

Sectorwatch: Digital Agency

March 2019

Digital Agency

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Overview

7MA provides Investment Banking & Advisory Services to the Business Services and Technology Industries globally. We advise on M&A and private capital transactions, and provide market assessments and benchmarking. As a close knit team with a long history together and a laser focus on our target markets, we help our clients sell their companies, raise capital, grow through acquisitions, and evaluate new markets. We publish our sectorwatch, a review of M&A and operational trends in the industries we focus.

Dashboard

- Summary metrics on the sector
- Commentary on market momentum by comparing the most recent 12-month performance against the last 3-year averages.



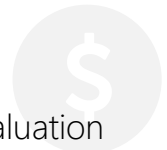
Public Basket Performance

- Summary valuation and operating metrics for a basket of comparable public companies



Valuation Comparison

- Graphical, detailed comparison of valuation multiples for the public basket



Recent Deals

- The most recently announced deals in the sector



Dashboard



Revenue Growth Momentum

↑ 0.2%

1 - year revenue growth compared to revenue growth average for last 3 years

Current revenue growth rate exceeds the average of the last 3 years by this amount, indicating that market momentum is increasing

Pricing / Gross Margin Momentum

↑ 1.1%

1 - year gross profit % compared to gross profit % average for last 3 years

Current gross profit margin exceeds the average of the last 3 years gross profit margin by this amount, indicating supplier pricing power

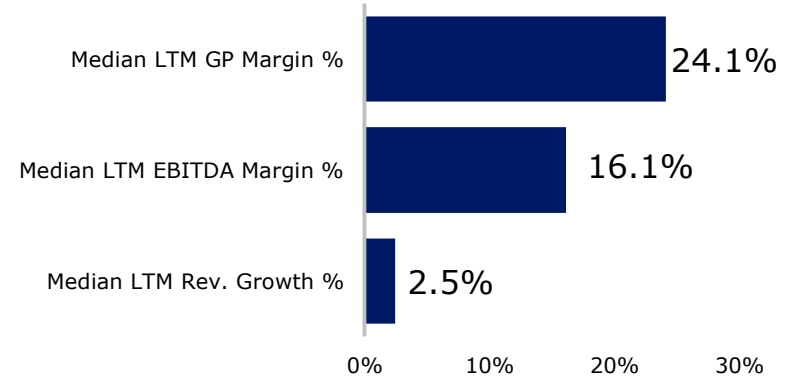
Profitability Momentum

↓ -1.0%

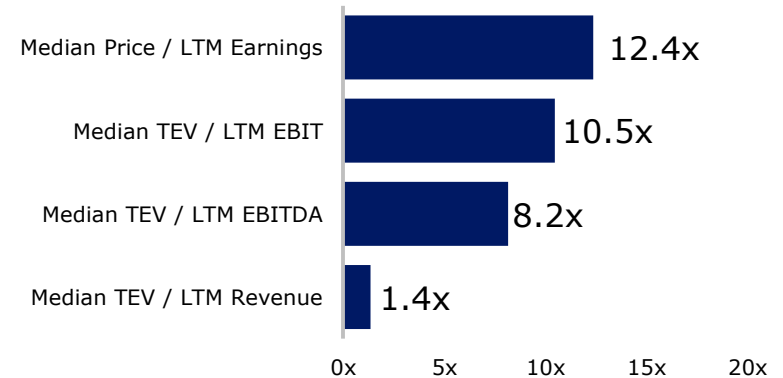
1 - year EBITDA % compared to EBITDA % average for last 3 years

Current EBITDA margin is less than the average of the last 3 years EBITDA margins, which may signal further consolidation

Operating Metrics



Valuation



Public Basket

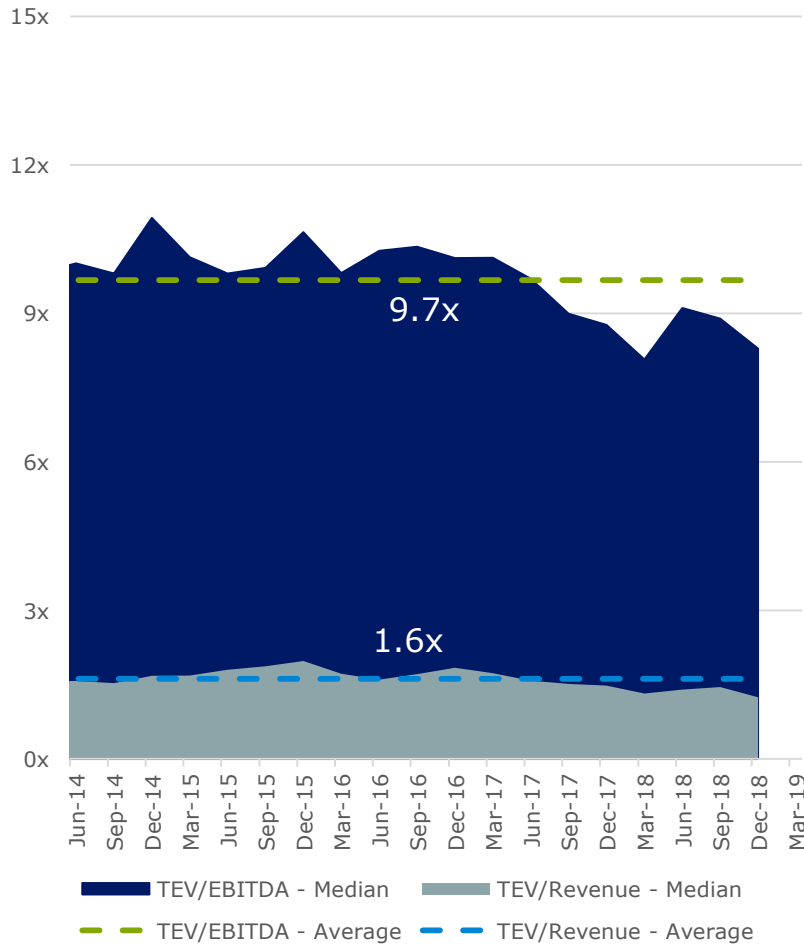


| Company | TEV \$m | LTM Rev \$m | Rev Growth YoY | GP % | EBITDA % | TEV / Rev X | TEV / EBITDA X | # FTEs | Rev / FTE \$k |
|--|---------|-------------|----------------|------|----------|-------------|----------------|---------|---------------|
| The Interpublic Group of Companies, Inc. | 11,336 | 8,032 | 7% | 22% | 15% | 1.4 | 9.1 | 54,000 | 149 |
| Dentsu Inc. | 13,396 | 9,283 | 10% | 92% | 17% | 1.4 | 8.5 | - | NA |
| Publicis Groupe S.A. | 14,414 | 11,393 | 3% | 43% | 22% | 1.3 | 5.9 | 80,000 | 142 |
| Omnicom Group Inc. | 18,250 | 15,290 | 0% | 18% | 15% | 1.2 | 7.8 | 70,400 | 217 |
| WPP plc | 19,234 | 19,886 | 2% | 19% | 12% | 0.9 | 7.7 | 134,281 | 148 |
| Alliance Data Systems Corporation | 30,018 | 7,791 | 1% | 27% | 24% | 3.9 | 16.1 | 20,000 | 390 |

