

Summary Report

Marketing Agency Industry





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Overview of the Market

The Marketing Agency industry is currently estimated to be worth approximately £22.9bn with revenue being projected to grow at a compound annual rate of 4.1% over the five years through 2018-19. Strengthening economic conditions allowed downstream businesses to expand their marketing budgets steadily during the first two years, enhancing demand. Major events such as the 2015 Rugby World Cup also boosted demand. Household finances improved during the years through 2015-16 and supported expansion as the purchasing power of consumers strengthens. Online advertising revenue also grew strongly as the number of consumers with access to the internet increased. Revenue growth slowed from 2016-17 as uncertainty surrounding the UK's exit from the EU forced businesses to become cautious when increasing marketing budgets. Rising inflationary pressures also caused real household disposable income to fall in real terms, constraining growth. Revenue expansion is expected to be restricted during the current year as business confidence is anticipated to remain weak, forcing businesses to tightly control spending.

Revenue is expected to increase at a compound annual rate of 4.1% over the five years through 2023-24 to reach £28 billion. Research and development expenditure is also projected to rise and propel demand, as firms generally raise awareness of new products and services through advertisements. In addition, household finances are expected to improve, aiding industry expansion. Major events like the 2020 Olympic and Paralympic Games are projected to further enhance demand. Demand for online advertising services is also expected to continue at a steady pace. However, the extent to which the industry benefits is likely to be curbed by strong competition from public relations (PR) firms and other companies that are not included in the industry.

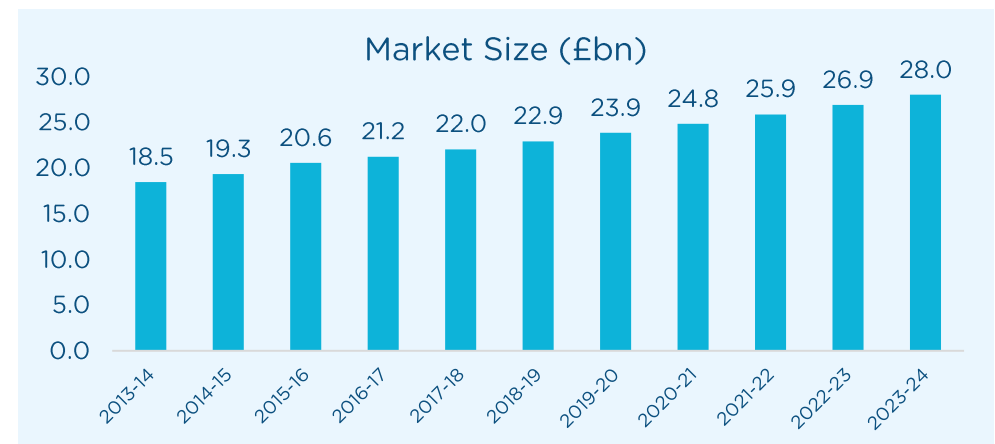
Source
IBISWorld (September 2018)
Plimsoll (October 2018)

Marketing Agency Companies

A profitability analysis on the sector from a pool of 2,416 leading UK-based Marketing Agencies revealed the following points:

- The most profitable 1,110 companies benefitted from an average profit margin of 7.7%
- The least profitable 1,306 companies made an average profit margin of (0.5%); the industry average is 3.2%
- 879 Marketing Agency companies increased in value over the year with 552 companies increasing by more than 25%
- 865 companies decreased in value, 488 fell by more than 25%
- 345 companies have made a loss for two consecutive years

Based on analysis, companies were rated on their 'takeover attractiveness'. A total of 1,274 companies were given a 'Strong' rating whereas 458 companies were given the lowest rating, 'Danger'. 363 companies in the industry were highlighted to be highly attractive takeover prospects. The South East was the most attractive region for takeover prospects.





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M&A Activity in the Sector

Market IQ data indicates a total of 589 significant deals in the industry from January 2011 to September 2018, with UK targets. Deals are only reported over a certain value threshold (c.£500k), therefore, it is likely that not all deals have been captured.

