

Market Update Digital Marketing & E-commerce

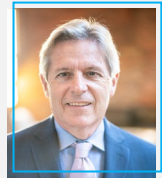
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In Q1 2023, deal activity declined modestly from the previous quarter’s volume but demonstrated positive quarter-over-quarter growth considering that Q1 2023’s global M&A activity shrank to its lowest level in more than a decade, as rising interest rates, high inflation and fears of a recession soured the appetite of companies for dealmaking.

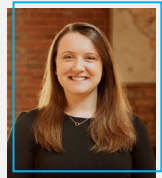
Despite the cooling economic environment, Digital Marketing and E-commerce revenues continued to climb during Q1 2023, further bolstering E-commerce’s recent sales record of ~\$299 billion during the last quarter of 2022. This is up 6.2% from ~\$282 billion recorded in Q4 2021, according to the U.S Department of Commerce. This rapid growth contributed to E-commerce sales surpassing \$1 trillion for the first time in history, representing a 7.7% year-over-year growth.

The rationale for this positive divergence away from the broader market selloff can be largely attributed to the sector’s innovation driven by breakthrough and disruptive small/medium and enterprise-business-focused E-commerce platforms such as BigCommerce, Commercetools, and Drupal as well as the accretive (1.8% QoQ growth) E-Commerce penetration of U.S. retail.

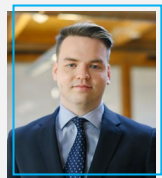
Sector Coverage Team



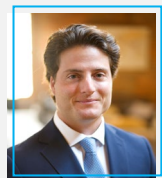
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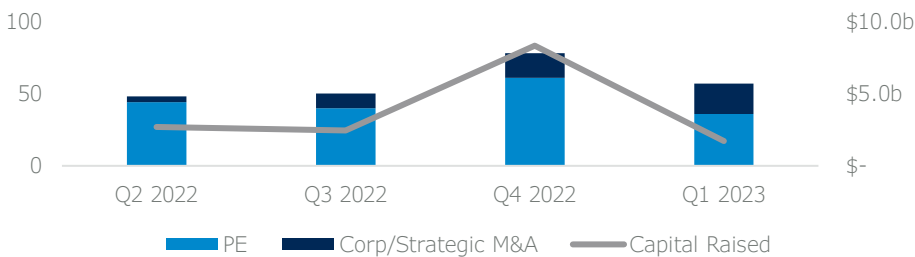


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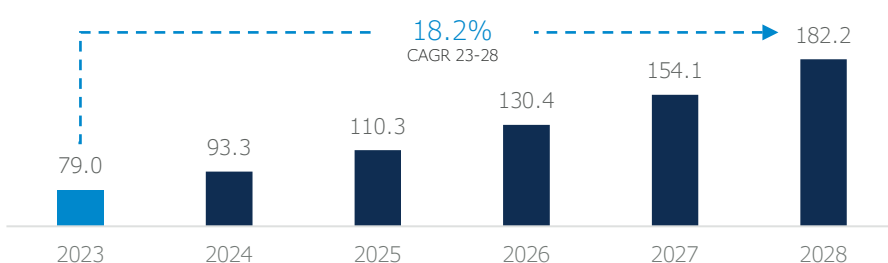


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of M&A Deals in Digital Marketing & E-Commerce



Global Digital Marketing Market Value (\$B)



7MA has completed numerous M&A transactions for companies with Digital Marketing & E-commerce service providers. 7MA has developed unparalleled deal expertise and knowledge of the industry, valuation trends, and most active strategic and financial buyers. Please get in touch with Mark Landry, Sydney Scadden, or Ilia Ulianchuk if you would like to learn more about Digital Marketing & E-commerce.