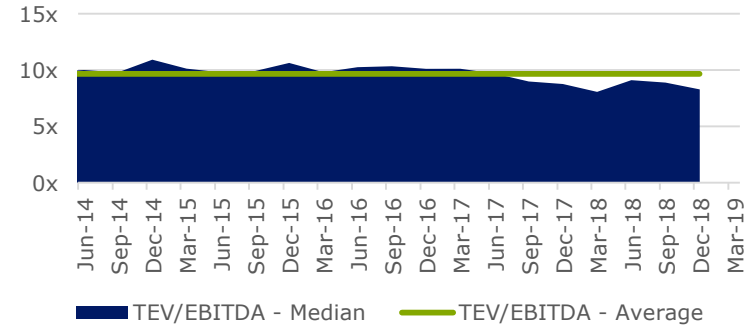
| | | | | | | | | | |
|----------------|--------|--------|----|-----|-----|-----|-----|--------|-----|
| Average | 17,775 | 11,946 | 4% | 37% | 17% | 1.7 | 9.2 | 59,780 | 209 |
| Median | 16,332 | 10,338 | 2% | 24% | 16% | 1.3 | 8.1 | 62,200 | 149 |

share price as of 25Mar19

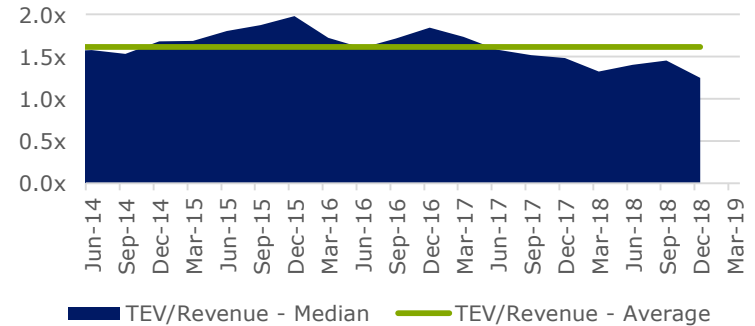
Public Basket Valuation Trends



Public EBITDA Multiples over Time



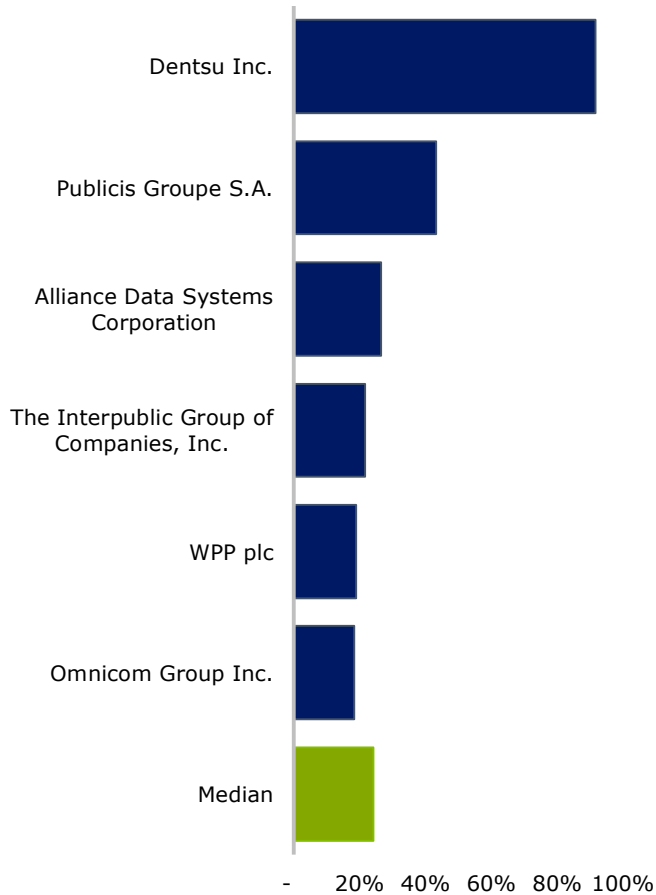
Public Revenue Multiples over Time



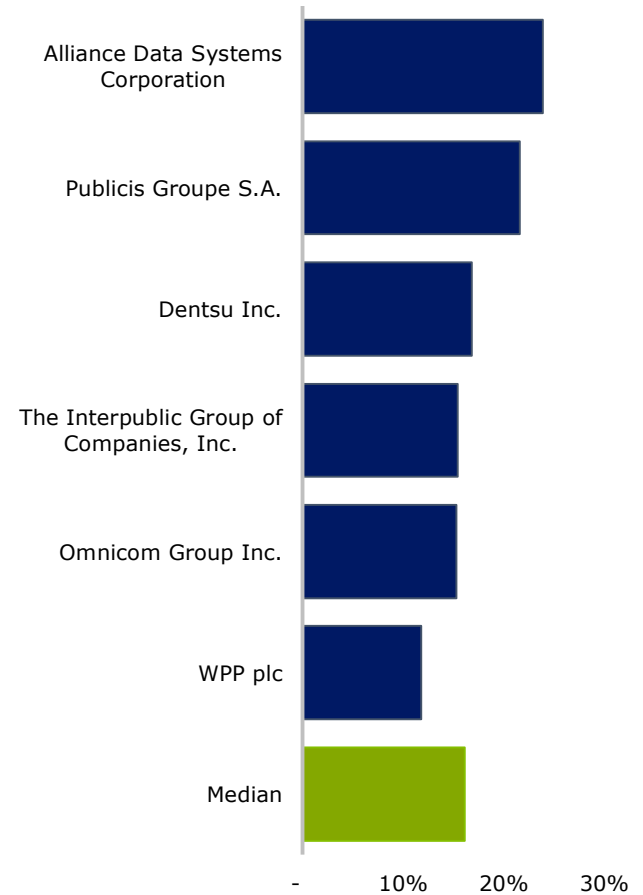
Operational Metrics



LTM Gross Profit Margin %



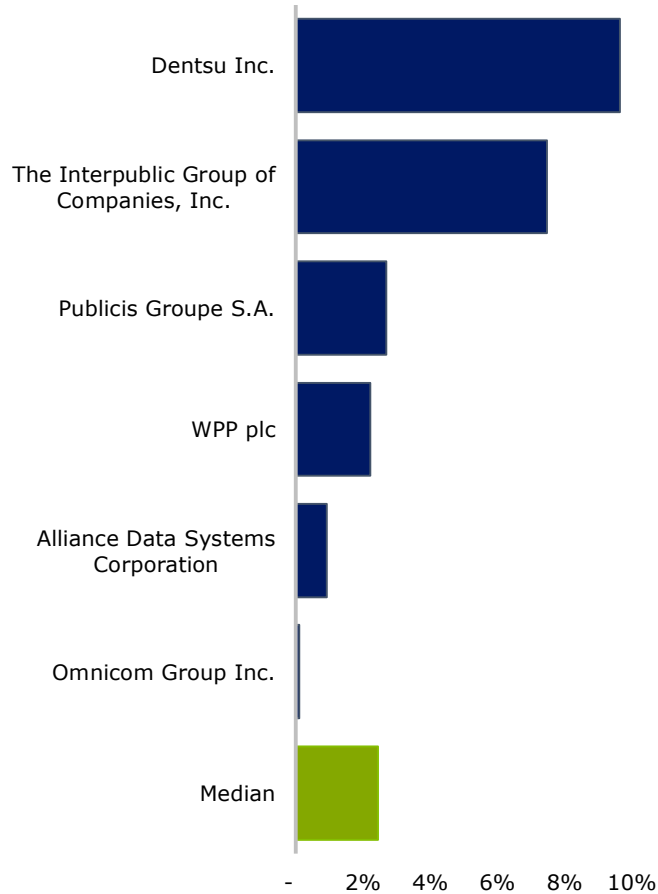
LTM EBITDA %



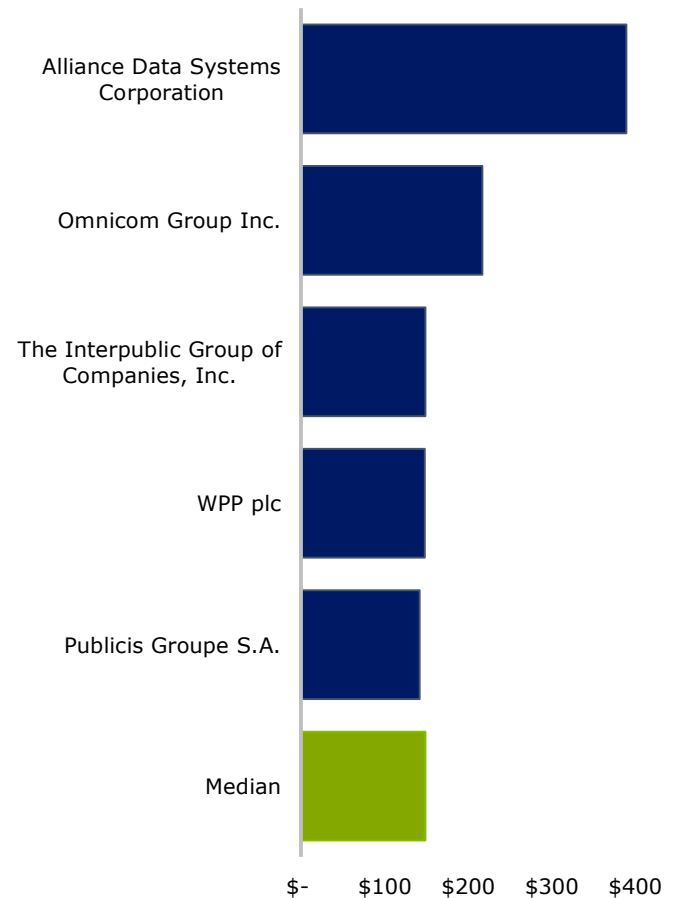
Operational Metrics



LTM Revenue Growth %



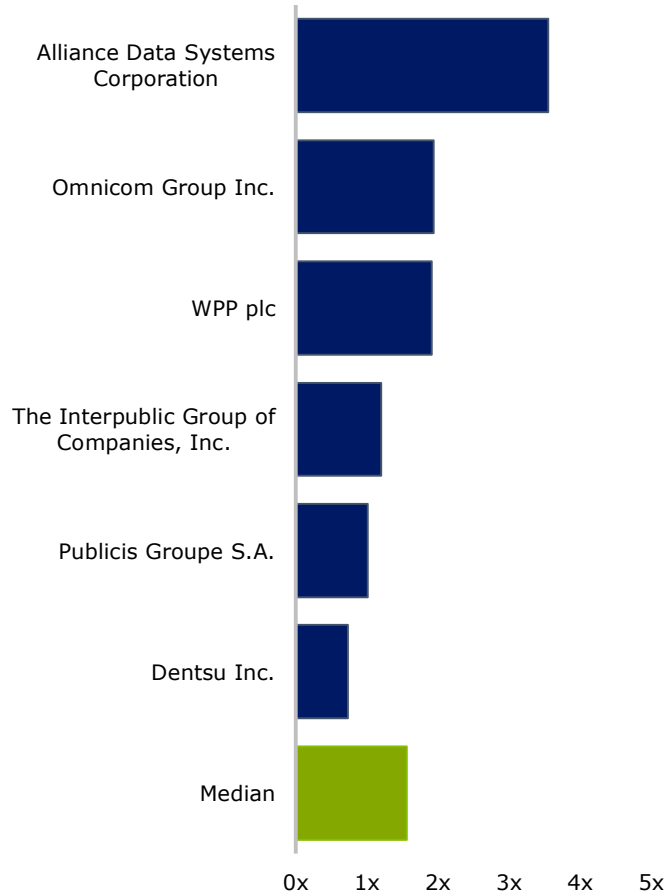
LTM Revenue per Full Time Employee x 000's



