Global M&A Insights Report 2024

SI Partners

SI Partners is an M&A advisory firm specialising in agencies, consultancies and technology service providers.

We offer trusted, insightful and actionable M&A advice to entrepreneurs and investors across the globe; building partnerships that drive growth and long-lasting value.

Joe Hine
Partner, SI Partners

Monika Solanki
Manager, SI Partners

Welcome to SI Partners' fifth annual Global M&A Insight Report

In our last report we evidenced the lull in activity since the M&A peak in 2021 / 2022 and we predicted that 2024 would start to show signs of improvement on 2023, as some of the underlying causes abated.

Year-to-date, there has been strong demand and available capital for M&A. However, recent trading has been uneven across segments, with some sellers hesitant to transact until they see stronger performance and forecast confidence on which to base their valuations.

Buyer and investor caution has risen as hasty investments at the market's peak come under scrutiny, slowing diligence processes and acting as a brake on transaction volumes. This has disrupted the typical calendar rhythm of M&A. As a result, deal volumes were steady in H2, but Q3 showed improvement that we expect to continue through Q4 and into 2025.

Lower- and mid-market M&A is primarily driven by microeconomic factors, such as demand for contemporary skills and strategic growth plans. However, in 2024 the macroeconomic environment has played a larger role due to significant elections, tax and policy changes, and the economic effects of major conflicts, creating uncertainty for budget holders in the agency and consultancy sectors.

AI is not yet viewed as a reliable front-end solution for most agencies and consultancies, but its impact on client deliverables is increasingly apparent. Companies leveraging AI to optimise workflows and generate data insights are often outperforming competitors, attracting more buyers and higher valuations.

ABOUT THIS REPORT

We believe this report to be unique.

Commissioned to analyse recent market trends among the most active buyers in the talent-based and tech-enabled service sector, it combines detailed proprietary quantitative research, listed market data and insights from industry experts & buyers, alongside our first-hand experience from completing over 40 deals in the past three years. All data was gathered through our own research.

This methodology enables us to produce a focused report that is directly relevant to our global client base of agencies and consultancies at the forefront of the digital economy.

This report covers:

125

of the most active buyers for agencies, consultancies and technology service providers

1,150

deals from these buyers in the last 5 years

2024 Deal Volumes: After 2023 doldrums, H2 2024 is in growth

We are well past the peak M&A of 2021 / 2022 and while the press has us believe we are in the M&A doldrums, our research indicates that mid-market activity levels remain significantly higher than the pre-Covid era.

In our last report we predicted a return of M&A in 2024, particularly in H2, as sellers are able to show growth on 2023. The volume in Q3 supports this and given that activity we see in the market we believe Q4 will be similar.

Looking ahead to 2025 there are strong indications that more sellers will be willing to transact based on 2024 performance, which could sustain higher volumes in Q1 and Q2 of next year.

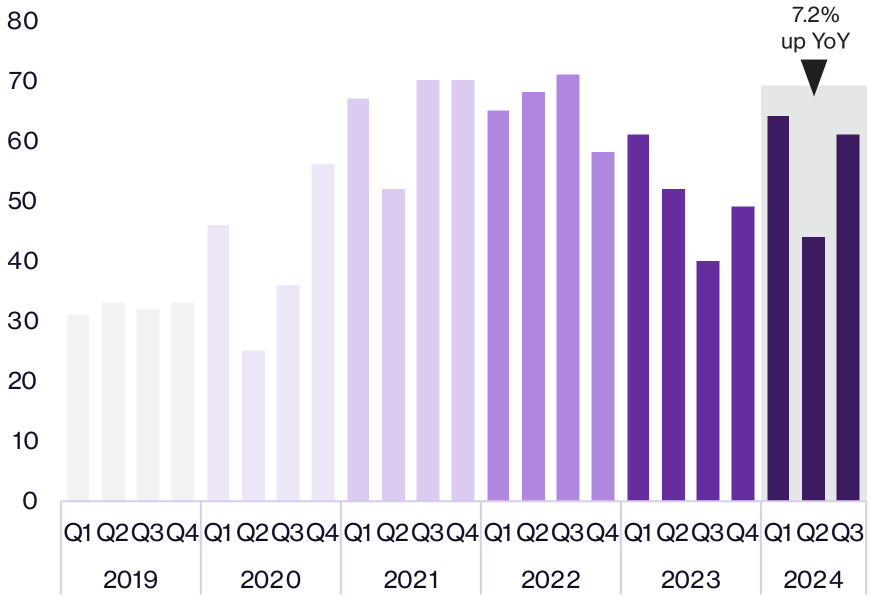


Fig 1: Quarterly global deals by volume

Source: SI Partners Proprietry Research

The buyer landscape has evolved, but Accenture and Private Equity are constants

Private Equity has become an ever-present investor and one of the most consistent buyers. Combined with PE-backed companies, they have been responsible for about a third of all deal volume and are reshaping typical deal structures. We looked at a selection of mid-market Private Equity funds investing in talent-based companies – predominately tech-enabled, digital and consultancy-based companies.

