



European Digital Services Market

The Investment Opportunity



Introduction

While the digital services industry faced challenges in 2023, there's optimism for growth in 2024, with a focus on building integrated capabilities, leveraging AI, and driving scale via M&A.

CIL and JEGI CLARITY have conducted a comprehensive survey of leading independent businesses in the European digital services market to understand their outlook for 2024 and what opportunities they see for the year ahead.

The survey focused on three areas:

- **Market conditions:** how demand for services has changed in 2023 and likely areas for growth in 2024.
- **Industry trends:** how margin dynamics have impacted group structures and which trends are having the greatest impact.
- **M&A outlook:** which areas are going to be the focus for investment and what is the outlook for M&A.

Methodology:

During February and March 2024, we interviewed 28 executive leaders at independent digital services companies with headquarters across Europe and global operations. The survey focused on market conditions, industry trends and the M&A outlook. Additional data and insights were provided from JEGI CLARITY's Transaction Database.

Key Findings

Cautious Optimism



2023 was a difficult year for many digital services businesses.

However, there is cautious optimism for 2024 given improving economic conditions with strong single digit market growth expected.

Integration



59% of respondents expect a shift towards a unified brand with divisional sub-brands as key to integration.

For multi-agency groups, integration will be a key focus for 2024, with the aim to drive top-line growth (as well as realise back-office synergies).

Marketing Services vs Technology Services



There was **55%** net positive sentiment in marketing services for **2024** vs. **45%** in technology services.

Sentiment is most positive in marketing services where budgets are expected to bounce-back faster and be deployed more rapidly.

M&A to Drive Growth



89% of respondents are considering near-term M&A to support geographic and operational expansion.

Businesses anticipate that M&A will be a key driver for growth in 2024.

Valuations Remain Robust



While M&A activity was down in **2023** (**20%** lower than in **2022**), valuations remained robust.

Strong valuations are expected to continue into 2024 even as volumes pick up.

AI



60% of respondents are already implementing AI in internal or external work flows.

While nearly all interviewees recognise the long-term opportunities and threats, most believe that short-term disruption will be muted.

Our Respondents

ARC

bontouch

CANDID

croud

DEPT.

DTAG

happy
horizon
CREATIVE DIGITAL AGENCY

idhl.

IMPACT
MEDIA

INCUBETA

IO

teamitg[™]
INSPIRED THINKING GROUP

Journey
Further

JUNGvMATT

LABELIUM

maiGROUP

MediaSense[®]

msq

MYTY[®]

NEXT15

NOVA
consulting
group

PULSE
ADVERTISING

SIDESHOW
GROUP.

Team5pm

the7stars

THE KEEN
FOLKS
WE CHALLENGE DIGITAL UNCERTAINTY

TWO
CIRCLES

UNLIMITED
Part of Accenture Song

“It’s a cyclical market of breakout specialisms, followed by consolidation. We’ve had the digital specialists, but the next wave of fragmentation I expect to be around AI and machine learning. The companies that are developing these capabilities will be the next wave of independents, which will then in turn be subsumed into the major groups.”

Market Conditions

Macroeconomic uncertainty and increased competitive pressure resulted in a challenging 2023.

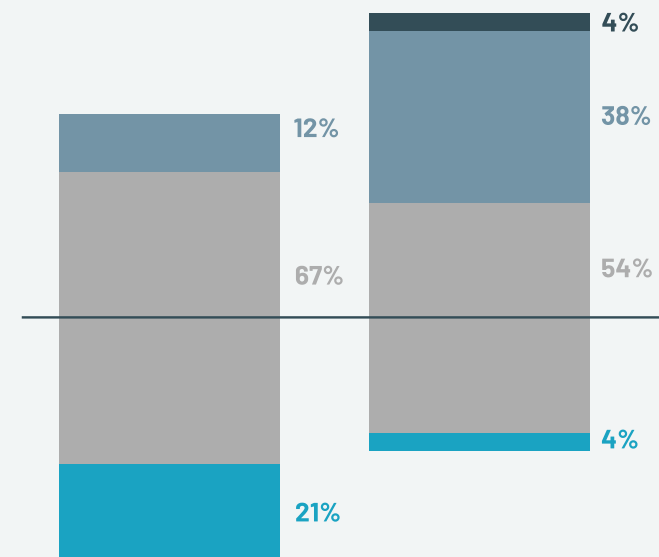
Difficult macroeconomic conditions and pressure on budgets (in particular from US technology companies) meant that 2023 was a challenging year for most agencies. Struggling larger agencies (e.g. the major hold-cos), were more frequently forced to compete for smaller new business contracts increasing competition for challenger agencies.