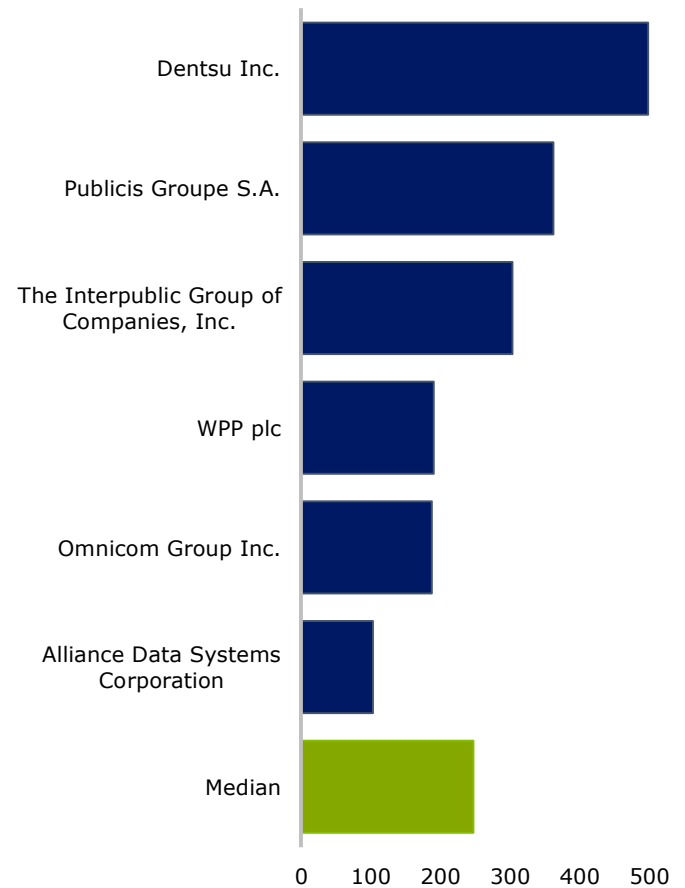
Operational Metrics



Accounts Receivable Turnover



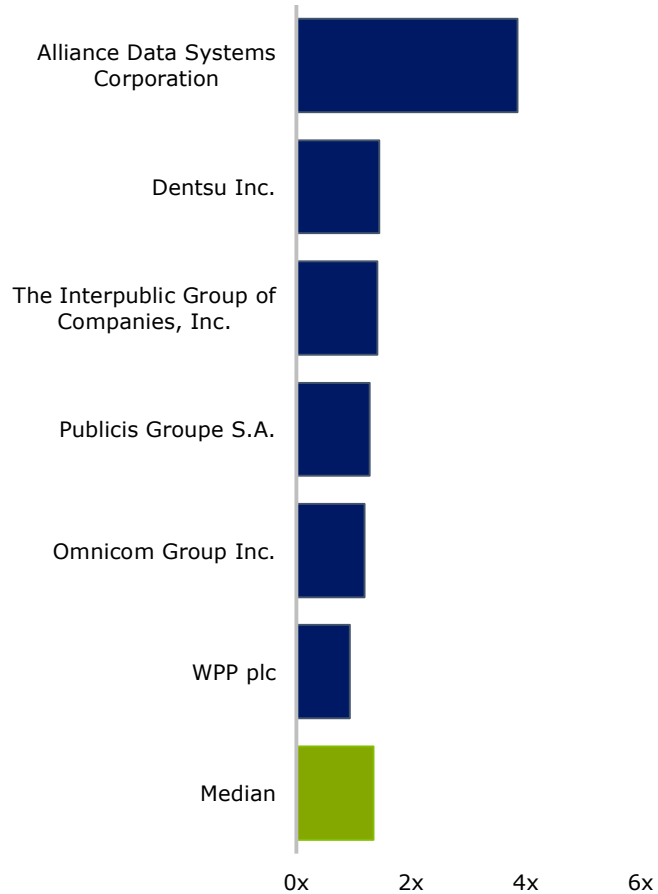
Average Days Sales Outstanding



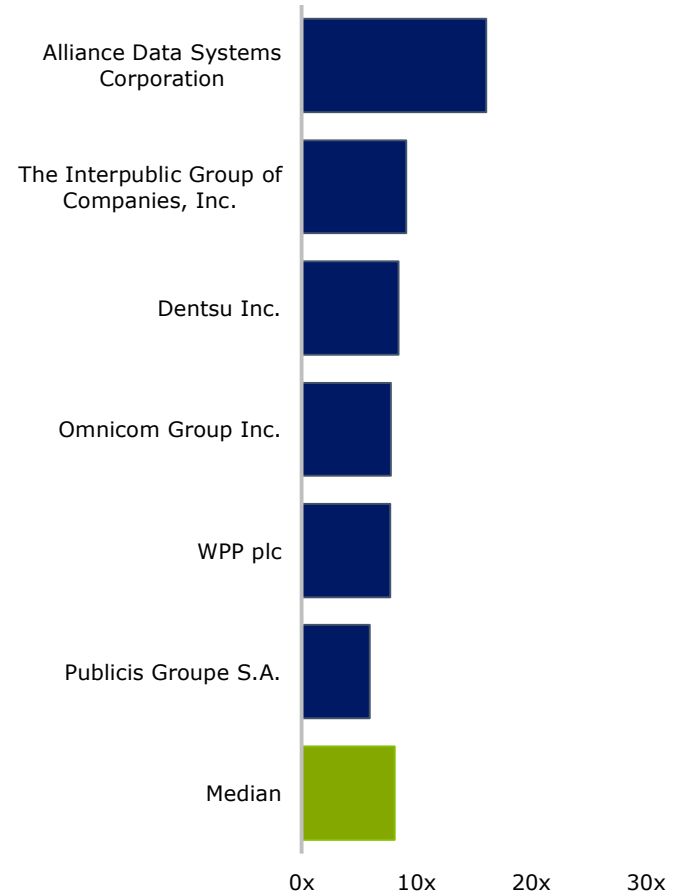
Valuation



TEV / LTM Revenue



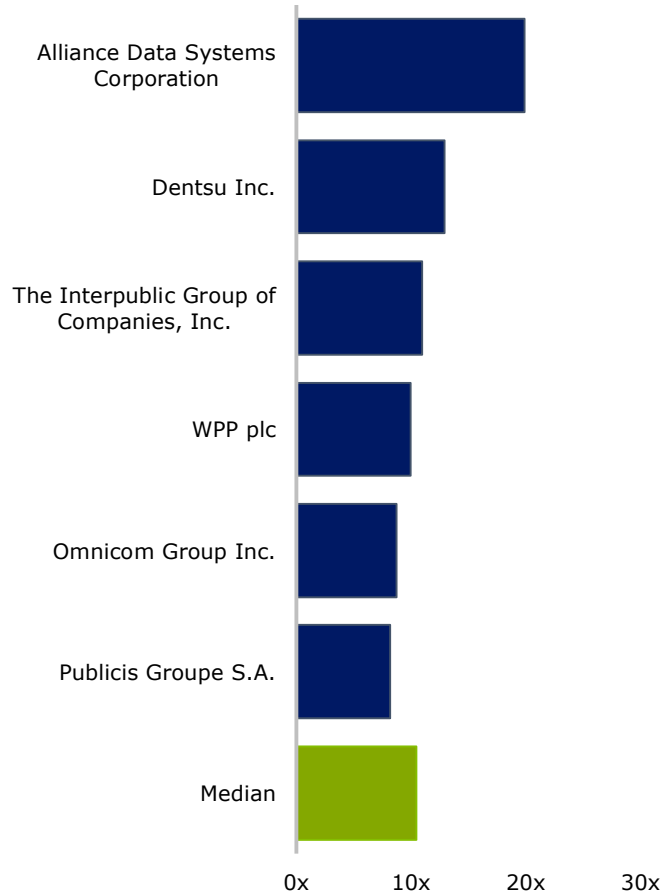
TEV / LTM EBITDA



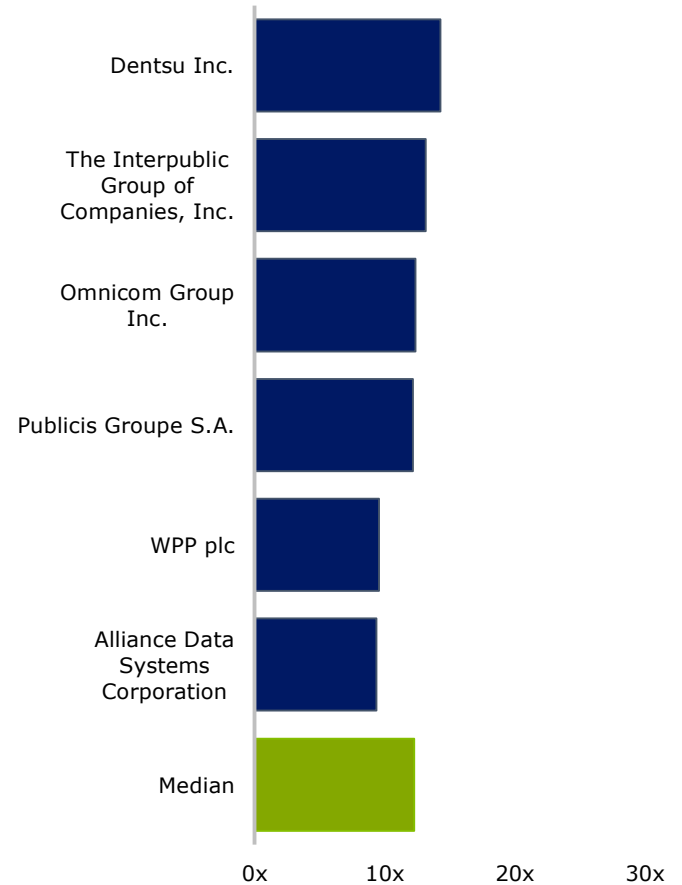
Valuation



TEV / LTM EBIT



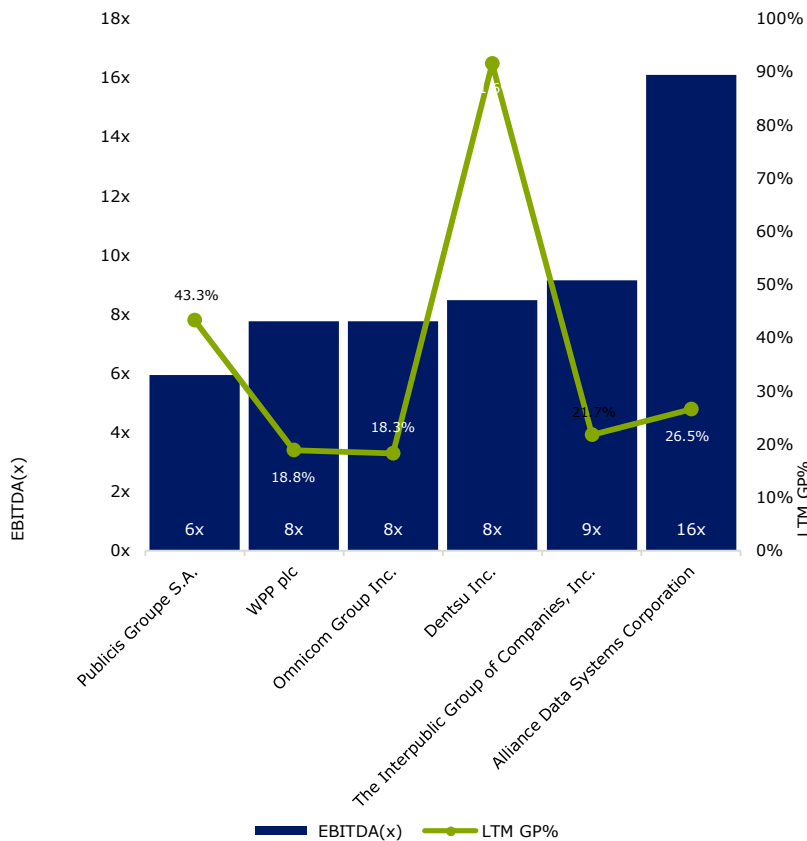
Price / LTM Earnings



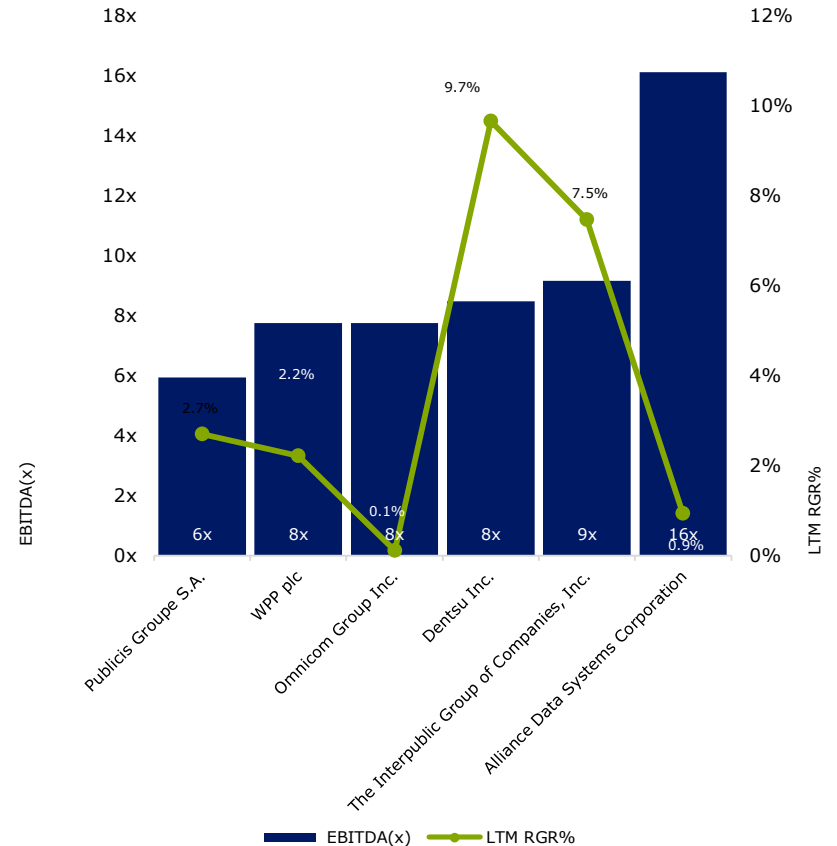
Valuation



Historical Valuation Multiples versus Gross Profit



Historical Valuation Multiples versus Revenue Growth Rate



Recent Transactions



| <u>Date</u> | <u>Target</u> | <u>Buyer / Investor</u> | <u>Total Transaction Value</u> | <u>Target Revenue</u> | <u>TEV / Revenue</u> | <u>TEV / EBITDA</u> |
|-------------|-------------------------------------|--|--------------------------------|-----------------------|----------------------|---------------------|
| 5Mar19 | NichePlus Digital | AMF Media Group | - | - | - | - |
| 21Feb19 | Happy Marketer Private Ltd. | Dentsu Aegis Network Ltd. | - | 4.85 | - | - |
