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CIESCO GLOBAL M&A UPDATE: Q1 – Q3 2020

DIGITAL, MEDIA, MARKETING AND TECHNOLOGY

October 2020

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INTRODUCTION

As a specialist M&A advisory firm, Ciesco focuses on the technology, digital, media, and marketing sectors, and analysts track relevant deals* on a global basis in this space.

Usually, we report on M&A trends annually, but the Covid-19 coronavirus pandemic has brought about such significant changes in the market that we have produced a special update comparing deals signed as of September this year with those signed over the same period in 2019.

Our analysis of M&A deals completed year-to-date in these focus sectors shows the resilience and the increasing value of the companies within the sector. Unsurprisingly, our findings show a decline of the deals volume and value, when compared year-on-year. However, when compared to the global M&A activity and other industries, the findings are encouraging and support a positive outlook.

** The technology deals within this report are specifically technologies related to media and marketing*

ABOUT CIESCO

Ciesco is a leading specialist M&A firm with a focus on the technology, digital, media, and marketing sectors. Headquartered in London, with offices in Germany and France and operating globally.

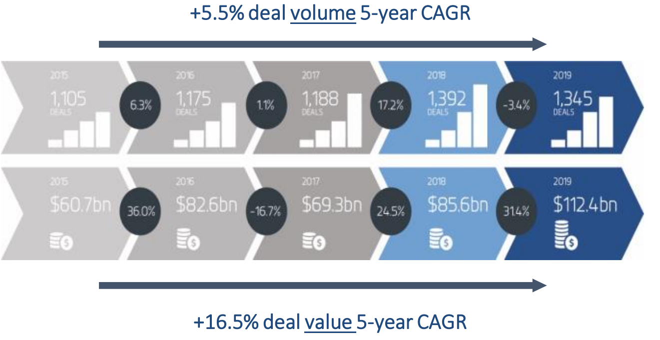
Ciesco offers a unique combination at partnership level of senior industry practitioners and sector specialist investment bankers. This enables an extensive network of contacts and strong relationships that reach into organisations worldwide at C-suite sponsor levels. Ciesco is well regarded in the market for its specialist advice derived from the deep understanding of the sector, industry and buyer landscape insights, and execution expertise.

SELECT CIESCO TRANSACTIONS COMPLETED IN 2020

Exclusive buy-side adviser	Exclusive sell-side adviser	Exclusive sell-side adviser	Exclusive sell-side adviser	Exclusive sell-side adviser
SERVICEPLAN acquired Pereira O'Dell SF NY from OmnicomGroup	Right Spend Beekman Associates sold to LDC BACKING AMBITION	mediaxplain* sold to SERVICEPLAN	MAVENS of London sold to KANTAR BainCapital	McCANN AUSTRALIA Operations sold to former agency CEO
October, 2020	September, 2020	July, 2020	March, 2020	February, 2020

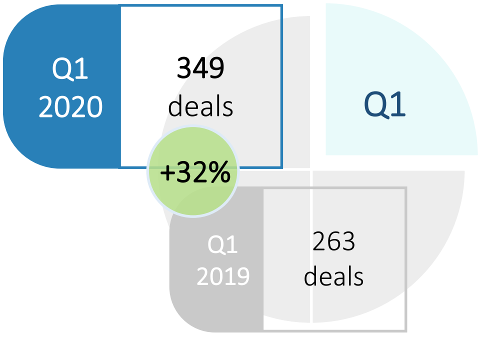
2020 HAD A VERY STRONG START

After a period of record M&A activity over the past decade, the deal-makers now face unprecedent disruption. At the end of 2019, we recorded 1,345 M&A transactions in the digital, media, marketing and technology sectors.*



