

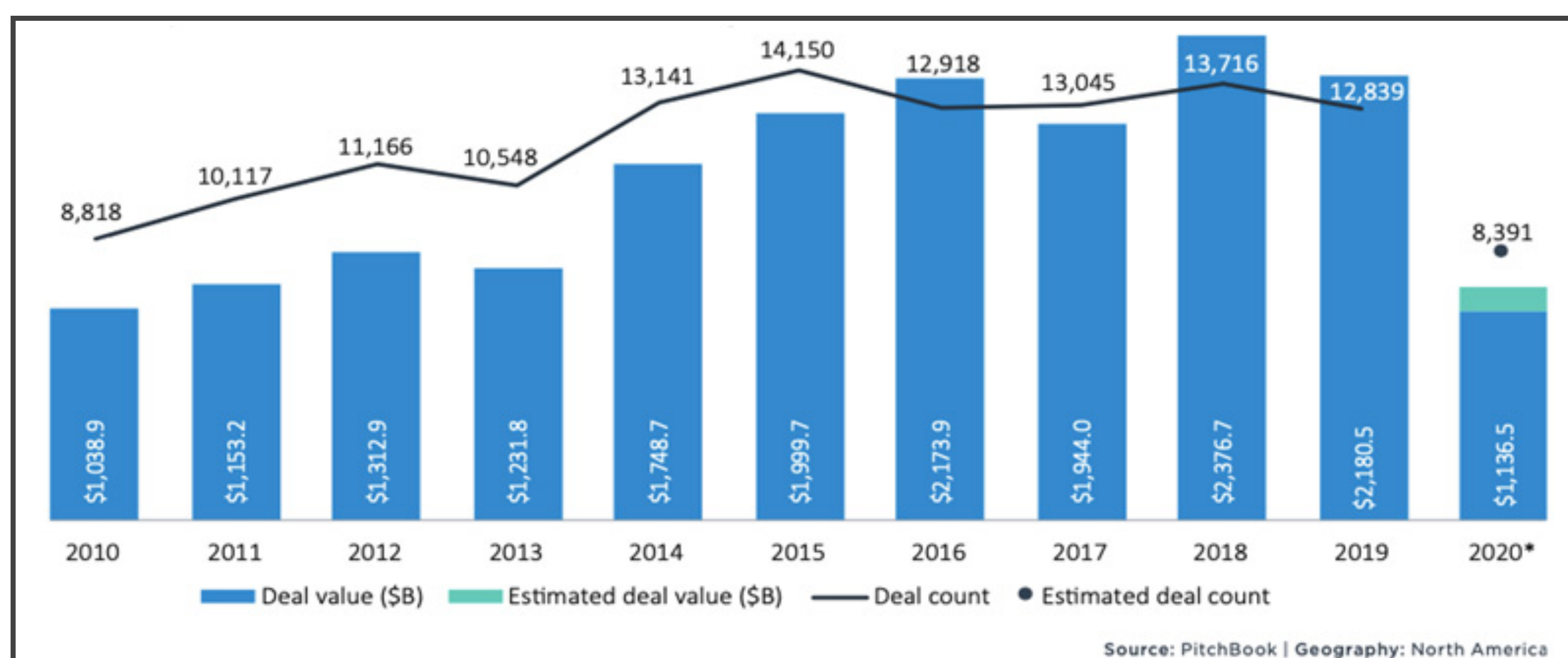
IN A COVID WORLD, IS THE TIME RIGHT TO MAKE A DEAL?

M&A BOUNCES BACK SLOWLY IN Q3 2020, BUT UNCERTAINTY STILL LEAVES BUYERS AND SELLERS IN LIMBO.

A more optimistic outlook may be beginning to emerge on the basis of a positive US election result and the promise of a COVID vaccine in Spring 2021. Across North America over 2700 deals were completed in Q3, recovering from the depths of instability caused by the onset of the Pandemic.

