Jan	
\$80 million	SurveyMonkey acquires Usabilla at 5.9x EV/S
05 Mar	



DIGITAL AGENCIES AND MARKETING SERVICES PROVIDERS

Sub-sector overview

Thus far, 2019 has seen digital agencies and marketing services providers take a sharp haircut on deal-making as transaction volume cut to 67 deals, down a quarter from 91 in 2H 2018. Similarly, valuations are down, although they remain broadly flat if adjusted for Axcium's acquisition of IPG in 2018. The trailing 30-month median revenue multiple remains at 1.5x, while the 30-month trailing median EBITDA multiple also stands unchanged at 12.6x.

Disruptive forces transform agency landscape

Several trends are disrupting the traditional agency model and partially account for the shift in digital agency buyers.

For one, costs are being squeezed by competition hailing from formerly nearshored countries which now possess significant independent capabilities.

Furthermore, we expect the trend of in-housing standard online marketing processes to continue, as evidenced by Mercedes-Benz's 2017 acquisition of Cinteo or the Discovery Channel's pickup of cycling digital marketing specialist Play Sports in 2019.

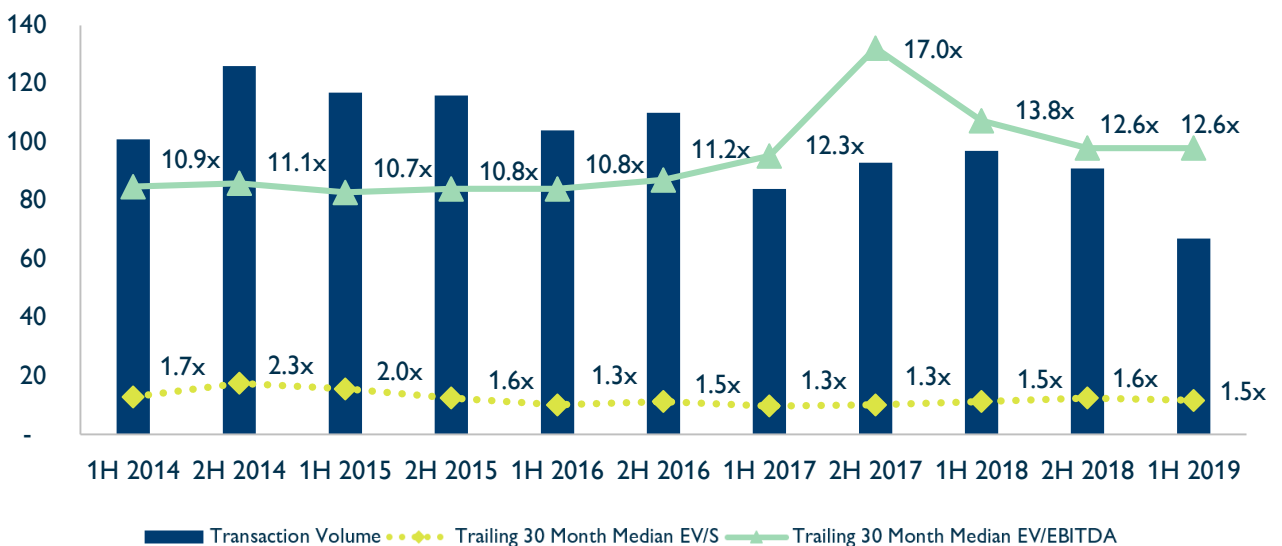
Finally, an excellent yardstick of a sub-sector's relative maturity is the private equity interest it attracts: in 2019, financial sponsors account for just under one quarter of deals inked, up from 17 per cent in 2018.

Where have the Big 4 gone?

The two top joint acquirers for 2019 were Dentsu Aegis and Accenture, with four agency acquisitions apiece. Notably absent from the tombstones in the last six months were WPP, Omnicom, IPG and Publicis – indeed, since 2018 the stalwarts have made only 13 digital marketing acquisitions between them. In fact, three other companies made 13 agency acquisitions as well, a quintessence of the new normal: Accenture, Capgemini and Deloitte.

Willis Towers Watson bolster health marketing

In the sector's largest transaction of 2019 so far, the risk advisory and brokerage firm purchased TRANZACT from Clayton Dubilier Rice for \$1.2 billion. TRANZACT and its 1,300 employees will provide digital marketing and CRM services for the insurance industry in the US.





MARKETING APPLICATION SOFTWARE

Sub-sector overview

Where digital agencies' activity decreased, marketing application software deal-making flourished, as transaction volume jumped up 44 per cent to 95 deals in 1H 2019.