| 1Jan19 | SpeakerBox Communications, LLC | REQ, Inc. | - | - | - | - |
| 12Dec18 | Adaptly, Inc. | Accenture plc | - | - | - | - |
| 11Dec18 | Mustache LLC | Cognizant Technology Solutions Corporation | - | - | - | - |
| 6Dec18 | We Are Friday Limited | PA Consulting Group Limited | - | - | - | - |
| 1Nov18 | Flywheel Digital LLC | Ascential plc | 400.00 | - | - | - |
| 29Oct18 | Elixiter, Inc. | Perficient, Inc. | 9.70 | 6.00 | 1.6x | - |
| 9Oct18 | Interactive Thinking Srl | Capgemini Invent | - | - | - | - |
| 4Oct18 | We Are Vista Limited | ICF International, Inc. | - | 21.36 | - | - |
| 10Oct18 | June 21 | Capgemini Invent | - | - | - | - |
| 24Sep18 | Emark B.V. | Wunderman Limited | - | - | - | - |
| 6Sep18 | CPC Strategy Inc. | Elite SEM Inc. | - | - | - | - |
| 20Aug18 | Amicus Digital Ventures Pty Ltd | Merkle Inc. | - | - | - | - |
| 8Aug18 | Gorilla, Inc. | Wunderman Commerce | - | 40.00 | - | - |
| 2Aug18 | Gencorp Technologies, Inc. | Omnicom Precision Marketing Group | - | - | - | - |
| 16Jul18 | Stone Temple Consulting Corporation | Perficient, Inc. | - | 9.00 | - | - |