Technology Consultancies similarly account for about a third of the market despite recent soft trading, although mainly due to **Accenture's** voracious appetite, which accounts for more than half of tech consultancy deals. These firms are looking to contemporise and expand their product offering after a period of over-reliance on digital transformation. They are mostly from the US, India and South America.

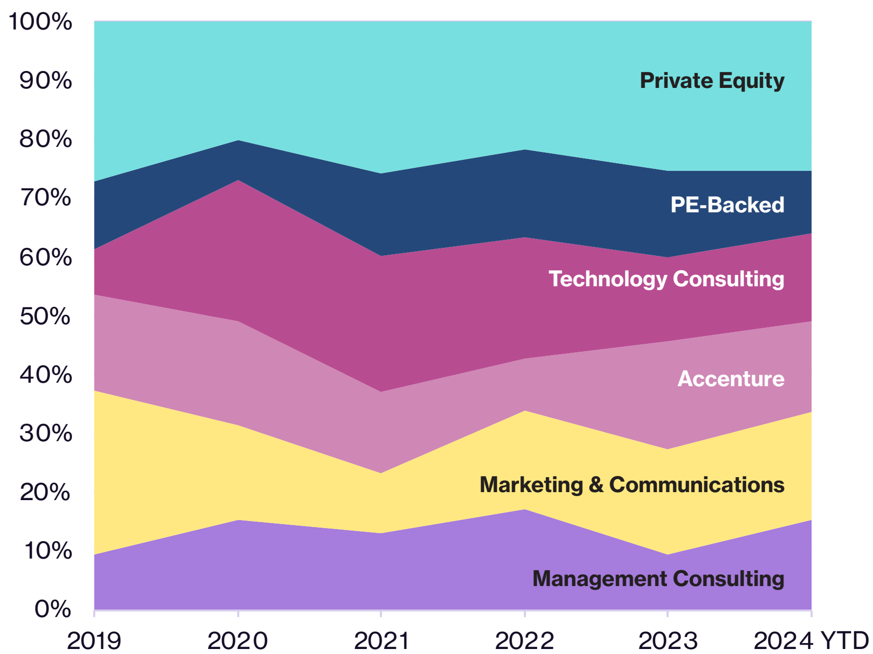


Fig 2: M&A activity by buyer group %

Source: SI Partners Proprietry Research

Management Consultancies from strategy consulting, accounting or other specialisms are moving aggressively into digital skills and adding in-demand capabilities after a quiet 2023. They are primarily acquiring specialist skills including engineering, data and cyber.

Marketing & Communications groups of all types are active in the market. Contemporary players are still focused on completing their global offer, whilst legacy groups are consolidating and adding new data- and tech-driven capabilities.

Macro forces are shaping mid-market M&A

Mid-market M&A is typically less impacted by the macroenvironment, with smaller deals requiring less leverage and risk. However, 2024 is different.

Positive signs but the market is not yet 'normal'
The outlook for the M&A market remains positive, with ample demand and available capital driving activity. However, some potential sellers are hesitant to enter the market until they can demonstrate stronger performance. In segments that have performed better in 2024, we are seeing processes initiate for sales in H1 2025. Despite this, the market has yet to return to its typical calendar rhythm, as M&A processes are progressing at a slower pace, with buyers exhibiting increased risk aversion.

Private Equity remains a significant driver of M&A
B2B service industries have transitioned from a relatively greenfield environment into a frequent hunting ground for Private Equity. 2024 and 2025 are critical years for funds to validate their investment strategies by returning value to shareholders. Some have successfully done so – often through secondary PE buyouts (e.g. Croud with ECI), while others are biding their time for the right moment.

Not all buy & build plans have been successful and some groups will find lucrative exits difficult to achieve in the medium term as a result. We anticipate that this will result in increased scrutiny of logic and fit when it comes to follow-on M&A, with a trend towards fewer acquisitions of higher quality.

