



▶ M&A market report 1H 2018

Digital Marketing



Consolidation only a matter of time

Last year was a challenging one for the big six media agencies - WPP, Havas, Omnicom, Publicis, Interpublic Group and Dentsu Aegis Network - due to reduced marketing spending from core clients, especially in the fast-moving consumer goods (FMCG) space. Also, the competitive threat from IT services and consulting firms as well as Facebook and Google's tight grip on the advertising market made for a particularly challenging year. The agencies are also navigating growing calls for greater transparency over fees charged and the threat of wider scale programmatic in-house buying. As media agencies acknowledge the need to revamp their operational structures, plans to create more robust data and analytics offerings may translate to more rampant M&A deal making.



The past twelve months were no less challenging for businesses operating across the ad-tech value chain and brought widespread concerns over ad fraud and industry-wide critique of brand safety and transparency to the forefront. While brand safety has been an issue for advertisers for a number of years, a string of high-profile controversies presented marketers with new leverage to push for greater control and visibility.

For the most part, digital ad fraud as well as the apprehension over brand safety that has prompted major brands to pull their advertising from YouTube are expected to boost investment in digital ad measurement firms and other assets that solve this problem.

Other industry headwinds include changes to European data law that will impact marketers, agencies, ad vendors, and publishers the world over. As marketers follow the countdown to Europe's new General Data Protection Regulation (GDPR), which is due to be enforced on May 25, 2018, many questions and ambiguities surrounding the enforcement of the new legislation remain.

Digital marketing acquisitions expand beyond traditional agencies



Looking ahead, the M&A buyer universe will become increasingly diverse as the traditional media holding companies compete for targets with the management consulting firms, big IT firms and emerging private equity investors and their portfolio companies.

Assets offering either scaled or compelling capabilities in digital customer channels as well as analytics-driven media buying and customer insights will be attractive to buyers across a swathe of industries.



M&A summary

M&A resilience amid GDPR, Brexit uncertainty

Amid the uncertainty and ongoing concern around Brexit and Europe's new General Data Protection Regulation (GDPR), digital marketing M&A has shown resilience. The ongoing shift from traditional to digital marketing and the increasing relevance of Facebook, LinkedIn and other big online gatekeepers with a need for new marketing and design technology contributed to the momentum of M&A in the space.

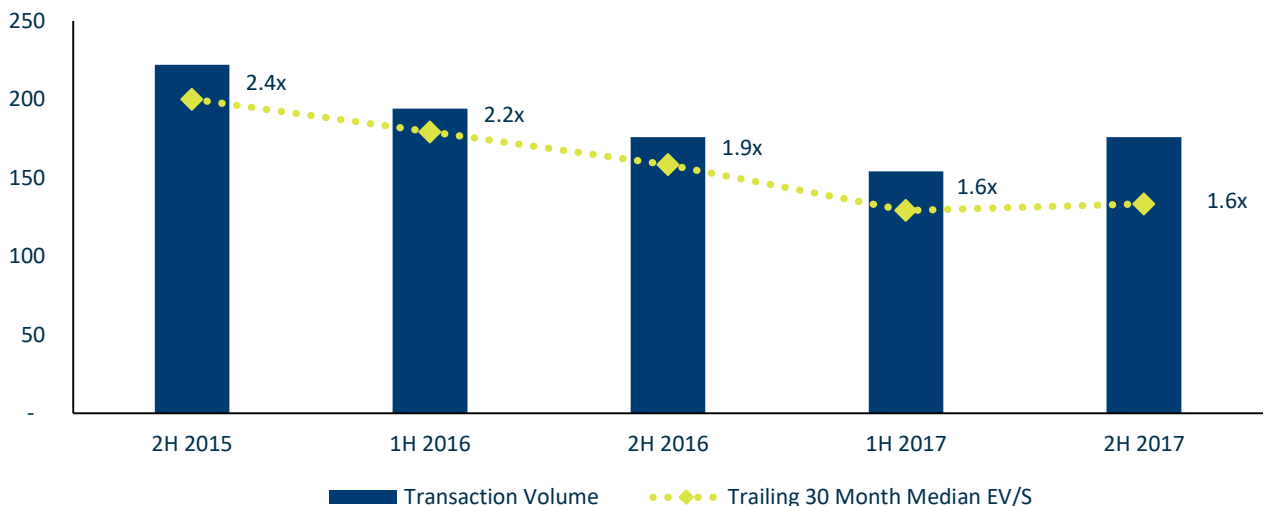
Stable multiples and a rebound in transaction volumes indicate that the wave of dealmaking seen at the start of 2017 has not lost momentum. The total value of all disclosed transactions amounted to more than \$7 billion over the last six months.