| 12Jul18 | Global Mind S.A. | Dentsu Aegis Network Ltd. | - | 382.10 | - | - |
| 28Jun18 | Kremsa Digital, Inc. | The Pastilla Institute of Design, Inc. | - | - | - | - |
| 18Jun18 | Smashing Ideas, Inc. | Luxoft Holding, Inc. | - | - | - | - |
| 14Jun18 | Union, LLC | Myjive, Inc. | - | - | - | - |
| 1Jun18 | GS Design, Inc. | Core Creative, Inc. | - | - | - | - |
| 30May18 | Fire Without Smoke Ltd | Keywords Studios PLC | 6.87 | - | - | - |
| 23May18 | HO Communication | Accenture plc | - | - | - | - |
| 10May18 | FRWD Co. | Bain & Company, Inc. | - | - | - | - |
| 25Apr18 | Virtual Affairs Nederland B.V. | We Are You B.V. | - | - | - | - |
| 24Apr18 | Dame Media, LLC | - | - | - | - | - |
| 31Dec17 | Traffic Digital Agency, Inc. | Chamberlain Marketing Group, Inc. | 10.00 | 2.50 | - | - |

Digital Agency

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APPENDIX: Public Basket Constituents

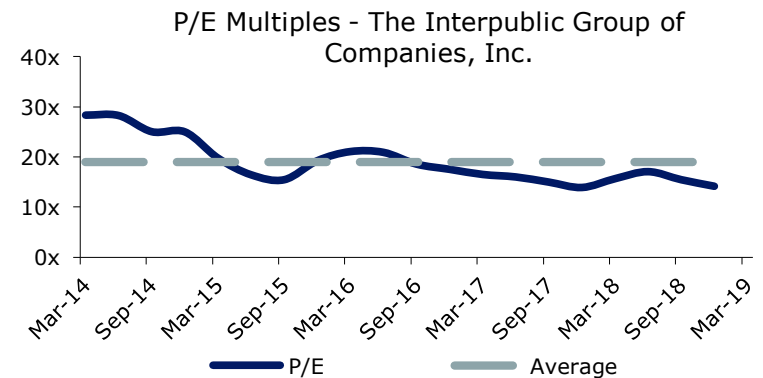
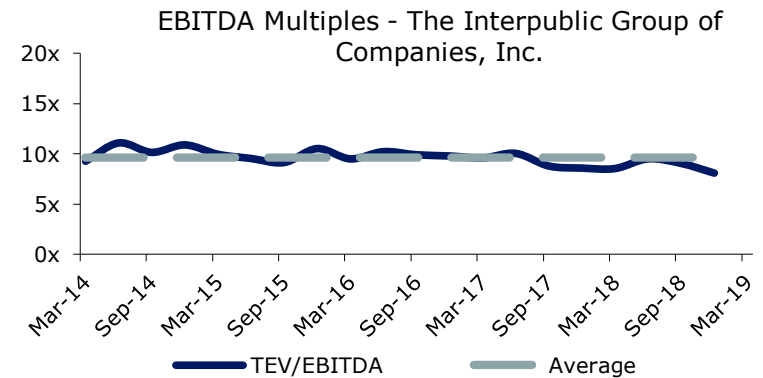
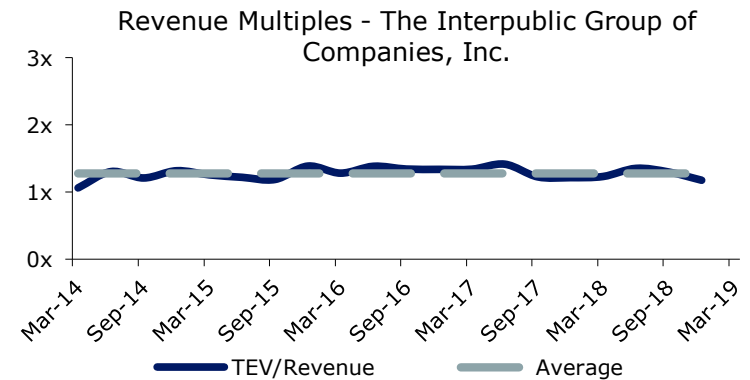
Public Basket



The Interpublic Group of Companies, Inc.