Q1

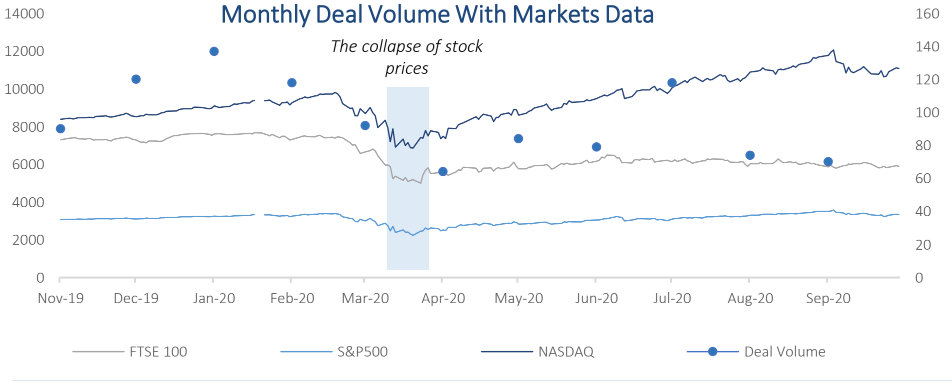
Prior to the pandemic turmoil, the year started off with a strong level of M&A activity in the digital, media, marketing and technology sectors, with a higher activity in Q1 2020 than in the same period in 2019, mainly as a result of solid macroeconomic conditions, high equity prices and buoyant financing conditions, prior to the pandemic turmoil. A total of 349 M&A transactions were announced in Q1 2020, a 32% increase from the first quarter of 2019 (263).



In January, the stock markets boomed, with FTSE100 reaching its 6-month record high on January 17th, followed by S&P 500 and Nasdaq's all-time record highs on February 19th. The relaxation of the US-China trade tensions in November 2019, combined with the loose monetary policy in place, resulted in an overall increase in global asset prices. Moreover, the International Monetary Fund predicted a further 3.3% increase in global economic growth.

The pandemic-related concerns were already evident in the second half of Q1. Some acquisitions and divestitures were still being completed, mostly between companies within the same sector and facing similar economic impacts. In some instances, the deals process was even accelerated to get ahead of further pandemic fallout. However, there were many deals that were put on hold due to valuation and financing issues. The uncertainty over the further impact of the pandemic on business models only heightened and some deals have been cancelled outright.

In March 2020, countries around the world announced nationwide lockdowns to prevent the spread of Covid-19, most of the businesses could not operate and consumption reduced drastically. March 2020 saw one of the most dramatic stock market crashes in history.



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* For more information on M&A activity in 2019, please refer to "Ciesco 2019 Global M&A Review"

COVID-19: IMPACT ON DEAL VOLUME

Q2 - Q3

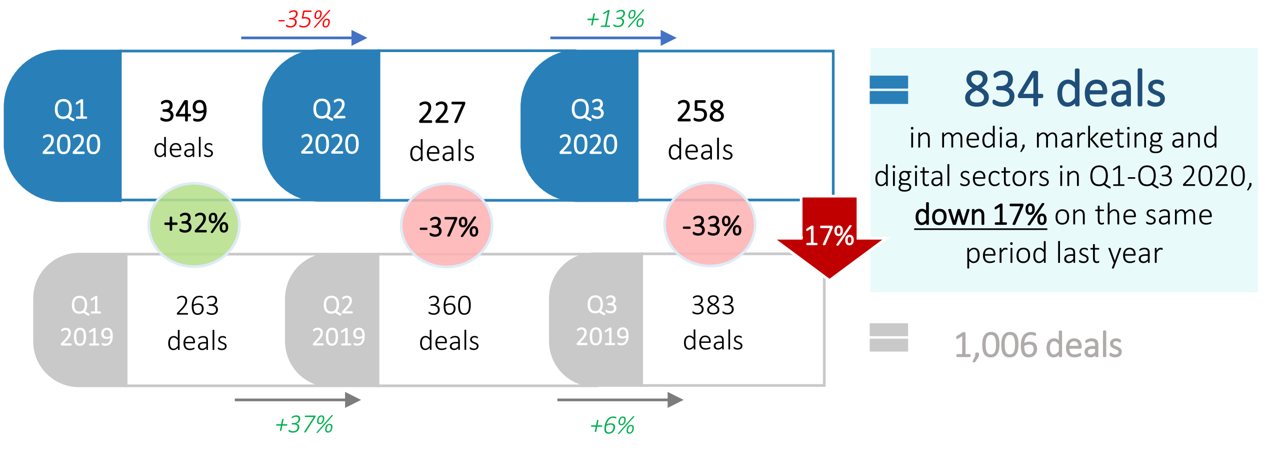
The Covid-19 impact became evident in the second quarter, when we saw a 44% drop in deal volume in April and 40% in May, compared to the same period last year.

The emergence of the pandemic, and its rapid global spread triggered the most critical recession of the last century. Covid-19 had a profound impact on consumers' lives – they changed the way they shop, work and live. Subsequently, this had knock-on direct and indirect effects on all global industries - travel and hotel industries will take years to recover, US oil prices turned negative for the first time on record and the retail industry was drastically affected, with almost every non-food retailer exhibiting negative operating cashflows.