Politics and tax regime
The US and UK economies have faced significant highs and lows amid a year of elections that has created uncertainty, leading some clients to hold back on spending.

With political certainty now established in both, and the prospect of looser fiscal policy under Trump, investors are anticipating an acceleration in M&A activity that will ripple across global markets.

However, significant risks remain; the UK's increasing tax to GDP ratio could act as a brake on growth, and many of Trump's policies are inflationary in nature and might cause interest rates to stay higher for longer, restricting funding for larger PE deals.

UNITED STATES
With a relatively strong economy, optimistic sentiment and huge PE capital, there is continued demand to invest but risk of recession and election uncertainty will slow the market.

SOUTHEAST ASIA
Demand for assets in this region is gaining traction, particularly in Thailand and Malaysia, especially in the tech sector in Malaysia.

We are starting to see a cooling trend in the Singapore market, as well as in Australia. This is prompting domestic companies to look for expansion opportunities in Southeast Asia.

AUSTRALIA
There is strong demand for businesses with predictable cash flows, as international buyers favour multi-geography assets for a pan-Asian base.

Private Equity remains a key player, especially in consultancy-based assets, though tightening budgets and the threat of in-housing in Australia pose challenges.

EUROPE
The UK continues to be in high demand among US and European buyers, driven by increasing consolidation in Europe. Many local Private Equity-backed players are actively pursuing roll-up strategies, creating a competitive environment for investments in the region.

MIDDLE EAST
Sovereign wealth funds are crucial in driving mergers and acquisitions in the region.

Dubai and Riyadh are witnessing a rise in start-ups and digital transformation, while Saudi businesses are incentivised to use the local stock market for liquidity. However, these opportunities are tempered by complex trading conditions.

PRIVATE EQUITY AND PE-BACKED

SECTORS OF INTEREST

Digital Transformation
Social / Influencer
Tech-led Consulting
AI / ML Digitalisation
Performance
Strategic Consulting

Private Equity continues to be the driving force behind global M&A; increased platform investments; follow-on M&A less significant

With a growing shortage of large independents to invest in, some bigger, underperforming groups could start to look attractive to ambitious funds and there has been a notable uptick in market rumours on this front. Despite the market slowing, PE has seen a solid period for capital deployment.

Global Private Equity fundraising reached approximately $500 billion in the first half of 2024, a material increase from $400 billion during the same period in 2023. This year, PE firms have committed $17 billion to AI and machine learning investments – triple the amount from last year – of which 77% was allocated to companies specialising in AI software, consulting, outsourcing and network management.

There is growing caution around B2B services as funds deepen their understanding of the industry, with many investors closely monitoring exits of prominent assets like Dept. At the same time, funds are shifting their focus to traditional assets such as B2B media and events, particularly in areas of contemporary specialisation such as ESG and sustainability.

Private Equity seeks scale. Some of the biggest players were at Cannes Lions this year, circling the larger assets that may come to market, whether already backed by PE or listed.

Fig 3: M&A activity Private Equity and PE-Backed

Source: SI Partners Proprietry Research

Bolt-ons unlikely to reach highs of 2021/2022

Activity has increased through 2024 to date, but bolt-on acquisitions are unlikely to match the highs of 2021 and 2022 as some groups prepare for exits and others adopt a more selective approach. Many companies are currently in the market or planning to enter within the next 12 months, prompting the market to closely watch for successful exits and refinancing opportunities. Some groups are navigating transitions, such as **Instinctif, Sideshow**, and **The Marketing Practice** which have experienced notable leadership changes.

Brainlabs, seen as a poster child for the sector, has secured secondary funding from Falfurrias Capital Partners. It acquired in Australia and will acquire more in 2025.

Brandtech Group announced recent investment of $115m Series C to invest in Generative AI platform Pencil.

Croud recently refinanced with **ECI Partners**, boosting the PE community's faith in exits.

Sodali acquired Powerscourt last year to build out their EU financial communications practice. Strategic communications has become a key investment category for PE.

Anticipated Market Activity

STRAT 7

DEPT

momentum itsma

TECHNOLOGY CONSULTING

SECTORS OF INTEREST

Performance
Robotic Process Automation
Strategic Consulting
Digital Marketing
Data

Technology Consulting rebounds from tech downturn: H1 2024 surpassing pre-COVID levels

Europe and North America
A difficult year for the US / EU listed IT integrators. The Covid boom of digital transformation spend has not been replaced and most have undergone significant cost-cutting. There are green shoots though, with most companies in this group seeing their share prices rise over the summer of 2024.