The Interpublic Group of Companies, Inc. provides advertising and marketing services worldwide. The company operates through two segments, Integrated Agency Networks and Constituency Management Group. It offers consumer advertising, digital marketing, communications planning and media buying, public relations, and specialized communications disciplines. The company also provides various diversified services, including public relations, meeting and event production, sports and entertainment marketing, corporate and brand identity, and strategic marketing consulting. It offers its services under various brands comprising McCann, MullenLowe, IPG Mediabrands, Carmichael Lynch, Deutsch, Hill Holliday, and The Martin Agency, as well as Foote, Cone & Belding. The company was formerly known as McCann-Erickson Incorporated and changed its name to The Interpublic Group of Companies, Inc. in January 1961. The Interpublic Group of Companies, Inc. was founded in 1902 and is headquartered in New York, New York.

| Date | Key Development Headline |
|---------|--|
| 9/30/18 | The Interpublic Group of Companies, Inc. (NYSE:IPG) ("IPG") completed the acquisition of membership interest in Acxiom Marketing Solutions business of Acxiom Corporation (NasdaqGS:ACXM). |



Public Basket

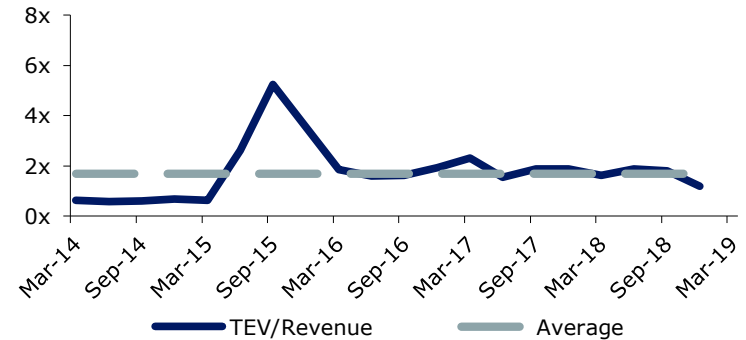


Dentsu Inc.

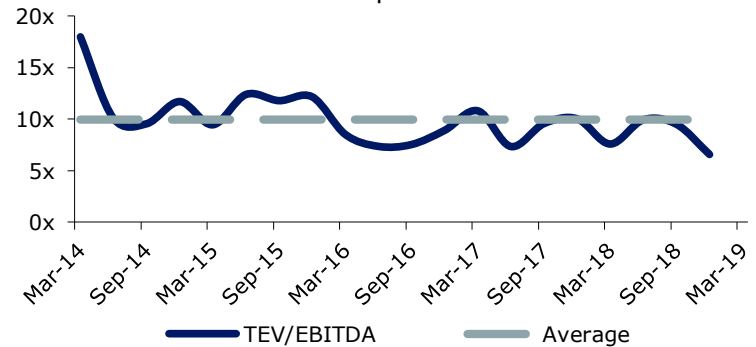
Dentsu Inc. provides advertising services in Japan and internationally. The company offers advertising through media, including newspapers, magazines, radio, television, Internet, sales promotion, movies, outdoor events, public transportation, and others; and event marketing, sports marketing, public relations, contents, creative, and other services to its clients. It also provides information services and information-related products, including information systems building and software sales and support; and other services, such as office rental, building maintenance, and computation fiduciary services. Dentsu Inc. was founded in 1901 and is headquartered in Tokyo, Japan.

| Date | Key Development Headline |
|----------|--|
| 1/16/19 | DOCOMO and Dentsu Establish New Digital OOH Advertising Company LIVE BOARD |
| 12/10/18 | Dentsu Inc. (TSE:4324) completed the acquisition of 19.4% stake in Septeni Holdings Co., Ltd. (JASDAQ:4293) from shareholders. |
| 11/7/18 | ONE Championship and Dentsu Inc. Agree to Launch One eSports as Joint Venture Together in 2019 |

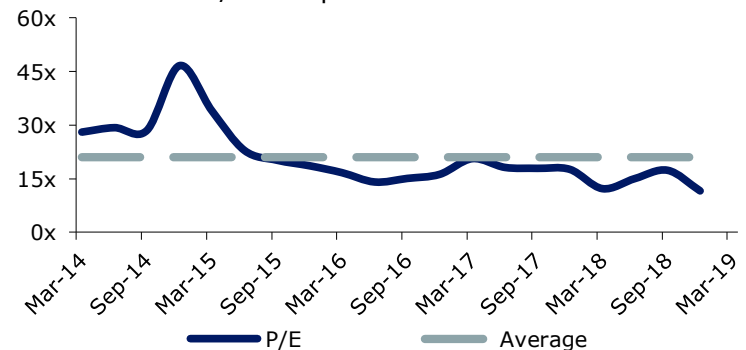
Revenue Multiples - Dentsu Inc.



EBITDA Multiples - Dentsu Inc.



P/E Multiples - Dentsu Inc.



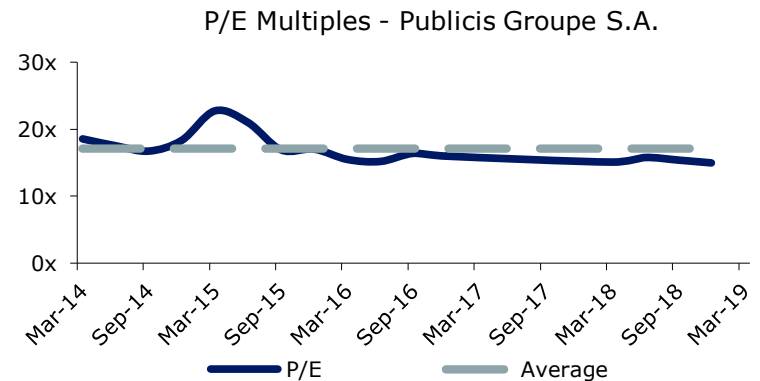
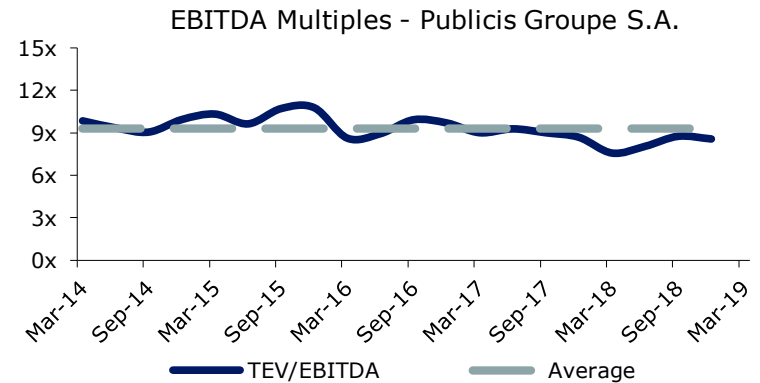
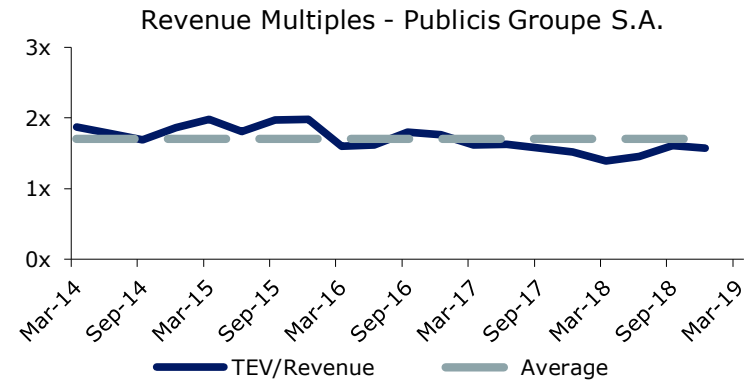
Public Basket



Publicis Groupe S.A.