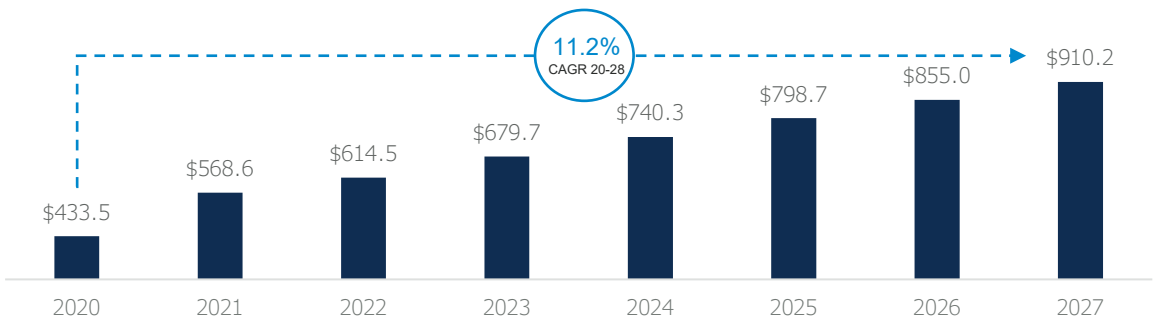
Digital Marketing in 2023 – A Snapshot

Since 2018, the number of digital agencies across the U.S. has grown 54% to approximately 45,000 as of 2023. During this period, the average size of these agencies has also increased, and today, only 64% of the market falls within the 0-10 FTE range, down from 73% in 2018. Most of these companies have grown to the 11-50 FTE cohort that now comprise 27% of the market, up from 21% in 2018. Much of this growth can be attributed to the recent surge in M&A across this sector which has begun consolidating this space.

As the demand for digital marketing increases, and competition intensifies, there will continue to be opportunities for further consolidation in this market, particularly as it relates to operationalizing and improving profitability. Historically, digital agencies have allocated 45-50% of revenue toward cost of goods sold and 20-25% toward operating expenses, leaving a pre-tax net income of 25-30%. Due to a combination of recent inflationary pressures on service pricing, and margin pressure from historically high salary shifts, these margins have shifted to 55% and 30% across COGS and OpEx, respectively, leaving a lower 17% pre-tax net income. Going forward, digital agencies must continue advancing their level of sophistication in order to compete successfully and improve margins, creating opportunities for strategic and financial sponsors to consolidate and implement synergies and cost efficiencies.

Digital agencies continue to be an attractive sector due to their ability to generate above-average levels of net income, minimal barriers to entry, and the market's overall accelerated growth rate. As companies continue to prioritize their spending across digital marketing, and competition to win this business intensifies, we can expect to continue seeing further consolidation and operationalization across the sector.

Digital Advertising Spend (\$B)



Notable Digital Marketing & E-commerce Acquirers in Q1 2023 (M&A and PE)



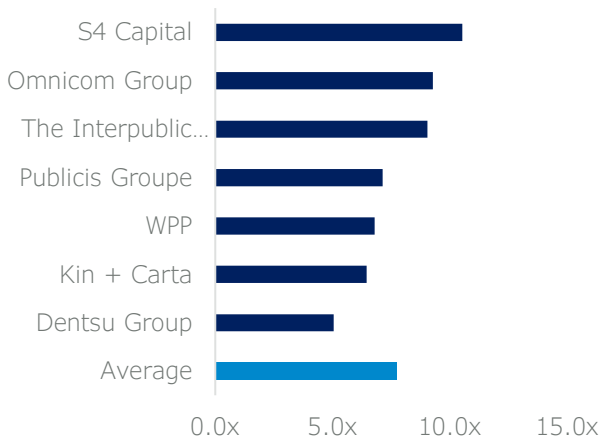
Most Active M&A Subsectors in Digital Marketing & E-commerce



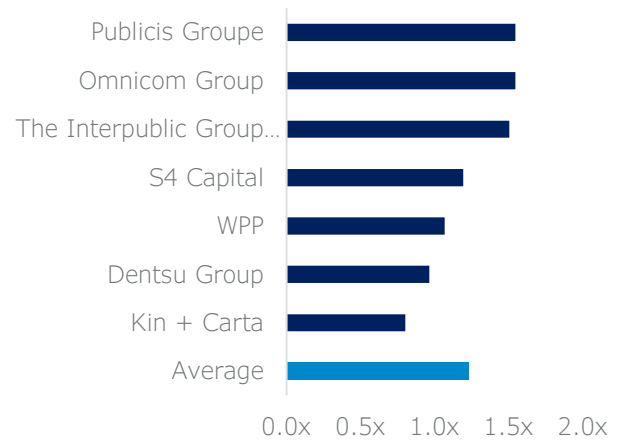
Publicly-traded Digital Marketing & E-commerce Companies – Q1 2023

Companies	TEV \$m	LTM EBITDA \$m	LTM Rev \$m	Rev Growth YoY	GP %	EBITDA %	TEV / Rev X	TEV / EBITDA X	# of FTEs	Rev / FTE \$k
Publicis Groupe	22,244	3,123	14,406	9%	43%	22%	1.5x	7.1x	41,703	53
Omnicom Group	22,059	2,382	14,289	0%	19%	17%	1.5x	9.3x	4,025	548
WPP	18,971	2,794	17,783	13%	18%	16%	1.1x	6.8x	78,740	24
The Interpublic Group of Companies	16,424	1,818	10,928	7%	17%	17%	1.5x	9.0x	25,822	64
Dentsu Group	9,112	1,807	9,465	15%	90%	19%	1.0x	5.0x	11,252	81
S4 Capital	1,352	129	1,135	100%	82%	11%	1.2x	10.5x	75	1,803
Kin + Carta	200	31	249	48%	44%	12%	0.8x	6.4x	1,409	14
Average	12,909	1,726	9,751	27%	45%	16%	1.2x	7.7x	23,289	370
Median	16,424	1,818	10,928	13%	43%	17%	1.2x	7.1x	11,252	64