Meanwhile, the volume of transactions in the UK were unchanged in the run up to Brexit and British companies remained Europe's most active buyers.

Acceleration in ad-tech consolidation

If 2H2017 is anything to go by, further market consolidation will remain firmly on the cards for the remaining players of the ad-tech herd. In an overcrowded market already contending with the strength and staying power of Facebook and Google's duopoly, further dealmaking underlies an interest in buying an existing stack of highly sought-after assets as opposed to creating them from scratch.

In the ongoing round of M&A in an ever-evolving industry, the second half-year period of 2017 not only witnessed the sale of DoubleVerify, but it also saw Rubicon Project acquire nToggle, as fellow publicly-listed outfits Rocket Fuel and YuMe agreed their respective sales to Sizmek and RhythmOne. Meanwhile, UK-listed ad-tech company, Tremor Video, one of the industry's earliest video ad networks sold its demand-side platform to Taptica. Other industry deals involving prominent ad-tech players include Outbrain's acquisition of Zemanta, a native programmatic demand side platform (DSP).



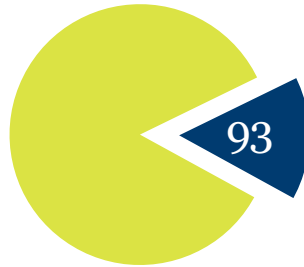
Our Digital Marketing report covers the two-and-a-half-year period between July 2015 and December 2017. All totals and median values refer to the entire period unless otherwise stated. Median multiples plotted in the graphs refer to the 30-month period prior to and including the half year.



Top acquirers



Number of active acquirers during the past 30 months



Number of acquirers that made >1 acquisition



Median disclosed transaction value in past 30 months

Acquirers	Acquisitions in 30 months	Three most recent acquisitions
dentsu LEGIS network	38	DWA Media Digital & traditional marketing services Swirl Inc. Digital marketing services PT Valuklik Indonesian digital marketing services
accenture High performance. Delivered.	15	Rothco Irish digital marketing & Web design services Altima Digital marketing service Matter Web design & digital marketing services
J W T	5	Enext Digital marketing & consulting services Wanda Digital Turkish digital marketing services iStrategyLabs Digital marketing services
j2 Global	5	StreamSend Email marketing SaaS Campaigner Email marketing SaaS WhatCounts Email marketing SaaS
IBM	5	Vivant Digital Australian digital marketing services Fluid Inc. Personal shopping recommendation software ecx.io Digital marketing services
GREY group	5	hug digital Digital marketing services Extreme-Sensio France-based digital marketing Famous Digital marketing & app development
nielsen	4	Visual IQ Inc. Cross-channel ad attribution SaaS Imagini Europe Consumer measurement services Repucom Sports market intelligence services
HAVAS	4	Blink Digital Marketing Digital marketing services AGENCE79 Digital marketing services Mr Smith & Co Digital marketing services



Trends in digital marketing

Top trends in digital marketing

1. The surge in online ad fraud is tipped to boost investment in digital ad measurement firms
2. Digital channels continue to gain ground in the advertising market at the expense of traditional, offline channels after desktop and mobile ad revenues surpassed TV for the first time during 2017
3. Analytics are key to a successful marketing strategy and crucial to optimize the return on investment of marketing budgets
4. Artificial intelligence is expected to revolutionize the sector in the form of chat bots, voice assistants and mass customization
5. With Magic Leap shipping a product for the first time and new virtual reality headsets on the horizon, the fields of virtual reality, mixed reality and augmented reality will take off in the sector
6. Themes such as `mobile-only`, `programmatic`, `addressable TV` and `voice control` will become the new standard
7. Evolving business models conforming to Europe's upcoming General Data Protection Regulation (GDPR) are expected to increase demand for data protection solutions
8. With talent being a scarce resource in the market, skilled teams of more than 40-50 people become a natural target.
9. Platforms such as Instagram, Youtube and LinkedIn are becoming increasingly relevant in the space, particularly Amazon thanks to its rise as the go-to product search engine