Accenture's appetite to acquire is insatiable, with 26 acquisitions so far this year. But this is yet to pay meaningful dividends in their share price which is trending just below our FTSE benchmark.

There is M&A appetite among other consultancies such as **Capgemini, EPAM** and **Cognizant**, driven by the need to expand their service offer beyond digital transformation and to gain influence in other C-level departments. The main obstacle they face is a shortage of available assets at their desired scale.

Asia
Great strength in the Indian stock market is not reflected in M&A. Companies such as **Wipro, Tech Mahindra** and **NTT Data** are finding it culturally difficult to acquire Western businesses and M&A has never been a core strategy for most.

At the beginning of 2024 several consultancies expanded their M&A teams, but we are yet to see the fruits of this investment.

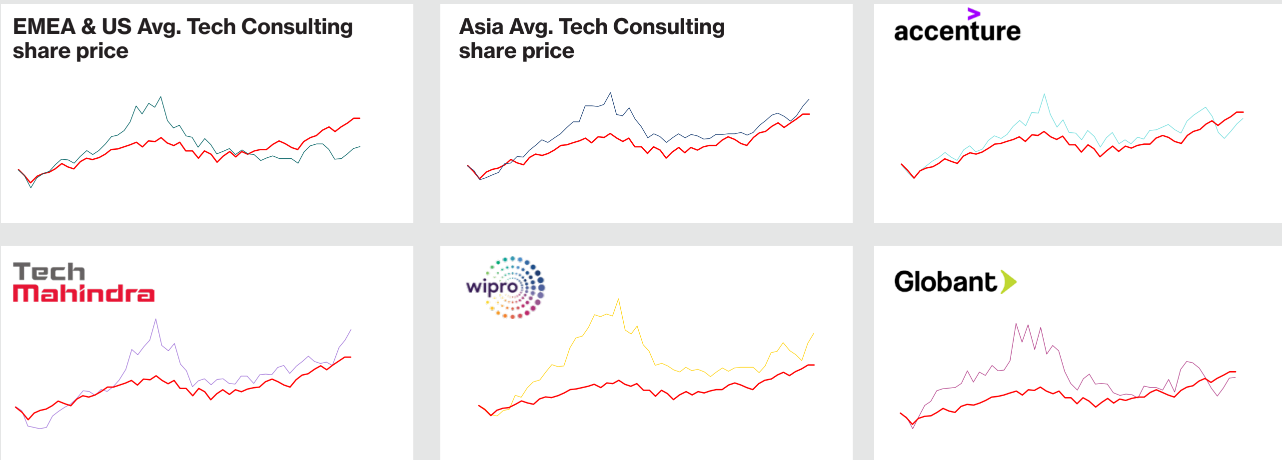


Fig 4: Selected Technology Consulting share price vs. S&P index

S&P Benchmark. *The graphs show share price change between 1st January 2024 to 30th September 2024 or from point of listing.*

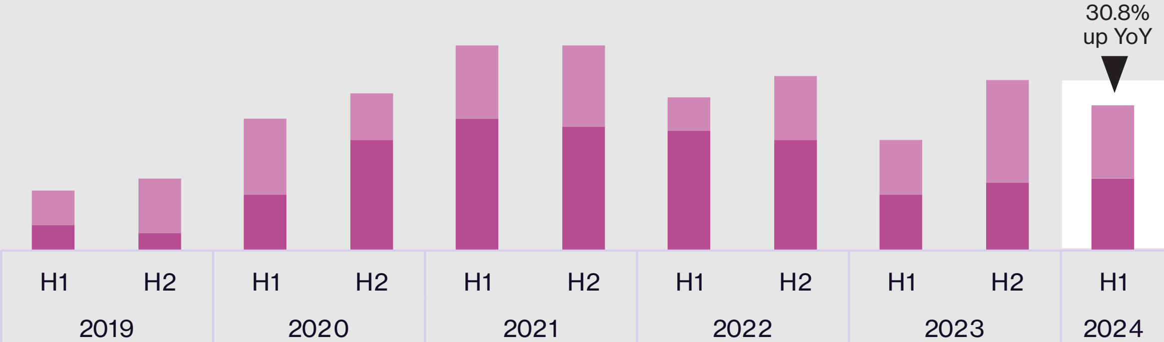


Fig 5: M&A activity Technology Consulting and Accenture

Source: SI Partners Proprietry Research

MARKETING AND COMMUNICATIONS

SECTORS OF INTEREST

Content
Social / Influencer
Strategic Consulting
Digital Marketing
Performance / Data
ESG

Publicis market leader, others ripe for activism

EMEA & US (Traditional)

Publicis is still the market leader having achieved significant returns on its EUR 9 billion investment in data and technology companies Sapient and Epsilon, accounting for a large portion of the group's revenue. The company is reportedly in advanced negotiations for several acquisitions and growing in markets where competitors are struggling, such as China, where it has seen double-digit growth.