Companies found it difficult to assess, with any certainty, what impact the pandemic will have on their future earnings. Without reliable financial projections, it is very hard to price a deal. Doubts over valuations grew and corporates focused on cash preservation. Some planned acquisitions were turned into long-term collaborations or supply arrangements.

Q2 and Q3 data on M&A deals in media, marketing and digital showed a decline versus Q1 and versus the same period last year

Q1 – Q3 DEAL ACTIVITY



There was a decline of 35% in deal activity in Q2, vs Q1, with April having the lowest number of deals. In Q3, the number of deals increased to 258. As of 30th September, a total of 834 transactions were recorded this year to date, a decline of 17% from the same period last year. This level of decline compares favorably to the rest of the market and signals relative resilience of our focus sectors to the pandemic-related downturn. FT's recent article on M&A dealmaking reported that there was a strong rebound of all global M&A activity in Q3, however the total over 9 months shows that the activity fell to $2.2trn (lowest year-to-date level since 2013).

Historically, our data doesn't show cyclicality of the number of transactions. For example, in 2019, Q3 was the quarter with the highest number of deals and in 2018 it was Q1. Timing of transactions depends on many factors both internal and external, and a lot of these are not cyclical.

The Q3 deal volume decline was mainly driven by Covid-19. Q4 this year and early quarters of 2021 will indicate how the activity picked up during the second and third quarters of 2020.

The global markets showed a different picture, recovering much of the losses incurred in the early weeks of the pandemic – NASDAQ hit its record high on September 2nd ,the same time that S&P500 hit an all-time high at 3,508 points. Other markets are also recovering but not as fast. Unsurprisingly, tech-heavy indices have been able to recover speedily. As always, there are many factors at play.

NOTABLE DEALS AND TRANSACTION VALUES

Unsurprisingly, no mega deals (deals with values over $10bn) have been announced in the digital, media, and marketing sectors, this year to date. Last year, there were two - the acquisition of the MarTech platform Tableau Software, by Salesforce for $15.9bn, and the acquisition of the international media conglomerate Viacom by CBS for $11.2bn.

According to the EY Global Capital Confidence Barometer, published in December 2019, 60% of media & entertainment executives expected an increase in megadeal M&A activity in 2020, and according to the Mergermarket Global & Regional Q1 2020 report (looks at all sectors globally), there were 8 megadeals in Q1 2020 alone.

There has been a 56% decline in deal value this year to September in comparison to the same period last year - a decline to $38.5bn from $87.1bn*. It is important to note that the majority of deal values remain undisclosed and therefore these values cannot be considered a refection of the deal activity.

$38.5bn

Value of M&A deals in media, marketing and digital sectors in Q1-Q3 2020, down 56% on the same period last year

A number of significant deals with disclosed values were announced during the year. Select transactions are listed below.

Bidder	Target	Month	Target description	Buyer description	Deal Value	EV/ Revenue	EV/ EBITDA
Platinum Equity	CISION	Jan-20	Media communication technology and analytics company (USA)	Private Equity investment firm (USA)	$1.5bn	1.9x	6.4x
viagogo	StubHub	Feb-20	Ticketing software and solutions (USA; subsidiary of eBay)	Global entertainment ticketing platform (USA)	$4.1bn	n.a.	n.a.
Flutter	The Stars Group	May-20	Online betting games provider (Canada)	Global sports betting, gaming, and entertainment provider (Ireland)	$6.0bn	2.1x	7.0x
Clayton Dubilier & Rice	Huntsworth	May-20	International healthcare communications and PR group (UK)	Private Equity investment firm (USA)	$725m	2.0x	9.8x
zynga	peak	Jun-20	Social video game developer (USA)	Mobile gaming company (Turkey)	$1.8bn	n.a.	n.a.
Banijay	Endemol Shine Group	Jul-20	Production and distribution company of scripted & non-scripted content (Netherlands)	The world's largest independent content creation group for television and multimedia platforms (France)	$2.2bn	n.a.	n.a.
Microsoft	ZeniMax Media Inc.	Sep-20	Video game holding company (USA)	Multinational technology company (USA)	$7.4bn	n.a.	n.a.

* This value of $87.1bn excludes the two mega-deals mentioned above

Historically, the US and the UK have been the countries with the highest number of M&A targets in our focus sectors.