Online ad fraud boosts hunt for digital measurement tools

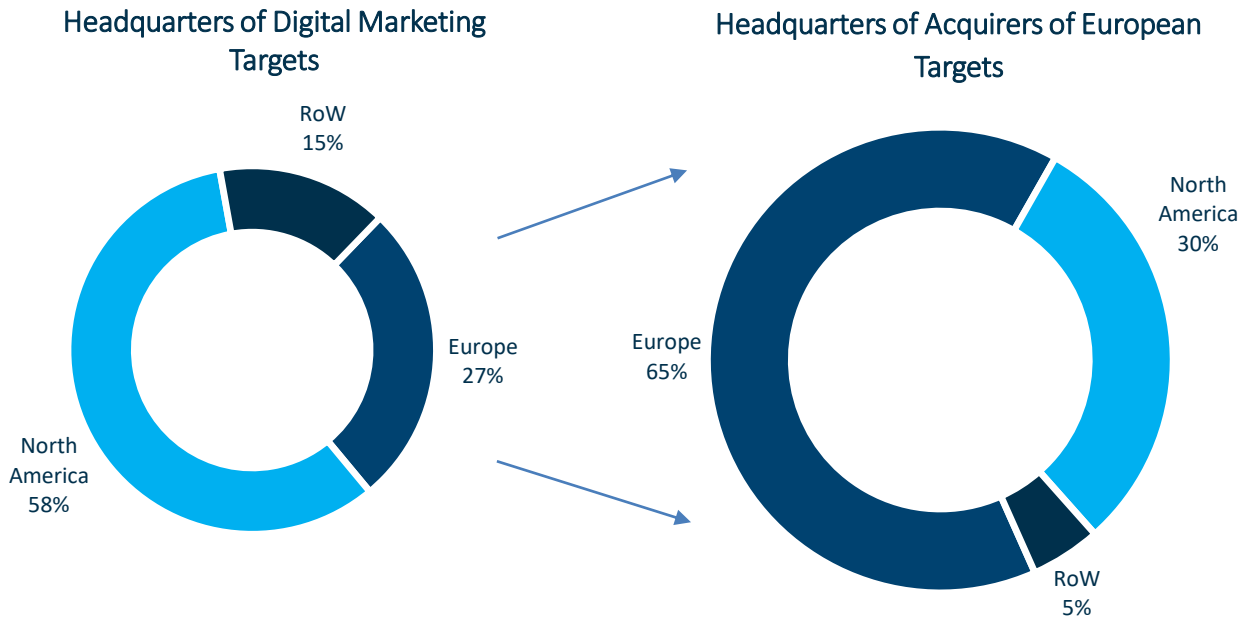
The proliferation of highly-sophisticated, fraudulent schemes might pose a major threat to the online advertising industry, but it also presents significant opportunity for investors targeting the wave of third-party measurement firms that work with large brands and publishers to detect, track and mitigate ad fraud. One such example is digital measurement firm DoubleVerify, which took on \$200 million in investment from private

equity firm Providence Equity Partners in a transaction that reportedly valued the company at more than \$300 million. This follows the high-profile acquisition of measurement firm Moat, which was bought by Oracle last April for upwards of \$850 million.





Geographical breakdown



65%



Regional investors dominated European deal making and account for the majority of deals involving European digital marketing targets. The percentage of European targets acquired by a European buyer in the last 30 months stands at 65 percent, which is a slight increase from 63 percent during the previous half year period. This is compared with 31 percent of targets which were snapped up by North American acquirers.

Dentsu Aegis leads M&A activity for H2 2017

Dentsu Aegis Network, the British arm of Japanese advertising giant, Dentsu, secured its place as the digital marketing sector's most active acquirer during the second half of 2017. The London-headquartered creative agency has been on a solid growth trajectory fueled by an aggressive M&A strategy in recent years. Its rapid expansion through ambitious levels of dealmaking comes as the media holding groups seek to keep up with the pace of technological development in order to shore up their offering against new market entrants.





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.

The largest disclosed deals of 2H2017

\$392 million	HIS Markit Group acquires automotiveMastermind
\$185 million	RhythmOne acquires YuMe (1.2x EV/S)
\$180 million	Nielsen Holding acquires Visual IQ (4.0x EV/S)
\$175 million	Blackhawk Network Holdings acquires CashStar (5.1x EV/S)
\$150 million	Capgemini acquires Lyons Consulting Group (2.7x EV/S)
\$122 million	Sizmek Inc. acquires Rocket Fuel
\$95 million	Valassis Communications acquires MaxPoint Interactive
\$90 million	Nexstar Media Group acquires LKQD Technologies

Influx of capital from private equity groups

Private equity groups doubled their investments into the sector year-over-year, quadrupling their transaction volume compared to the same period in 2015. Facing ever-growing pressure to put their resources to work, buyout funds and private equity-backed buyers have shown a growing appetite for businesses across the digital marketing value chain as they bet on shifting consumer patterns towards online media consumption and digital payments.