Weak performance of others makes them ripe for activism, with takeovers, mergers or break-ups all on the cards. This is often rumoured but yet to come to anything. However, Havas being spun out of Vivendi might act as a trigger for the market.

As a consequence, most remain inward-looking, with consolidation and the use of M&A to fix problem areas, e.g. NCA and Ogilvy. They frequently bid for the data- and tech-oriented companies they desire, but are limited by their valuations and rarely successful.

EMEA & US (Contemporary)

Stagwell is another stand-out performer. Careful use of resources and sharp deal-making (both demerger and bringing acquisitions into the group) has ensured its share price has stayed ahead of the market. We expect more to come from Stagwell in 2025.

S4 is facing a challenging phase, struggling with talent retention and with shifts in client spend impacting performance and share price. However, its solid underlying assets could make it an appealing takeover target.

M&C Saatchi is an interesting prospect. New Chair Zillah Byng-Thorne, with a strong track record, aims to build the right team. Expected to resume M&A activity in 2025, it is one of the few firms with no acquisitions since 2020.

Next15 remains active but an £80m revenue hole in 2024 halved its share price in September 2024. M&A is likely to be tactical.

ASIA

This group has been less acquisitive in recent years, with political tensions with China and post-Covid recovery challenges hindering **Pico** and **Blue Focus** from pursuing acquisitions.

Hakuhodo's growth plan focuses on Southeast Asia, though long earn-out periods may make it a less attractive buyer. The global strategy aims to evolve from traditional advertising to a broader "creativity platform."

Dentsu is reworking its global strategy – Dentsu International was replaced by Japanese leadership.

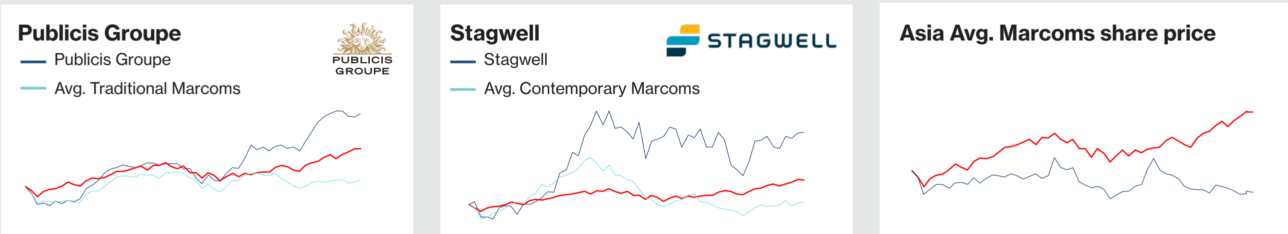


Fig 6: Selected Marcoms. vs. S&P Index

S&P Benchmark. *The graphs show share price change between 1st January 2024 to 30th September 2024 or from point of listing.*