Publicis Groupe S.A. provides marketing, communication, and digital transformation services worldwide. It offers creative solutions, such as direct marketing, customer relationship management, sales promotion and point-of-sale marketing, public relations, corporate and financial communication, events communication, and multicultural or ethnic communication services, as well as engages in the video production and broadcast business. The company also provides media consulting/media planning and media buying services. In addition, it is involved in the creation of corporate or commercial Websites and intranets, online direct marketing consulting, social network expertise, search engine optimization, Internet ads, and all forms of Internet and mobile communication; and provision of communications in the areas of healthcare and well-being under the Digitas Health and Publicis Health Media brands. Publicis Groupe S.A. was founded in 1926 and is headquartered in Paris, France.

| Date | Key Development Headline |
|----------|---|
| 10/18/18 | Publicis Groupe Plans To Sell Health-Care Business |
| 10/3/18 | Publicis Groupe S.A. (ENXTPA:PUB) acquired Kindred Group. |



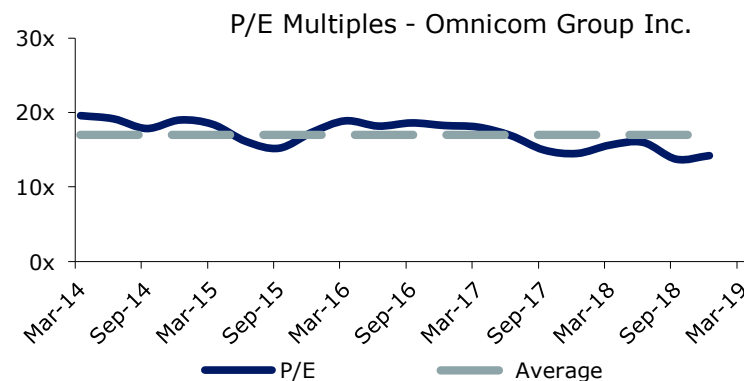
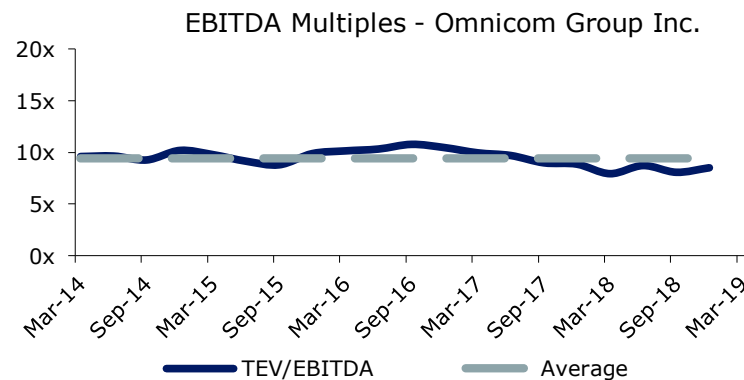
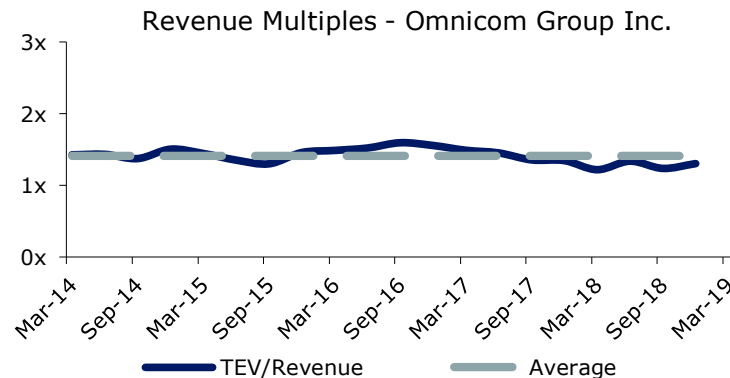
Public Basket



Omnicom Group Inc.

Omnicom Group Inc., together with its subsidiaries, provides advertising, marketing, and corporate communications services. The company offers a range of services in the areas of advertising, customer relationship management, public relations, and healthcare. Its services comprises advertising, branding, content marketing, corporate social responsibility consulting, crisis communication, custom publishing, data analytics, database management, digital/direct marketing, digital transformation, financial/corporate business-to-business advertising, graphic arts/digital imaging, healthcare marketing and communications, and instore design services. The company's services also include direct, entertainment, experiential, field, interactive, mobile, multi-cultural, non-profit, shopper, promotional, retail, search engine, social media, and sports and event marketing services. Omnicom Group Inc. was founded in 1944 and is based in New York, New York.

| Date | Key Development Headline |
|---------|---|
| 8/31/18 | Webhelp SAS completed the acquisition of SELLBYTEL Group GmbH from Omnicom Group Inc. (NYSE:OMC). |
| 7/17/18 | Omnicom Group Seeks Acquisitions |
| 6/18/18 | Webhelp SAS signed an agreement to acquire SELLBYTEL Group GmbH from Omnicom Group Inc. (NYSE:OMC). |
| 2/15/18 | Omnicom Seeks Acquisitions |



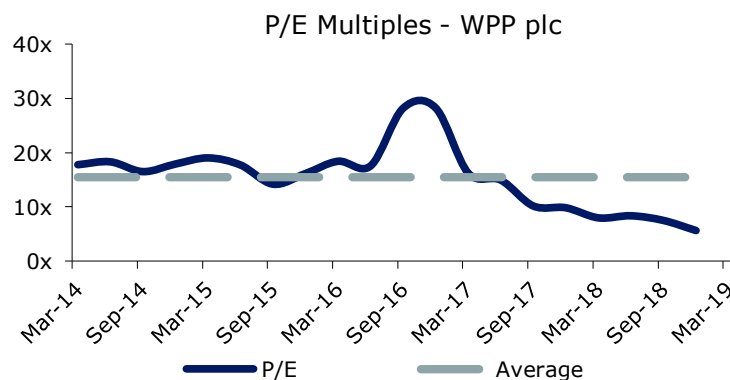
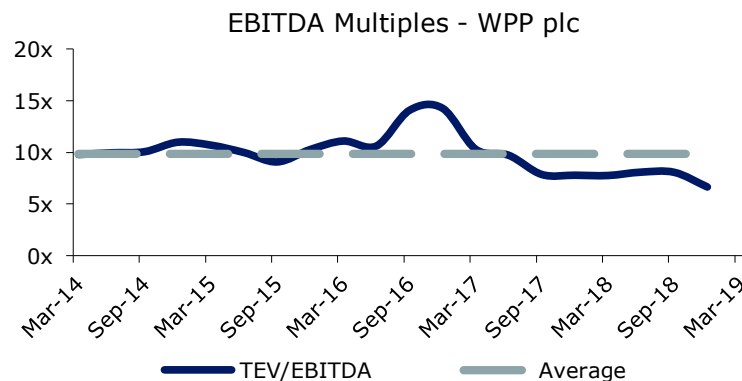
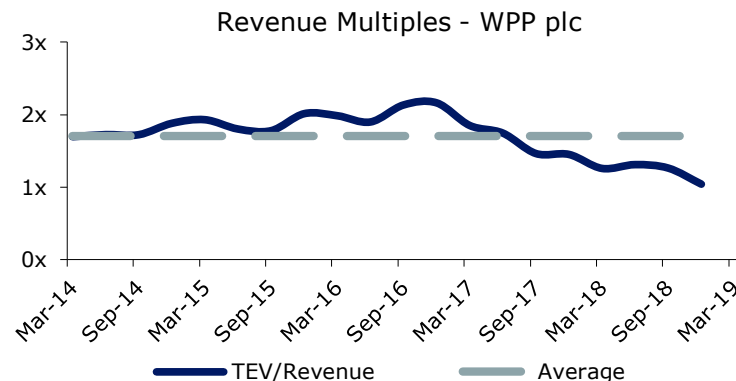
Public Basket