Overall industry projections still point to a final annual shortfall in deal volumes of almost 35% in 2020 versus the euphoric highs of 2018/19. On the deal value side, the annual average deal values only decreased by approximately 20%, buoyed somewhat by high global interest in the Healthcare and Technology sectors which led to higher average deal multiples ranging from 10x to 16x EV / EBITDA in those sectors. Meanwhile Private Equity players shifted their overall business focus towards relevant 'add-ons' in 2020 – deals up by 25% v.y.a.

COMPARATIVE
ANNUAL
NORTH
AMERICAN
M&A ACTIVITY
AS OF
SEPTEMBER
30TH 2020



Looking to the immediate future, it remains hard to predict the potential Pandemic Recovery time frame, especially while 2nd Wave effects are as yet unclear. This leaves many SMEs in the Business Services sectors still uncertain re committing to significant M&A moves. On the positive side, we have seen minimal evidence of aggressive 'cut-throat' deal making, whereby the bigger fish are swallowing up the minnows.

Overall, the broader Business Services sector in N. America has shown a high level of resilience in initially hunkering down in survival mode, supported by necessary government subsidies and then gradually embracing the realities of closed borders, working from home and Zoom meetings to see encouraging progress as key clients began to spend again in many business sectors.

Taking the Advertising, Digital Media and Marketing Services sectors as key indicators of broader business trends, we have seen the traditional multinational agency groups shift their focus away from M&A and towards the necessary **consolidation of agency brands** in search of enhanced, holistic service capabilities and improved profitability. The recent WPP move to merge AKQA and Grey Advertising into AKQA Group, as well as Dentsu's announced restructuring of 160 agency brands into 6 core global brands clearly follow the course set in 2019 by the amalgamation of Wunderman and J. Walter Thomson and others. **Hopefully the Client's needs for more effective and efficient performance are driving these moves, as indeed they should.**

Strangely enough, there have been few evident signs of Amalgamations or Mergers as yet in the Independent sector of the industry, where surely a strong case for the '**Merger of Equals**' could also bear significant fruit synergistically in securing both **optimised resource utilisation, enhanced service breadth and quality** and importantly **solidified profitability**.



RESEARCHER'S PREDICTIONS OF KEY INDUSTRY TRENDS FOR 2021

Current Forrester Research predictions for the coming year quite pointedly recognise the on-going realities of remote work as the norm in many service sectors **+300% vs. pre-pandemic levels** and **53% of the workforce** that clearly wants W-F-H to be a core part of their future – **what price those expensive downtown offices??**

Equally they point to the need for accelerated investment in **Technology and Software resources** both from the perspective of **workforce enablement** and the potential development of **proprietary service-based programming and products**, capable of differentiating the company and adding real equity value.

Significantly for the Advertising sector, Forrester also project that a further **52,000 agency jobs will be cut by the end of 2021**, resulting in the rebirth of numerous Start-ups and Niche operators. **Heaven preserve us in an already fragmented and over-populated agency world!!**



POTENTIAL IMPLICATIONS FOR DEAL-MAKING AND WHEN IS THE RIGHT TIME?

For those business owners who have taken a long hard look at their organizations and the evolving needs of their Clients, Mergers and Acquisitions can definitely play a vital part in meeting professional and personal goals and ambitions.

A year ago, we cited some 2019 Deloitte research, which clearly identified the negative impact of poorly planned and executed Post Deal Integration (32%); inadequate / faulty Due Diligence (25%) and importantly a badly defined M&A Strategy (24%) as key Deal-destroying Factors.

These factors remain ever more important in our 'recovering' world, however Shared Management Philosophy, complimentary Talent Pool and a common Cultural Approach should still be considered "mission critical".

In our current, challenging economic climate both Buyers and Sellers should work closely with their preferred Advisor(s) to clearly specify their requisite 'FIT' requirements. The development of a clearly defined Strategic Pathway, as well as a carefully crafted Target Profile and a thorough examination of the critical Risk Factors remain as imperative and foundational Building Blocks for eventual Deal Success.