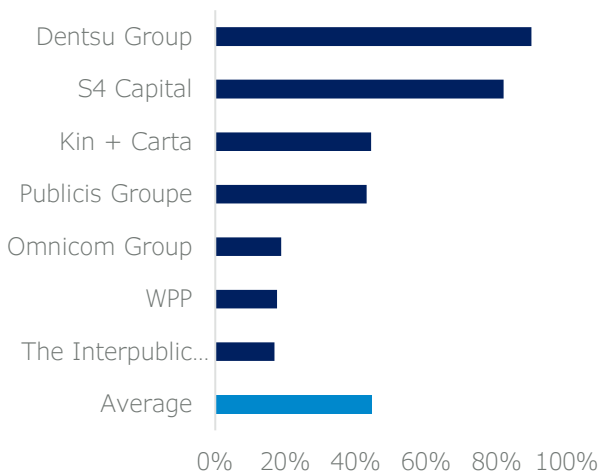
TEV / EBITDA X



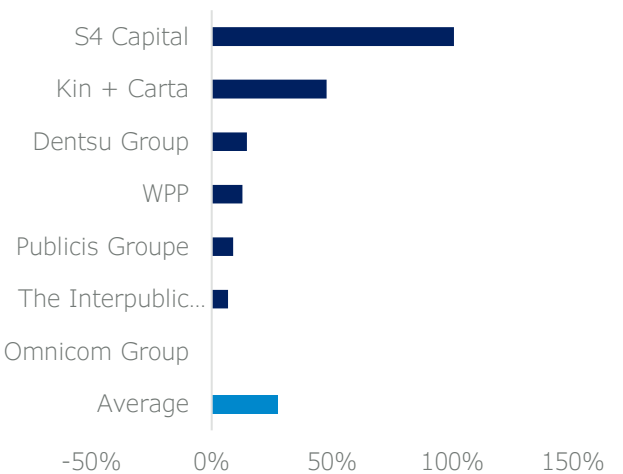
TEV / Rev X















Gross Margin %



Rev Growth YoY



Date	Target	Buyer / Investor	Target Description
March 7, 2023			<ul style="list-style-type: none"> Tag, a provider of content production services intended to deliver content that seamlessly connects every brand touchpoint for maximum impact, was acquired by Dentsu Group. The company's services include strategy and consulting, creative and content production, omnichannel, UX/UI design, technical development, and E-commerce platform design.
March 7, 2023			<ul style="list-style-type: none"> Shift7 Digital, a provider of agile design, web content management, and systems integration services intended to serve manufacturers and distributors, was acquired by Dentsu Group. The company specializes in interactive marketing and works on brand identity, campaign planning, creative strategy, and search engine optimization while also providing information architecture, interface design, usability testing, visual design, and interface development.
Feb 22, 2023			<ul style="list-style-type: none"> Inviqa, an operator of digital experience agency intended to serve the domestic and international market, was acquired by Havas Group. The company primarily builds, implements, and supports server-side scripting language designed for web development.
Feb 15, 2023			<ul style="list-style-type: none"> Authentic Digital, a provider of digital marketing services primarily for companies across Latin America, was acquired by Concord. The company offers services including branding, content creation, E-commerce, platform integration, and consultancy, enabling clients to drive digital transformation and increase customer loyalty engagement.
Feb 2, 2023			<ul style="list-style-type: none"> Original Shift, a provider of business strategy services intended to fuel sales growth in businesses, was acquired by OSF Digital. The company's services include optimization of key business processes to align with industry practices, expert knowledge in product and pricing, contracting, renewals, and asset management of businesses, enabling clients to enhance their business models and achieve the desired business outcomes.
Jan 10, 2023			<ul style="list-style-type: none"> Vertic, an operator of a digital agency intended to offer improved customer experiences and generate tangible business results, was acquired by Globant. The company focuses on improving marketing through elevating the brand-customer relationship from mere engagement to entanglement and utilizes strategy, insights, design, and technology.

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. All securities transactions are executed by 7M Securities, LLC, member FINRA / SIPC. For more information, including research on the M&A markets, visit www.7mileadvisors.com.



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EY