“The main pressures last year were the economy and media spend being correlated with clients’ business performance and their marketing budgets.”

How would you rate market conditions on a scale of 1 to 10 last year and this year?

Last year (n=24)

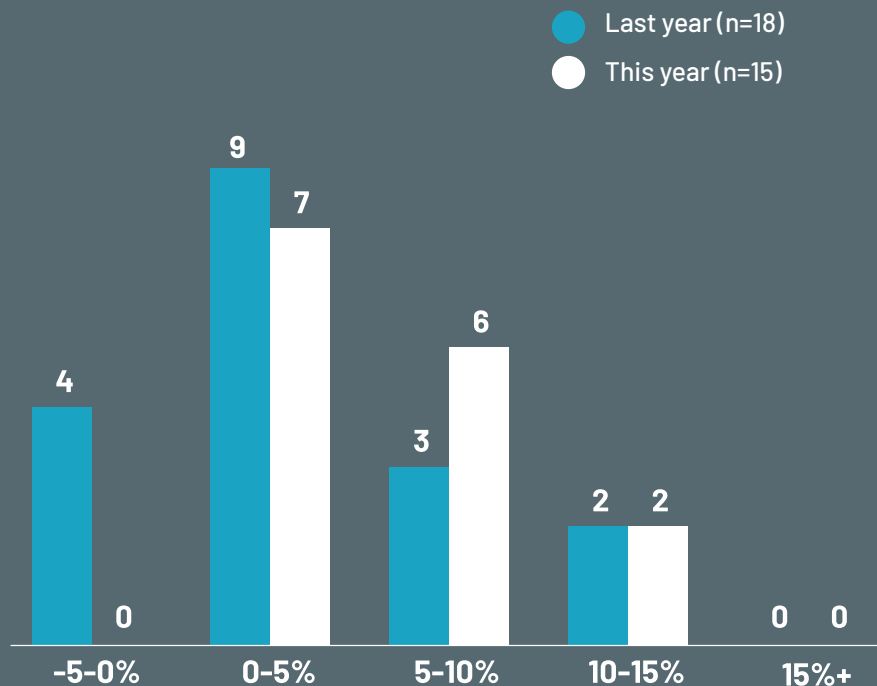
This year (n=24)



- Very good (9-10)
- Good (7-8)
- Neutral (5-6)
- Poor (3-4)
- Very poor (1-2)

Market Conditions

Expectation for market growth
rates last year and this year



Cautious optimism for 2024, muted by concerns of geo political uncertainty.

Despite the challenging climate, most respondents thought that the market continued to grow in strong single digits.

With improving macro economics, 2024 is expected to be a more positive year and may deliver double digit market growth. However, optimism is tempered by the geopolitical uncertainty in a major year for elections worldwide.

“There are many elections around the world in the upcoming year which creates some political instability, but the expectation is that the economic environment will become more stable helping drive growth. Marketing spend will be positive.”

“Growth was in the single digits last year, so this year that will come back into the double digits. I am cautiously optimistic.”

Market Conditions

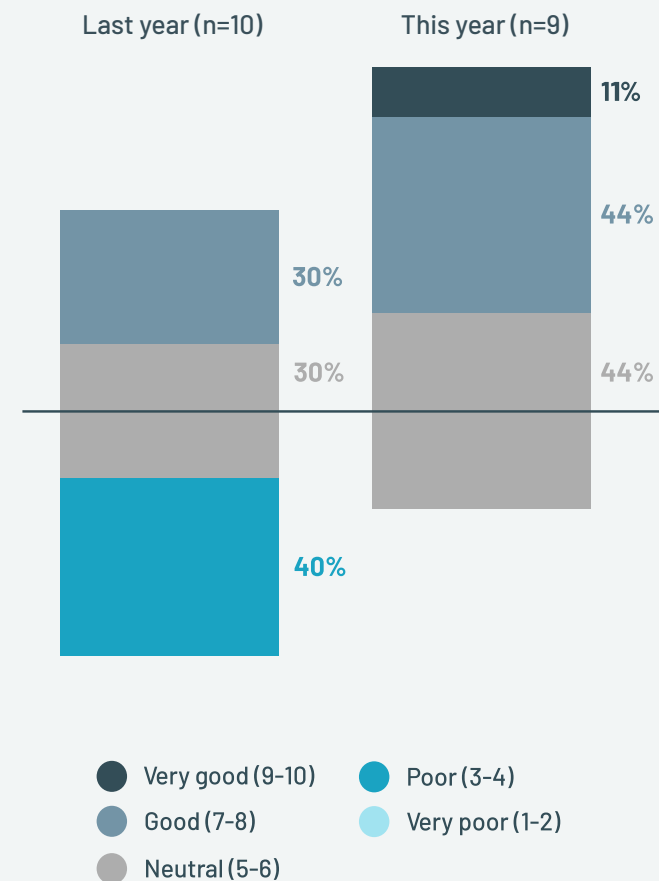
Sentiment is more positive on the marketing services side of the market, where it is easier to redeploy spend as budgets recover.

