

Changing Nature Of How Brands Are Interacting With Agencies

- Digital transformation initiatives continue to be an overarching theme, with large enterprises looking to leverage data and technology to drive consumer engagement and sales
- Despite a robust market with increased client spending on sales and marketing, traditional marketing and communication agencies have underperformed as they have been unable to capitalize on this opportunity
- Agencies have not adapted to how brands are spending marketing budgets and engaging consumers
 - Brands are moving towards managing the consumer experience by interacting directly with individual consumers on a one-to-one basis, rather than pushing a standardized message to broad groups
 - Brands are looking to software vendors, hardware vendors and consultancies which provide tools that enable digital strategies and one-on-one customer interactions

Divergent Share Price Performance



Representative Transactions

Target	Buyer	Date
BORN	Tech Mahindra	November 2019
RevUnit	Mountaingate Capital	July 2019
Droga5	Accenture	March 2019
LRW	Tailwind Capital	June 2019

Equiteq believes marketing agencies will continue to pursue M&A as a means for developing the necessary digital & data analytic capabilities needed to revitalize growth and support clients

KPIs for Media and Marketing Businesses

*Mean minimum acceptable KPIs	2019	2018
Revenue growth	12%	11%
EBITDA margin	15%	13%
Revenues per employee	\$305k	\$230k
Utilization rate	60%	55%
Annual retention rate of employee base	85%	83%
% of staff base that are permanent	82%	78%

Transaction Considerations

Mean target deal structures:	2019	2018
% Upfront consideration	48%	50%
Average earn-out period (years)	2.5	4.2
Equity ownership of key management	30%	15%+
Mean target valuation metrics – Adj. EBITDA multiples:		
No annual EBITDA growth	6.4x	6.2x
10% - 20% annual EBITDA growth	10.1x	7.9x
20% - 30% annual EBITDA growth	12.4x	9.2x
30% + annual EBITDA growth	14.6x	10.3x

Buyers Are Requiring Specific Capabilities



Digitally-Focused Offerings



Data & Analytics Insights



Productized Solutions



Sector Expertise



Scale



Recurring Revenue



Mature Business Platform



Diversified Client Base

Implications for Industry Participants

- While on the surface, increased competition for deals should facilitate sales processes and more lucrative outcomes, preparation and timing are critical
- Strategic buyers and financial investors have well defined acquisition criteria and being able to demonstrate a differentiated, defensible and scalable business model will be key to driving a premium valuation
- As a leading advisor in the Knowledge Economy, Equiteq has served as strategic advisor on many transactions and has developed unique insights around capabilities that buyers are looking to acquire
- Equiteq's investment in understanding the market has created unparalleled market intelligence and insights which we bring to bear on each client engagement
- Our team of strategic advisors and investment bankers engages with clients up to three years before a transaction to optimize the journey to delivering on shareholder goals and objectives
- We would welcome the opportunity to arrange a call or meeting to learn more about your goals and objectives, share additional perspectives on the market and help your team realize a superior outcome