UNDERSTANDING THE CRITICAL RISK FACTORS

This is where an experienced Advisor should play a vital role and demonstrate real value in examining each of the RISK FACTORS that can significantly affect the potential value of businesses.

FINANCIALS

How has the company performed over the last 3-5 years and what is the projected pro forma for the current/new year? What is the current **business momentum** factor?

BRAND REPUTATION

How visible are the company and its products/services within the industry? Is there an impactful web and social presence? How are these assets being utilised in continuing to grow the business?

CLIENTS

What is their Client Retention rate? How many contractually 'retained' vs project-based Clients? How dependent are they on their top 3 or 5 clients?

LEADERSHIP

Will Senior Management stay on and for how long? Is there a practical **Succession Plan** in place?

PEOPLE

What is the staffing breakdown? What is their workplace reputation in market? How does on-going staff- training and development feature? Are further lay-offs or key hires predicted post-deal?

SYSTEMS

How universally compatible are the Company's accounting and operating systems? What about Insurances and Data security?

PROPRIETARY PROCESS

Does the company have any differentiating and valuable Patents, Products or Trademark

AT MULTIVISORY, WE CARRY OUT A DETAILED ANALYSIS ACROSS 52 KEY CATEGORIES OF THE ORGANIZATION AND ITS OPERATIONAL APPROACH AND PROCESSES TO ENSURE THAT OUR CLIENTS HAVE AN OBJECTIVE AND TRUE PERSPECTIVE OF THEIR INHERENT STRENGTHS AND WEAKNESSES IN MOVING TOWARDS A DEAL.

MAKING THE RIGHT MOVE.....

To target potential Buyers or identify and target potential Sellers, Advisors and their Clients should follow the Risk Factor survey and ideally eliminate significant risk before entering into direct communication. Business Owners can then make an educated decision as to when or if, **SELL** is the right strategic option to choose?

In our experience the key triggers should be when an owner has lost his, or her all-consuming passion for the business and perhaps when the lure of enjoying the spoils of their years of hard work significantly outweighs the on-going burden of financial risk and personal guarantees.

Perhaps also when Owners begin to have a growing feeling, indicating that younger blood is needed to combat the industry turmoil that pandemic stresses, competitive inroads and disruptive new marketing and technical approaches are creating, it's time to plan an **Exit Strategy**.

Alternatively, where multiple shareholders are involved, and the original owner(s) want to exit, a structured **Succession Plan** enabling key senior colleagues to buy the business out over time, then **HOLD & BUILD** becomes the right strategy, relying on the company's financial results, new management team and premium marketing reputation to maximize value for an eventual sale.

Equally for Buyers an objective assessment of the business may clearly indicate that a current flattening out of a company's growth curve dictates the need to consider a **BUY** or **MERGE** commitment to address competitive gaps, optimize resources, diversify product or service offerings, gain expanded geographic coverage and potentially to enhance bench strength within the management team.

THE BOTTOM LINE REMAINS..... GET SOME PROFESSIONAL ADVICE

If you run or manage a quality firm of any size, you will consistently be approached by Buyers interested in acquiring you, or Sellers looking to be acquired by you. As Business Owners or professional managers, you need to be prepared, or you could get drawn into a bad and inherently distracting deal for you, and for your firm.

Always remember the age-old adage – “*You don't know what you don't know*”, so don't go it alone if you decide the time is right for you to sell, raise investment funds, or if you are ready to acquire.

Appoint an Advisor, (MultiVisory or someone else if you prefer)..... it will pay back!



Kevin Astle is the Founder and Managing Partner of MultiVisory International—an M&A advisory service focused exclusively on Agencies and Marketers across all marketing channels. Having worked on both sides of the Atlantic and on both sides of the Client/Agency desk across North America, he brings an international perspective and deep, multi-sector knowledge and network to his Clients.

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The logo for MultiVisory International, featuring the lowercase letters 'iVi' in white, with the 'i' and 'V' connected, set against a red circular background.