One key area of focus for buyout funds was the ecommerce marketing segment, with firms such as A5 Capital and Beringer Capital both targeting the space. Ecommerce infrastructure, particularly payment gateways, was also high in demand across the board while funds such as Growth Catalyst Partners and Main Capital Partners sought targets with programmatic technology.



Digital Agencies and Marketing Services Providers

Accenture tops buyer table as consultancies & IT firms make further inroads

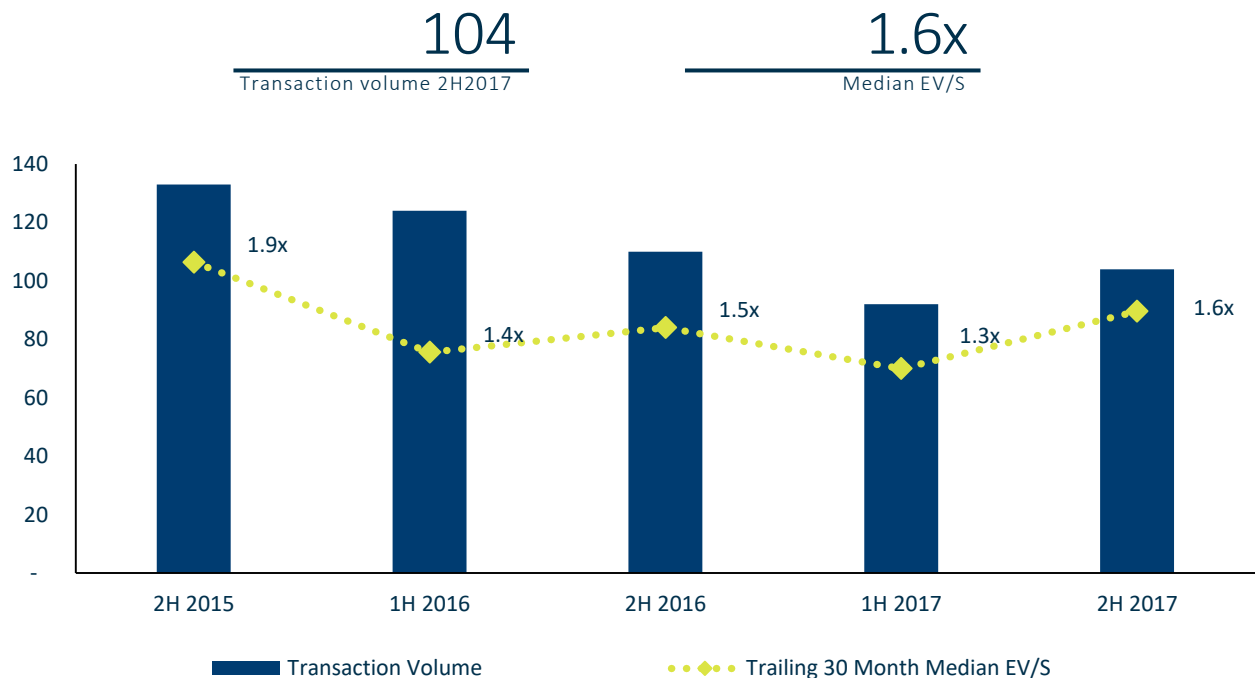
With targeted acquisitions in the agency space, Accenture, Deloitte, Capgemini and IBM demonstrate their deep pockets and financial muscle in their migration towards becoming digital consultancies with a stack of creative solutions. The consultancies and IT services firms also represent the looming threat to global agency holding companies such as WPP, Omnicom and Publicis amid an increasingly narrow capability and skills gap between the two sectors.

Determined to tap into clients' escalating digital marketing budgets, this M&A trend underpins the ongoing transformation of the business landscape as a whole. As global consultancy firms enter the fray and expand their footprint in the marketing space

through acquisitions of marketing-focused targets, traditional media agencies stand to lose a slice of the client pie.

In particular, Accenture topped the table for having more acquisitions under its belt than any other company, except Dentsu Aegis, over a 30-month period. During the last half year, Accenture announced the acquisitions of Irish creative agency, Rothco, French digital commerce agency, Altima, and a growing prominence of European targets

Although Europe's total deal count in this segment remained steady, a growing share of deals is moving to continental Europe as international investors show signs of gaining confidence in countries beyond the British Isles and the English language.