Covid-19 is the most powerful geopolitical threat of 2020. It placed once again a friction in the US-China relations, that is gradually resulting in further technology disengagement between the two superpowers; and amplified internal unrest within many countries, including the US.

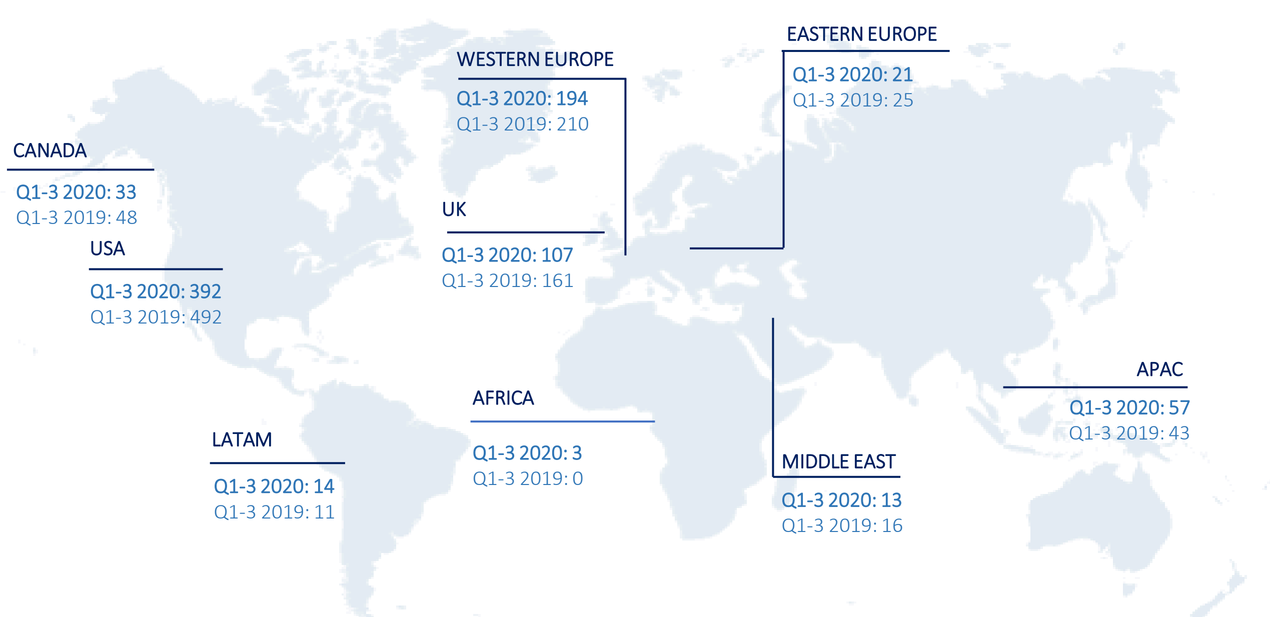
In the UK, there are also the prolonged discussions around Brexit, that have not yet come to a conclusion. In September 2020, JPMorgan Chase & Co announced that it was moving operations worth c. $230bn from the UK to Frankfurt as a result of Britain's exit, making it one of the largest banks in Germany. On the other hand, a few days earlier, Unilever shareholders announced that they were actually expecting to back the plan to unify the consumer giant under a single parent company based in London (currently has two HQs – the UK and the Netherlands).

It was not surprising that with the increased uncertainty, both the US and the UK suffered the largest drop in volume, 20% and 35% respectively.

There was an increase in deal volume in the APAC region, driven mainly by the increased activity in China and Australia. The most significant deals in China were the acquisition of the internet gaming company Changyou by Sohu.com for $603.7m and the $579m LBO of the digital marketing company Bitauto Holdings by the technology conglomerate Tencent Holding, through their financial sponsor Hammer Capital.

In Western Europe (excluding the UK), there was a slight decline of 8% in the overall deal volume. The main contributors to that decline were Spain and Belgium, where the number of deals has halved. France, on the other hand, recorded 48 deals, a 17% increase from the same period last year, with digital and traditional media being the most sought-after sectors. One of the deals was the domestic acquisition of the French audiovisual content company Lagardère Studios by Mediawan for $112m.

Our data did not show an abnormal decline in cross-border deals, as has been outlined in some other reports on general global M&A activity. Domestic deals continue to dominate (64% globally), a trend which has also been striking in 2019 (63%) and in 2018 (70%).