Median deal valuations have also continued their upward creep, as marketing software companies are now worth some three times sales and over fifteen times EBITDA.

Light at the end of the adtech tunnel

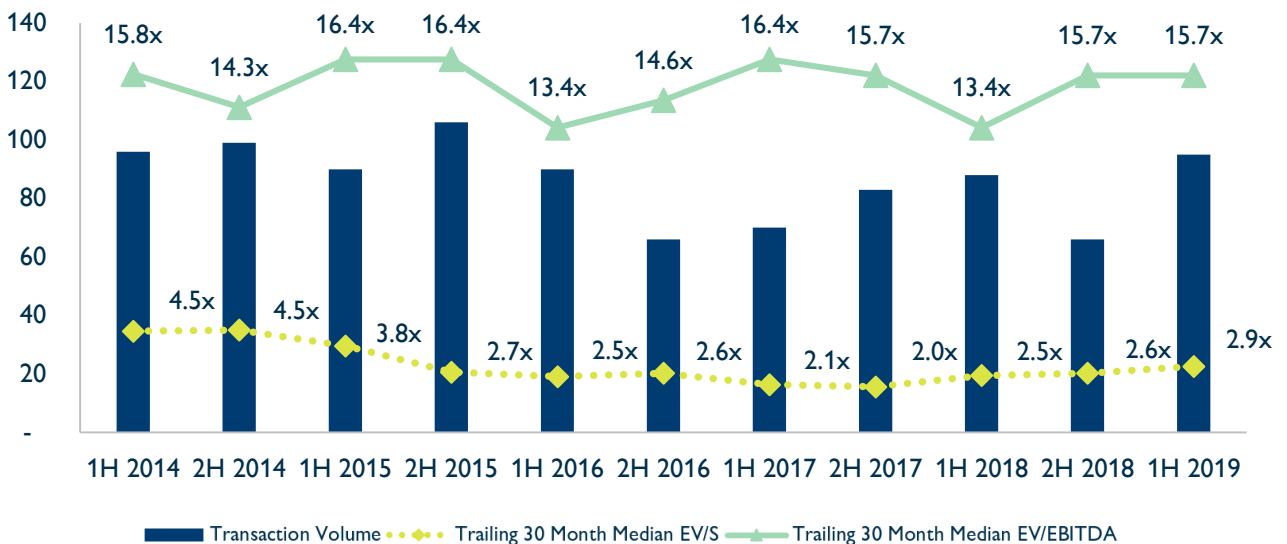
Adtech has had a bumpy ride over the last two years, but two recent deals indicate renewed (albeit cautious) optimism: Taptica announced a \$176 million bid for RhythmOne, with an acquisition price at half of revenue, giving Taptica a key asset in TV monitoring. Then, in a surprising move, Amazon picked up the pieces of troubled ad server Sizmek for \$45 million, bolstering its digital signal processing (DSP) and making a big move into the budding market of streaming TV advertising. Perhaps counterintuitively, TV is lagging in analytics capabilities, and thus represents an untapped market of opportunity.

In its second acquisition as a demerged entity, LiveRamp picked up Data + Math, a leading provider of TV and video advertising analytics, for \$150 million.

AI becoming commercial reality for marketers

In a move that confirms the commercial viability of AI applications, McDonald's paid over ten times revenue for Dynamic Yield in a \$325 million move into the machine learning customer personalisation adtech market. The fast food giant will use Dynamic Yield's proprietary technology to tailor each customer's Drive Thru experience.

This comes after Vista-owned Kibo Software's \$60 million pickup of Certona, an AI-based omnichannel personalisation SaaS vendor for three times revenue. In a sign of European strength in this area, UK-based Attraqt made a move for Early Birds of France, a customer behaviour analytics SaaS, at almost six times revenue, with the goal of curating "specific experiences for high-traffic sites" for its customers.





CONCLUSION & CONTACTS

2019 has begun with a total rebalance in the deal mix: agency M&A is down, while digital marketing software M&A is up. And, where agencies are concerned, today's acquirers are just as likely to be IT consultancies or corporates as they are media networks. Meanwhile, marketing software providers are caught up in a new hype cycle which includes buyers from a range of sectors. Software vendors are also increasingly employing or embedding AI on a larger scale, risking loss of clients or investment if they do not.

So what's the new normal? Agencies need their own tech or unique skillset in a new hot area – e.g. CRM, big data, social commerce or retail media – or risk being sandwiched between nearshored competitors or the client's in-house staff. Even specialised agencies need to grow into international players to meet global client expectations. The real success drivers for agencies and marketing software companies will be competence in social media, marketplace business and retail media.

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