

Empowering you
to face the future
with confidence.

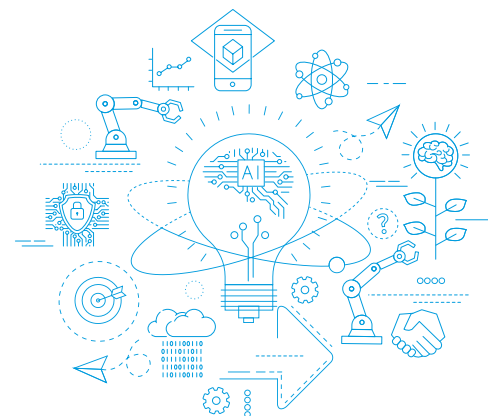
Digital transformation is the strategic roadmap
to a future-proof business

M&A industry analysis for Digital Agencies | May 2021

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Report summary points

- Dutch digital agencies valued over €1 billion (2018)
- Consolidation trends driven by the goal of offering a fully integrated digital service
- Public digital companies are back at their pre-covid valuation Multiples



Market Overview

Digital agency market

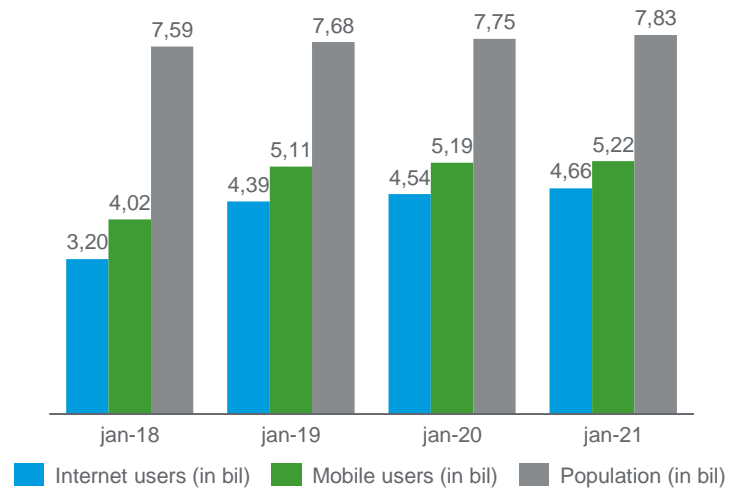
The competition between digital agencies has grown in the recent years and is expected to do so throughout the next 3-5 years.

The digital agency sector is highly fragmented. 94% of all digital agencies have fewer than 50 employees.

According to the Dutch Digital Agency industry association, the DDA, the total revenue of the digital agency industry in the Netherlands showed an increase of 14% in 2019 with a total amount of €981 million euro. The average net profit margin per agency was 11.3% in 2019.

Despite the presence of COVID-19, the market outlook remains positive as digital agencies assist organizations in unlocking (undiscovered) value and productivity.

Worldwide internet penetration



Expert domains digital agencies

Strategy

Digital strategy focuses primarily on using technology to improve business performance. It specifies the direction an organization will take to develop new competitive advantages with technology



Technology

By building and implementing technological solutions in existing strategies, a business value driver can be created



Marketing

By specializing in digital two-way marketing between a company and its customers, a dialogue is created that opens/personalizes a brand and makes it possible for customers to relate

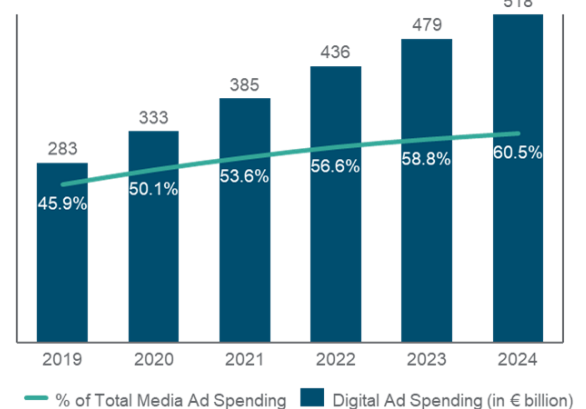


Creative

These companies use design and digital services to bring a brand story to life by for example the creation of logos, advertisements and videos, providing familiarity to target customers