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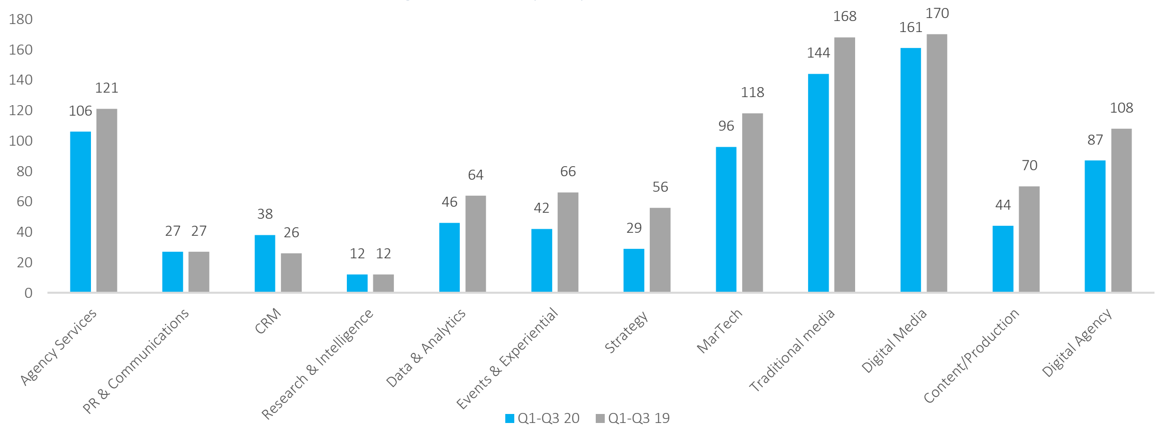
The "new norm" of life led to significant changes in consumer behaviour, leading to a shift in demand towards digital and agile solutions. As the lockdowns continued, the pandemic had a direct negative effect on sectors, such as events & experiential, OOH (out-of-home advertising), and production.

On the other hand, there is a steep spike in demand for "socially distanced" entertainment, virtual events, online shopping, digital team management and communication solutions.

The two most active target sectors within our focus universe - Digital Media and Traditional Media, saw a decline in the number of deals, but nevertheless remained the most attractive sectors, with 170 and 168 deals respectively, in the first three quarters of 2020.

Target sector analysis by deal volume: Q1-Q3 20



Digital Media sector's attractiveness was driven in particular by an increase in online gaming traffic, including role-play, casino, racing and e-sports. This trend existed before the pandemic struck, however the changed conditions of living have amplified it further. The global video gaming market has 3 billion users and is predicted to reach $159bn by the end of 2020, a 4 times increase from the previous year.

The most notable deal in this sector was Microsoft's $7.5bn acquisition of ZeniMax Media, the parent company of Bethesda Softworks, one of the largest, privately held game developers and publishers in the world with over 2,300 employees.

"Gaming is the most expansive category in the entertainment industry, as people everywhere turn to gaming to connect, socialize and play with their friends,"

- Satya Nadella
CEO, Microsoft

Another deal worth mentioning is the acquisition of Mediaxplain, the largest independent media agency in Netherlands, by Serviceplan, one of the largest independent communications group.

The only sector that experienced a year-on-year growth was CRM, which saw a year-on-year increase of 46% in the number of deals, with 38 transactions completed to date, as opposed to the year before (when it showed a decline of 26%). In 2020, CRM is the largest software market in the world, and expects its revenue to reach $80bn by 2025. The need of adapting to more flexible ways of working has increased the demand for mobile and cloud solutions to obtain customer data.

Select deals in CRM sector

Mar-20	Apr-20	May -20	Aug -20	Sep -20
redbox	SuperOffice	CX company	onovative	FLG
sold to	sold to	sold to	sold to	sold to
SQLI Digital Experience	AXCEL	CM	Main Street	Clear Course

ACTIVE BUYERS

As has been the case for the past several years, the top buyers list is diverse and includes consultancies, networks, Private Equity buyers and tech companies.

TOP ACTIVE BUYERS

Accenture maintained its position as the most active buyer, having completed 11 transactions globally, this year to date. The consultancy's deals include the acquisition of the UK-based data and analytics company Mudano, the Netherlands-based strategy consulting agency Van Berlo and the US-based B2B marketing agency Yesler.