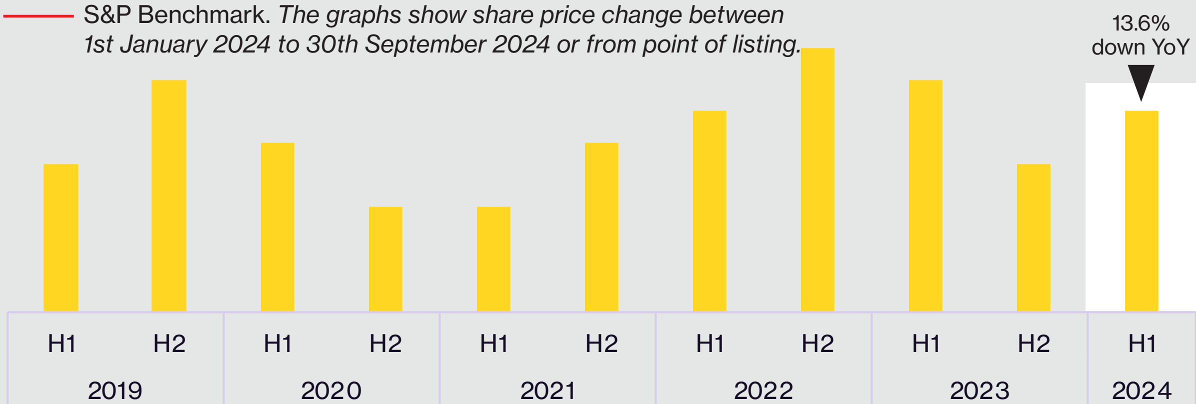


Fig 7: M&A activity Marketing and Communications

Source: SI Partners Proprietry Research

MANAGEMENT CONSULTING

SECTORS OF INTEREST

Tech Consulting
AI / IoT
Robotic Process Automation
Access to CMO
Data
ESG

Consultancies over-expanded in 2022 and spent 2023 regrouping; now acquiring again

Deloitte has been the most active in 2024 with eight acquisitions targeting firms in areas such as data analytics, cloud services, cyber security and digital consulting.

EY has made a few acquisitions this year: Nuvalence (digital engineering), Denkatt Group (ESG & Sustainability) and BGP (management consulting). The company's strategy consulting arm, EY-Parthenon, is the driving force in M&A.

There are a number of emerging consultancies looking to challenge the incumbents, such as Elixirr and Allman Associates.

SIA Partners acquired digital agency Ready Set Rocket. This consolidated SiaXperience's position in the US and fulfils the company's goal of having a full-service creative agency.

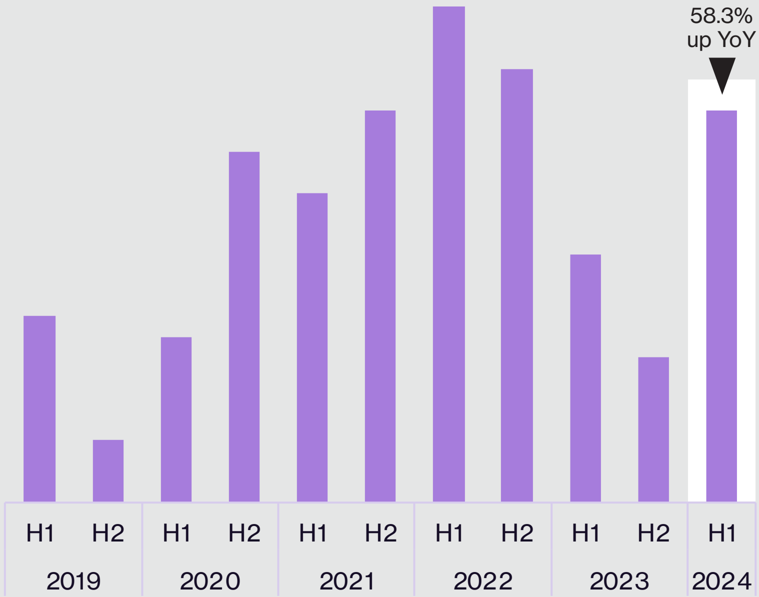


Fig 8: M&A activity Management Consulting

Source: SI Partners Proprietry Research

Conclusion

The M&A market is certainly in recovery after 2023, but the time it takes to complete a deal - 6 to 12 months - means we are only seeing this impact in H2 and likely through 2025. Buyer interest remains robust, sellers are driving the market where they see strong performance in 2024

We expect to see all segments back in buy mode next year, but PE funds will remain the most common bidders for sellers. Many PE 'platforms' will not have completed all the M&A they set out to achieve, so will want to make up for lost time in 2025.

As we step into 2025 we expect there to be rumours, and maybe even deals, among the larger buyer groups. The marketing services groups need to either replicate the success of Publicis with Sapient, or they will become targets themselves, as the sum of the parts starts to look greater than the valuation of the whole. WPP's sale of FGS is a case in point.

AI will remain on everyone's lips. The in-demand talents at the moment are the developers that can create the code that sits behind the algorithms and models. But there are many that see the agency & consulting model moving from using AI tools to creating an AI operating model. In 2025 it will remain in its infancy as only the most progressive will adopt, but they will become the winners and prime targets for future M&A.

But, as always, innovative, contemporary companies will always be in demand and there remains a plethora of options for those looking to realise value.