Sentiment is most positive among service-focused providers for 2024. Spend on marketing services (e.g. performance marketing and creative), recovered at a faster rate given the relative ease at which these budgets can be deployed.

This contrasts with views of technology-focused players (e.g. DX and e-commerce), where sentiment remains suppressed, with poor revenue visibility as budgets are delayed or paused particularly on larger transformational technology projects. However, visibility is starting to improve.

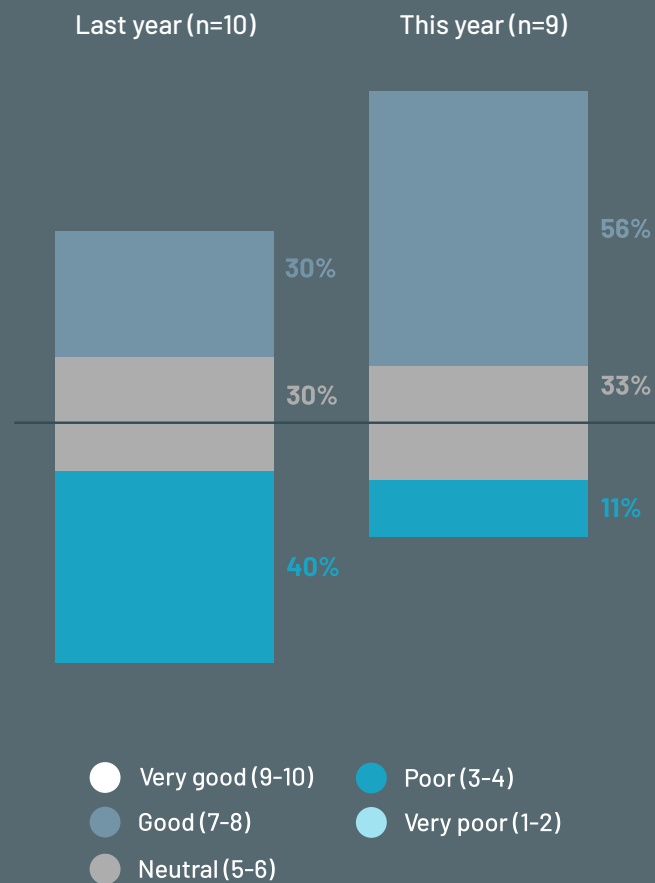
“A lot of digital advertising spend is seen as a customer acquisition cost – it’s an important sales channel and will return quickly as a result.”

Services: how would you rate market conditions on a scale of 1 to 10?



Market Conditions

Technology: how would you rate market conditions on a scale of 1 to 10?



“In 2023 clients were not committing to long-term projects or high Capex engagements (e.g. CMS, website build). Clients were tough on budgets and wanting to drive efficiency of spend, wanting more for less.”