Private Equity firms feature prominently in the top active buyers list. UK-based Providence Equity is the second most active buyer in the digital, media and marketing sectors with 6 acquisitions completed in the last 9 months. Ardian is another active acquirer in the space, with four acquisitions to date (mostly in healthcare communications space).

Eight PE firms made three acquisitions each: KKR, CVC, Growth Catalyst, Intermediate Capital Group, Marlin Equity, Oaktree Capital, Shamrock Capital, and Vista Equity Partners.

The holding networks remain active acquirers in the market. Dentsu purchased four companies, two of which were US-based data & analytics firms - E-nor and 4Cite Marketing. WPP also acquired four companies - two companies in the agency services space, and one each in strategy consultancy and data & analytics.

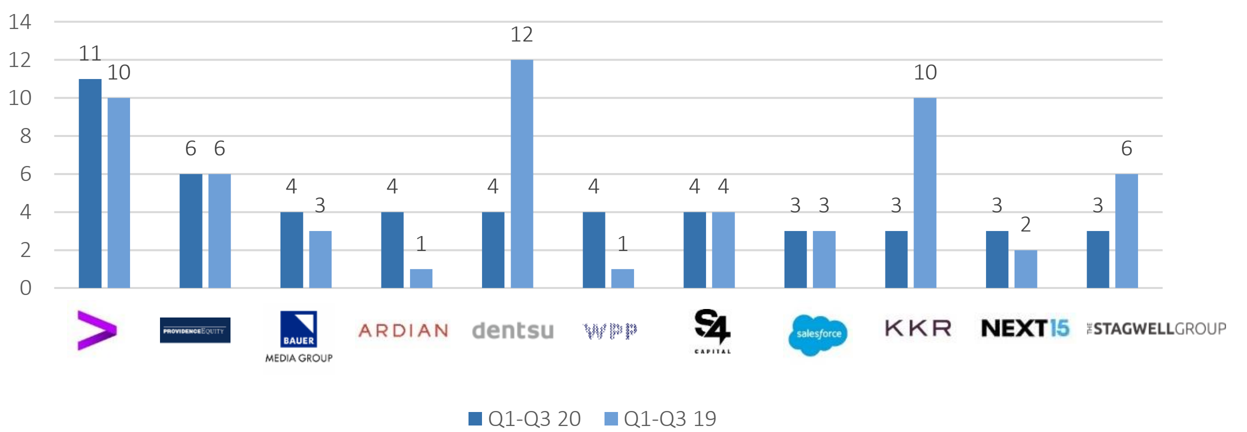
Salesforce (3 deals), Alphabet and Amazon (2 deals each) were the most active buyers among the tech giants. Salesforce purchased The CMO Club, a CMO-focused events company, and the US-based analytics and ML marketing platform, Evergage. Amazon announced the $37.2m acquisition of the live broadcast streaming Net Insight, and of the data & analytics platform DataRow.

Bauer Media Group continued its series of acquisitions, with 4 this year so far – all in the traditional media space globally.

Mid-market groups have also been active. S4 Capital completed 4 deals - Brightblue, a UK-based predictive technology consultancy, Digodat, an Argentina-based digital analytics platform, and Circus Marketing, a digital content agency based in Mexico. Its latest acquisition in September 2020 was Dare.Win, a 80-people Paris-based digital creative agency.

Next15 completed three acquisitions: Nectar Communications, Craft Consulting and Future Thinking Group (via its data & insights group Savanta). Stagwell also made three acquisitions. Those were: Seward Square Strategies, Headliner Labs, and Sloane & Company.

Select Active Buyers



PRIVATE EQUITY FIRMS

The PE houses remained resilient, even during these uncertain times making up 37.8% of overall buyers, only a slight decrease of 5.5% from the same period in 2019. Despite there being a slightly lower leverage activity, due to the focus on existing loans, and on completing priority deals first, dry powder is available. With the crisis first affecting the corporate side rather than financial institutions, trust in private equity firms should not be expected to vanish as it did in 2008.

Private Equity firms feature prominently in the most active buyers list, with target sectors including ecommerce, influencer marketing and healthcare communications, among others. The list below shows the acquisitions made by the most active PE firms in the last 9 months in our focus sectors.