Digital ad spending



Trends and insights

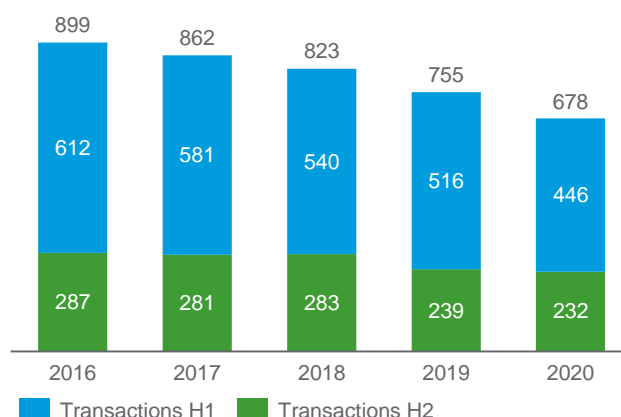
- **Consolidation & Full Service-Integrated Agencies:** Large marketing and consulting firms are acquiring all types of digital agencies to create a full-service digital agency. It is recognized that, due to increasing competition, offering a full range of digital services is important for the continuity of a digital agency.
- **Internationalization:** Supported by an increase in cross-border takeovers and revenues achieved abroad.
- **Changing client perspective:** Clients' spending on digital marketing activities is increasing (11% - 2016-2021), which leads to a higher demand for combinations of digital services and the ability for digital agencies to build a long-term relationship with clients.
- **Artificial intelligence (AI):** AI is impacting the future of virtually every industry. It can help digital agencies and organizations with understanding more in-dept the current and future consumer behavior.
- **Big data:** As the importance of data-driven marketing is growing, the need for data analytics such as predictive analytics is increasing to provide better insights.
- **Digital transformation:** Digital transformation is key for organizations and to keep up with this trend they will hire outside expertise to connect with their inhouse experts.

Sector transaction activity and trends

M&A activity

Due to COVID-19, the importance of digital services is being highlighted. This is visible in the rising number of deals in H2 2020 compared to H1. In total, 232 deals took place in the digital agency industry in H2 2020. An increase of 8.4% compared to the previous six months. Since the number of online businesses is increasing and digital awareness is developing, the market is in a lift. This opens doors for strategic expansion plans. Companies such as WPP and Dentsu already have announced that they will be using M&A activities to further enhance their strategy whereby acquisitions will create opportunities to gain scale, capabilities and geographical presence in areas of high growth.

Number of executed transactions

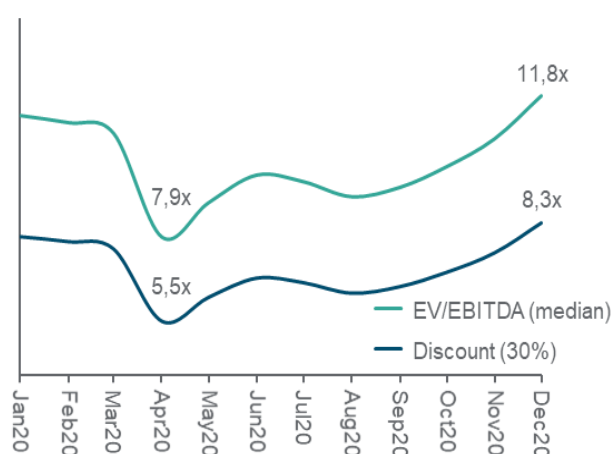


Valuation of public companies in the digital sector

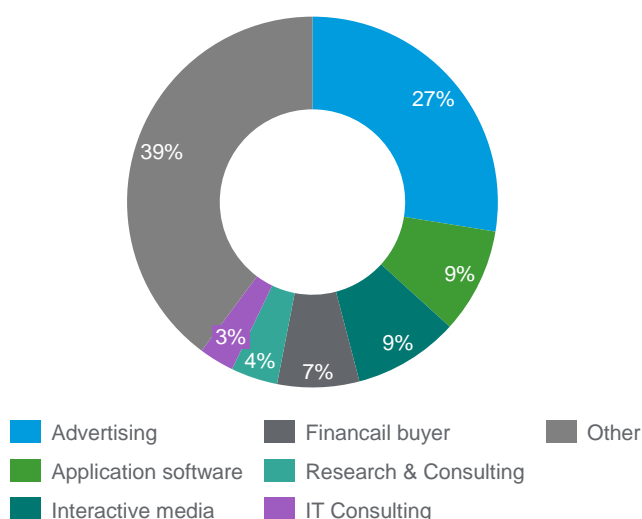
In the graph 'Running trading multiple', it is clearly visible that the valuations of the digital agencies return to the pre-covid levels. The EV/EBITDA multiple reached a low of 7.9x in April. However, it then restored and increased in December to a higher trading multiple compared to the pre-COVID months.