Appendix

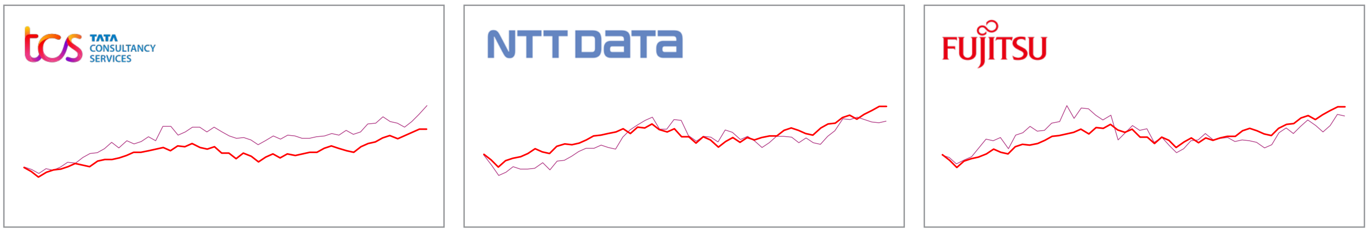


Fig 9: Selected Technology Consulting Asia vs. S&P Index

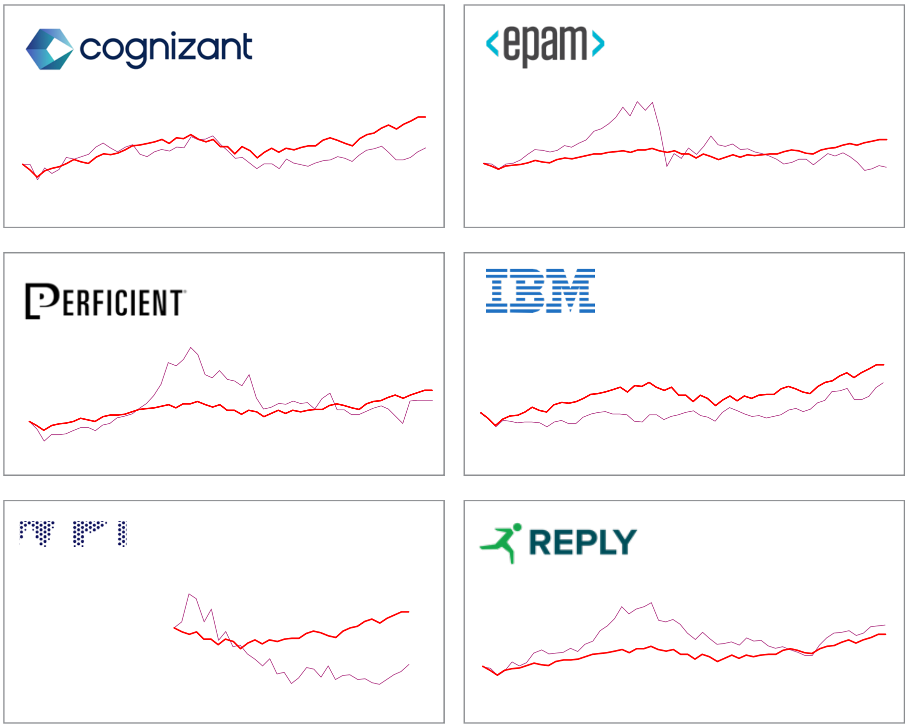


Fig 10: Selected Technology Consulting EMEA & US vs. S&P Index

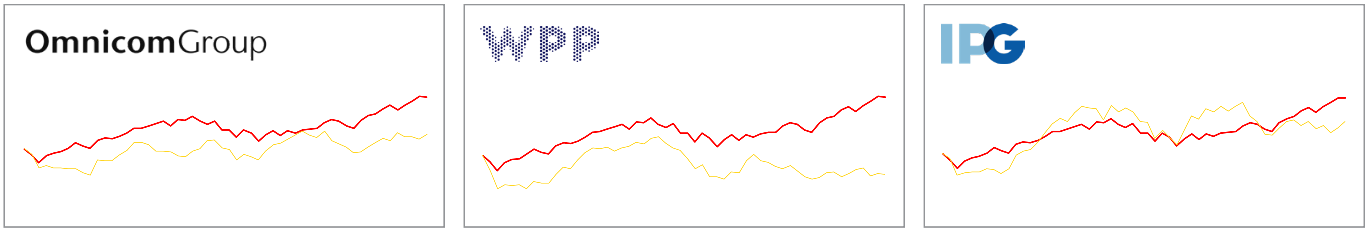
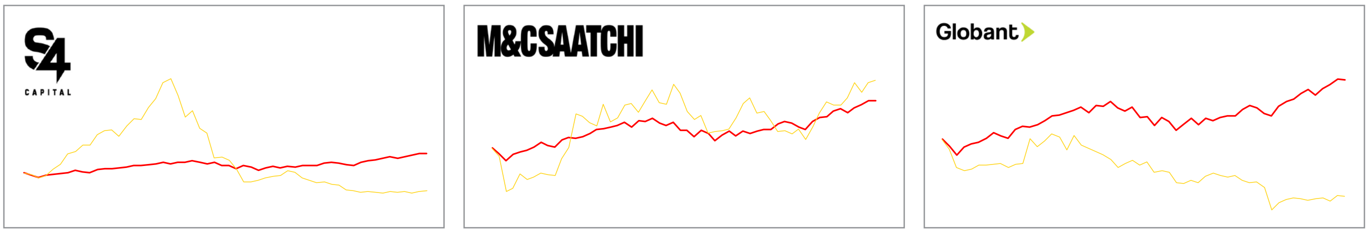