TOP PE BUYERS in Q1-3 2020

# of deals	PE firm	Targets
6	Providence Equity	GrowTix, Assembly, 250ok, Viacom18 Media, Refersion, Activate
4	Ardian	21 Grams, 77 Agency, 90ten, Symplur
3	CVC Capital Partners	Hatley Strategy Consultants, Quantum Network, Bridge PR
	Growth Catalyst Partners	Government Executive Media Group, Kreative Sales & Marketing, Security Weekly
	ICG	Blackbird (New York), Stun Creative, Pageant Media
	KKR	Geewa, GraphicAudio, Machine Zone
	Marlin Equity Partners	LifeSize, Curalate, Nielsen Social
	Oaktree	MinTee Studio, Picomedia, Stand By Me
	Shamrock Capital Advisors	Metric Digital, Adweek, Target Marketing and Publishing Executive
	Vista Equity Partners	MBS France, Tripleseat Software, 4C

Investors are showing optimism in the business climate driven by the record high levels of fiscal stimulus, low interest rates and low inflation. As a result, PE houses are actively seeking deals, given the high levels of capital they possess for deployment. In fact, they are not simply pursuing opportunistic investments, but rather good and valuable companies, to work alongside them as partners.

Select deals involving PE buyers

Bidder	Target	Month	Target description	Deal Value
Bain Capital	Mavens	Mar-20	Data, analytics and digital marketing cosultancy (UK)	undisclosed
LDC	Right Spend	Sep-20	Procurement tech platform (USA)	$23m
Silver Lake	cnet	Sep-20	Media website publishing review and articles on technology and electronic goods (USA, part of ViacomCBS)	$500m
Linton Capital	Maximum Media	Jul-20	Digital publishing company (Ireland)	$12m
H.I.G. Capital	Elemidia	Jan-20	Operator of a communications media channel and advertising (Brazil)	$490m

CONCLUDING REMARKS

As Q3 is wrapping up, we see economies worldwide being pushed towards a recovery from the steep declines in the previous months. This recovery is being aided by swift and sizeable Covid-19 policy response from central banks and governments, and subsequent increases in consumption post-lockdowns. However, it is proving much more difficult for developing countries and densely populated countries, that are still being hit the hardest by the pandemic.

While many companies are challenged to survive in the short-term, the crisis also presents opportunity.

We are seeing a positive shift in economic sentiment on the market and expect that the companies that have showed resilience and performed well over the last several months will continue to grow and become more valuable.

The digital skillset has been key in surviving the changes caused by the pandemic.

Consumers and employees have been forced to rely on connectivity and software for work and leisure more than ever, causing the overall demand for digitally-enabled services and products increase through lockdown measures. Companies around the world have accelerated the digitisation of their entire operations: from supply chains, to customer, team & human resources management, and delivery. More buyers will show interest in the companies in these relevant sectors, especially amid the 10-fold increase in digital in the Western world for the past 3 weeks.

The pandemic has changed the way people around the world live and has raised a lot of socio-economical issues.

The consumer behaviour continues to be driven by new personal circumstances, such as changes in discretionary income and spare time, and reconsidered values and priorities - all these changes will all affect the future direction of M&A.

An example of such change is the accelerated shift in consumer preferences towards more purpose-driven brands and meaningful products. A purpose-driven full-service agency in New York – Oberland - has been placing high value on research during this time, and they reported a change in consumers' shopper behaviour with a shift towards more exploration in the grocery store "like never before". "A third of the market is going to stop buying your product just for saying nothing."- said Bill Oberlander, CEO of Oberland.

The rise of ecommerce is one of the fastest growing trends as well. Accenture predicts that there will be a 160% increase in ecommerce purchases from new or low frequency users. The internet allows consumers to compare and assess the choices offered to them, and companies that invest ambitiously and timely in their online business are likely to emerge as market leaders.

The last quarter of 2020 is unpredictable and uncertain. Economies globally are entering their second phases of nationwide lockdowns and the consumer behaviour is changing rapidly. The upcoming US presidential elections, global conflicts, Brexit negotiations, uncertainty around further restrictions and the Covid-19 vaccine trials are adding more challenges to this year.

As the data shows, buyers remain actively involved with the digital, media and marketing sectors. The focus is now both on short-term survival, and on coming out as a winner in the longer-term. The way out of the crisis is through M&A and the conversations are happening around strategic positioning and re-positioning post-Covid.

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The report has been prepared by Ciesco, using various data points and sources.

Ciesco is a leading specialist M&A firm with a focus on the technology, digital, media, and marketing sectors, with coverage of Europe, APAC and North America.

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