Upon breaking down the deal type, M&A, activity within the sector is mainly categorised by acquisitions, with 506 since January 2011. There were also 52 MBOs and 22 mergers. A geographical breakdown of the deal shows that London dominates M&A activity, with 258 deals. This is likely down to the concentration of marketing agencies in the region. The remaining deals are spread through the U.K.; slowly declining in number to Northern Ireland, with only 5 deals.

Deal flow has been significant in each year, with a steady increase through 2016 before a significant dip in 2017, this is likely characteristic of the uncertainty effect of the UK's exit from the EU. Without the clarity that a deal will bring, UK businesses are highly likely to be risk adverse and therefore adopt protectionist strategies. With 62 deals through September 2018, forecasting the same rate to the end of the year gives 82 deals. A strong recovery versus 2017. If the 2018 trend continues, the data will likely illustrate improving confidence on the part of acquisitive businesses.

Industry Benchmarking Information - September 2018

Hallidays' client base consists of small to lower mid-market enterprises. Our benchmarking analysis reflects businesses with turnover below £10m, in line with the majority of our clients in this sector.

Marketing Agency Benchmarking Data	Mean	Median	Lower Quartile	Upper Quartile
Turnover Growth/Decline (%)	7.36	4.42	-11.20	18.44
EBIT Margin (%)	7.42	6.60	-0.38	15.46
EBIT Growth/Decline (%)	18.77	15.60	-36.09	88.27
EBITDA Margin (%)	8.90	8.25	1.02	16.86
EBITDA Growth/Decline (%)	19.52	14.62	-35.92	88.82
Total Net Assets Growth/Decline (%)	11.67	8.95	-12.94	36.57
Current Ratio	2.75	1.50	1.03	2.34
Acid Test	2.72	1.46	1.00	2.34

Marketing Agency Benchmarking

Using full company accounts filed in the last two years under the SIC-Code "73 Advertising and market research". Excluding companies with nil turnover in either period, we have summarised key benchmarking information for businesses under £10m turnover in the table above. September 2018.

M&A Activity Source

Experian Market IQ (September 2018)

Search Criteria: SIC-Code "73 Advertising and market research"



Funding

Do you know all of the funding solutions available to help you grow your business?

There is a wide range of funding solutions available to you, many of which you may not have heard of, or even considered which we can help you with. It might be worth asking yourself...

Are you keen to find funding to support your innovative plans?
Do you have funding, but you're not sure if it's the right type?

As a registered credit broker, we can answer all of these questions and make accessing funding simple and straightforward. So, if you need a better facility for working capital, or if you're looking for a larger chunk of cash for investing in machinery, marketing or a new product line, then let us know.

Our collaborations with high street banks, Funding Circle, Funding Options and numerous other funders can help you find the funding you need.

Cashflow or Asset Finance

As a Funding Circle Introducer and with our network of funders, we can provide cashflow loans, where this is the right type of finance for your business.

Growth Funds, Venture Capital & Private Equity

If you have a high growth or innovative business, we can help you to secure the right equity and debt investment to reach the next stage in your business' evolution.

Stockport Business Angels

We are the Stockport Business Angels (affiliate of NWBA) and link businesses with the right collaboration and funding from business angels investors.

Invoice Finance (discounting/factoring) / Construction / Trade Finance

Invoice finance is becoming a more attractive option to a bank overdraft, this can ease cash flow, whilst providing a flexible facility.

Funding Success Stories

Hallidays has had a number of successes when it comes to obtaining growth funding for our clients:

- **ABN Amro Bank** £100k invoice finance facility (IFF) – To improve working capital for a seasonal company.
- **Aldermore Bank** £150k IIF – For a creative design studio requiring cash to expand.
- **RBS Invoice Finance** £100k IFF – For an engineering company to purchase bespoke machinery enabling them to fulfil a contract.
- **Lombard** £130k asset finance – For fittings and electronic equipment in a hospitality business.
- **FW Capital** – Growth funding of between £100k-£750k for multiple clients.



HALLIDAYS
CORPORATE FINANCE

If you wish to enquire further about funding, please contact:
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