Fig 11: Selected Marcoms Traditional EMEA & US vs. S&P Index



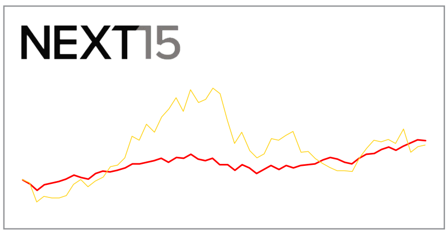


Fig 12: Selected Marcoms Contemporary EMEA & US vs. S&P Index

S&P Benchmark. *The graphs show share price change between 1st January 2024 to 30th September 2024 or from point of listing.*

Appendix cont.

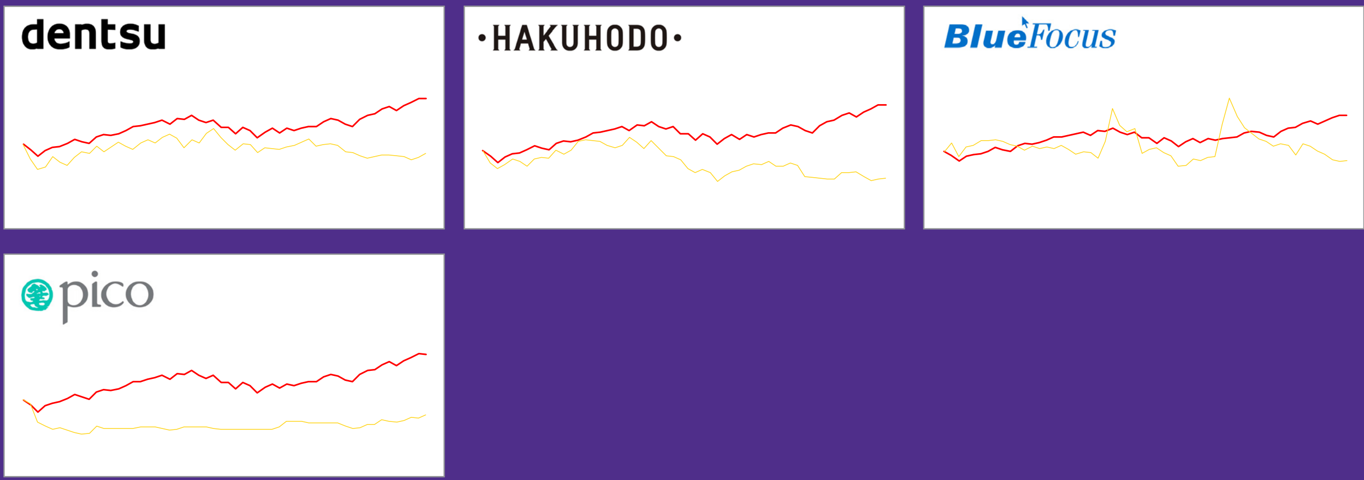


Fig 13: Selected Marcoms Asia vs. S&P Index

Disclaimer: The information furnished in this report is for informational purposes only. The information does not and should not be considered to constitute an offer to buy or sell securities. The information should not be relied upon by any person to make an investment decision.

SI Partners

Orion House, 3rd Floor, 5 Upper St. Martin's Lane, London WC2H 9EA
+44 (0)20 7494 3080 | infoLDN@sipartnersglobal.com | sipartnersglobal.com
Hong Kong | London | New York | Shanghai | Singapore