To value mid-cap companies in this specific sector, a discount factor of 30% is being used due to the higher firm specific risk of mid-cap companies compared to public companies.

Running trading multiple



Buyer distribution



The main drivers for M&A activities are gaining new digital knowledge, broadening services and expanding geographical exposure. This also explains the rising interest of tech consultants in digital agencies.

As visible in the chart shown on the left, advertising agencies are the most active buyers in the market, accounting for 27% of the total transactions, followed by technological and interactive agencies (both 9%).

Due to the fragmentation, financial buyers are showing an increased interest in the digital agency sector. By the creation of, for example, buy-and-build projects such as DEPT (Carlyle Group) and Intracore (Waterland), financials buyers can bundle the digital knowledge and types of services into a full service digital agency.

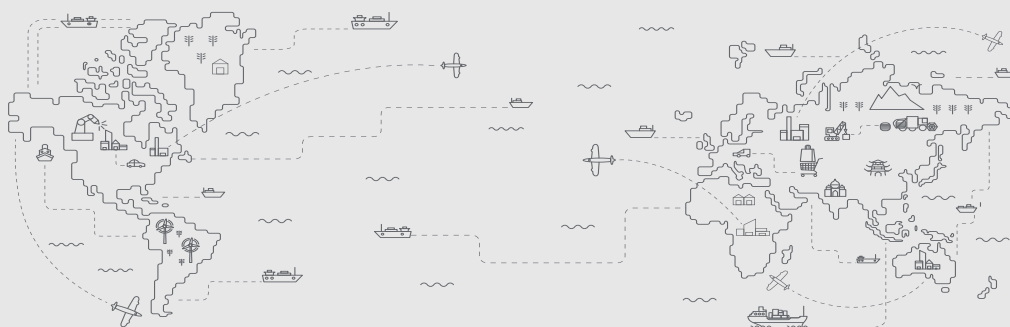
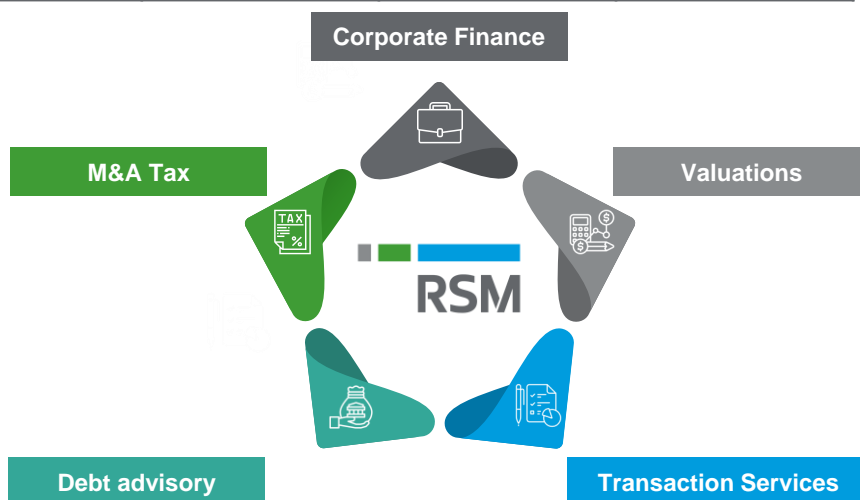
RSM Corporate Finance

Notable recent transactions

Target	Jam3	dti	BYTE LONDON	rxp group	TAPAD
Date	Mar21	Feb21	Feb21	Nov20	Oct20
Acquirer	MEDIA MONKS	WPP	DEPT	Capgemini	experian
Valuation	n.a.	n.a.	n.a.	€65.2m	€236.4m
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	13.1x

RSM M&A (Corporate Finance)

RSM International		
120 Countries	820 Offices	48,000 People
RSM Netherlands		
600 People	20 Partners	10 Offices



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