WPP plc

WPP plc provides various communications services worldwide. The company operates through four segments: Advertising and Media Investment Management; Data Investment Management; Public Relations & Public Affairs; and Branding Consulting, Health & Wellness and Specialist Communications. The Advertising and Media Investment Management segment provides advertising services; and media planning and buying, and specialist sponsorship, and branded entertainment services. The Data Investment Management segment offers brand, consumer, media, and marketplace insight services. The Public Relations & Public Affairs segment provides corporate, consumer, financial, and brand-building services. WPP plc was founded in 1985 and is based in London, the United Kingdom.

| Date | Key Development Headline |
|----------|---|
| 10/25/18 | WPP Says Open To Stake Sale In Kantar |
| 6/25/18 | WPP May Sell Minority Stakes In Some Of Its Businesses |
| 5/2/18 | Dentsu Inc. (TSE:4324) completed the acquisition of 49% stake respectively of Dentsu Young & Rubicam Inc. and Wunderman Dentsu Inc. from WPP plc (LSE:WPP). |
| 4/30/18 | Dentsu Inc. (TSE:4324) agreed to acquire 49% stake respectively of Dentsu Young & Rubicam Inc. and Wunderman Dentsu Inc. from WPP plc (LSE:WPP). |
| 4/30/18 | WPP plc (LSE:WPP) entered into an agreement to acquire 51% stake in Dentsu Sudler & Hennessey Inc. from Dentsu Inc. (TSE:4324). |

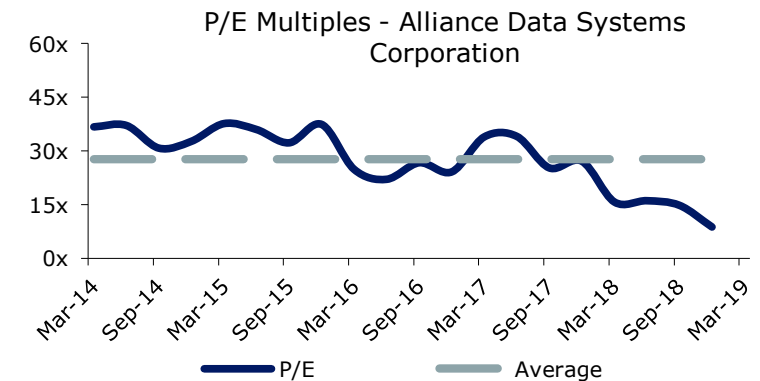
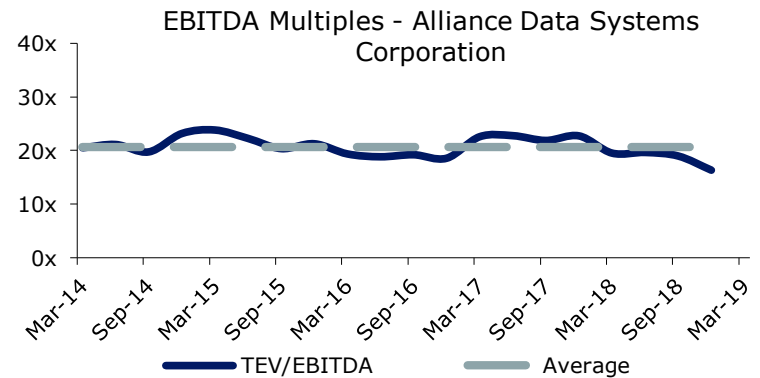
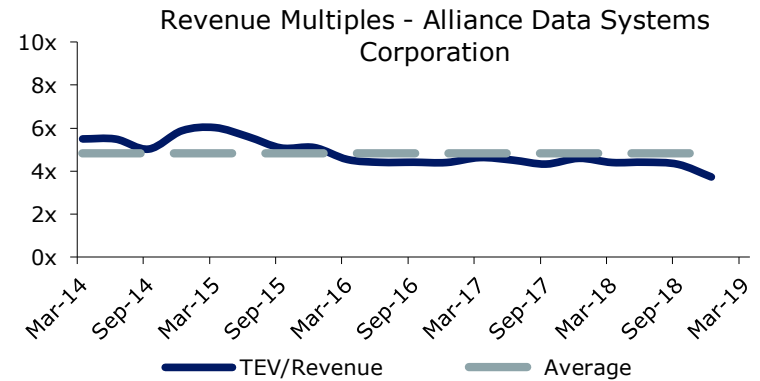


Public Basket



Alliance Data Systems Corporation

Alliance Data Systems Corporation provides data-driven marketing and loyalty solutions worldwide. It operates through three segments: LoyaltyOne, Epsilon, and Card Services. The company offers a portfolio of integrated outsourced marketing solutions, including customer loyalty programs, database marketing services, end-to-end marketing services, analytics and creative services, direct marketing services, and private label and co-brand retail credit card programs. It also focuses on facilitating and managing interactions between its clients and their customers through various consumer marketing channels, including in-store, online, email, social media, mobile, direct mail, and telephone. The company captures and analyzes data created during each customer interaction, leveraging the insight derived from that data to enable clients to identify and acquire new customers and to enhance customer loyalty. It serves clients across various end-markets, including financial services, specialty retail, grocery and drugstore chains, petroleum retail, automotive, hospitality and travel, telecommunications, insurance, and healthcare. Alliance Data Systems Corporation was founded in 1996 and is headquartered in Plano, Texas.



| Date | Key Development Headline |
|---------|--|
| 7/30/18 | Alliance Data Systems Seeks Acquisitions |

CONTACT INFO

7MA provides Investment Banking & Advisory Services to the Business Services and Technology Industries globally. We advise on M&A and private capital transactions and provide market assessments and benchmarking. As a close-knit team with a long history together and a laser focus on our target markets, we help our clients sell their companies, raise capital, grow through acquisitions, and evaluate new markets. Securities offered through 7M Securities LLC.

| | | |
|---|--------------|--------------------------------|
| Leroy Davis, Partner | 704.899.5962 | leroy@7mileadvisors.com |
| Tripp Davis, Partner | 704.899.5762 | tripp@7mileadvisors.com |
| Andy Johnston, Partner | 704.899.5961 | andy@7mileadvisors.com |
| Ben Lunka, Managing Director | 704.496.2995 | ben@7mileadvisors.com |
| Jeff Stoecklein, Managing Director | 312.796.9330 | jeff@7mileadvisors.com |
| Mark Landry, Managing Director | 561.972.0609 | mark@7mileadvisors.com |
| Kristina Sergueeva, Director | 704.899.5149 | kristina@7mileadvisors.com |
| Neil Churman, Director | 281.742.9340 | neil@7mileadvisors.com |
| John Cooper, Director | 704.973.3996 | john@7mileadvisors.com |
| Tim Frye, Director | 704.973.3994 | tim@7mileadvisors.com |
| Nicholas Prendergast, Financial Analyst | 704.973.3995 | nicholas@7mileadvisors.com |
| Ariail Siggins, Marketing Director | 704.981.2908 | ariail@7mileadvisors.com |
| Sydney Larese, Associate | 704.973.3998 | sydney@7mileadvisors.com |
| Marty Johnson, Associate | 704.973.3999 | marty@7mileadvisors.com |
| Rory Julyan, Associate | 704.981.2520 | rory@7mileadvisors.com |
| Garth Martin, Associate | 704.973.3997 | garth.martin@7mileadvisors.com |
| Dennis Fox, Associate | 704.706.9168 | dennis@7mileadvisors.com |
| Steve Buffington, Associate | 704.960.1828 | steve@7mileadvisors.com |
| Emily Halstenberg | 704.409.9912 | emily@7mileadvisors.com |