Marketing Application Software

Steady rise in deal flow

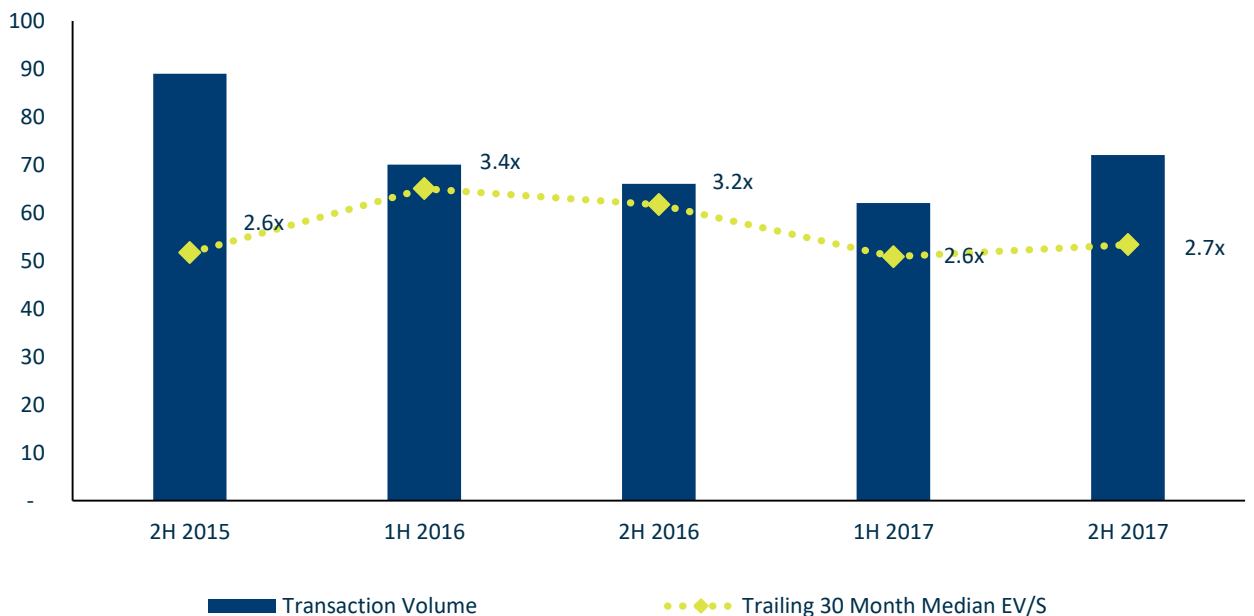
A number of high-profile transactions boosted disclosed deal values, with the volume of transactions showing modest improvement compared to previous half year periods. The period was characterized by strong demand for data and analytics-driven ecommerce solutions, including providers of loyalty and rewards programs, amid the ongoing wave of consolidation sweeping the ad-tech sector.

Online video key driver of M&A

There was no shortage of marketing technology M&A activity last year and online video only recently emerged as a key driver of that activity, despite the explosive growth of video consumption over the years. Amid the growing popularity of assets with video capabilities and with video ad dollars migrating to social platforms such as Facebook, YouTube and Snap, there was strong demand for pure-play video marketing technology companies.

Among the targets during the second half of 2017 were Tremor Video's buy-side business, which it sold to Israeli mobile ad platform Taptica. At the same time, cross-screen video ad platform YuMe was sold to ad-tech company RhythmOne, formerly known as blinkx. Meanwhile, video ad-tech company Innovid acquired Taykey in a deal aimed at strengthening its ability to deliver more relevant ads to audiences.

Going forward, this segment of the market will become increasingly important as more digital video ad dollars trickle into over-the-top (OTT) video platforms.





Conclusions & contacts



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Just as 2017 proved a landmark year as mobile and desktop advertising revenue surpassed that of TV, 2018 could become the year when technology will drive change in not just how digital marketing services are delivered, but also by whom.

Because of this, the consolidation in the market is likely to retain momentum as the incumbent media giants attempt to fight off competition from the major consulting groups and other entrants. Medium-sized specialist houses focused on technologies such as AR/VR or programmatic marketing make attractive acquisition targets for these firms to gain expertise with technologies on which their customers' business models depend.

Europe's upcoming GDPR legislation will affect the whole sector and modify business models. AI will deliver ever more opportunity to accurately address consumers and analytics will be demanded to justify return on marketing investment whilst the surge in online ad fraud will drive interest in the acquisition of digital ad measurement firms.

Marketing technology will continue to gain momentum with the rise of programmatic marketing and the growing need for holistic customer journey management to map and integrate the multitude of channels available today.



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