Industry Trends

AI & Data

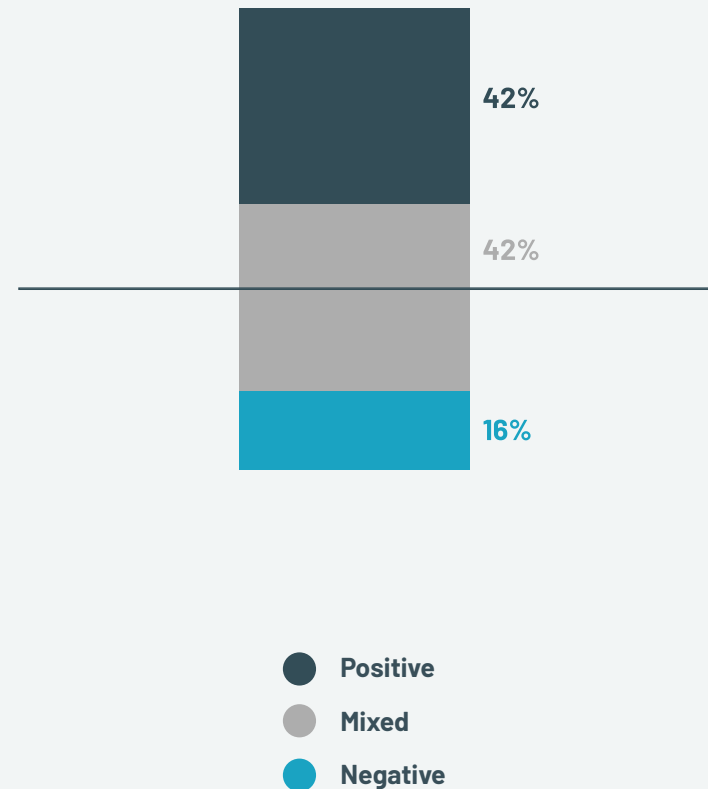
AI remains front of mind as the key disruptive trend.

Feedback on the likely impact is mixed with most focussed on the potential for efficiencies but unsure if these will benefit agencies or just increase financial pressure from clients.

“There will be a battle between value and cost, I don’t think agencies will be able to charge the same if it takes half the time to complete the project.”

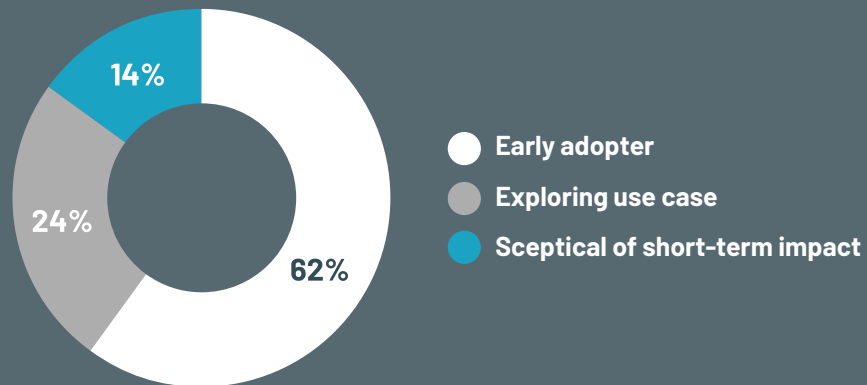
“Initially the value will sit with the agency and we reap the benefits but that will be eroded in the long-run.”

Expected impact of AI n=19

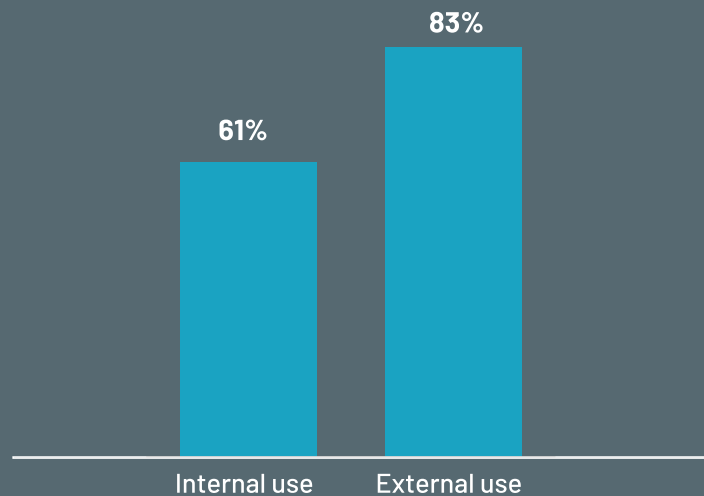


AI & Data

Attitudes towards AI n=21



Internal vs. external use cases n=18



The potential for AI disruption is recognised by respondents with 61% actively implementing AI into their workflows.

Key use cases:

- Automated creative
- A/B testing and targeting
- Data collection / analysis
- Internal project management tools

Data maturity in end-client businesses remains a key inhibitor of AI adoption. Whilst most companies have identified a solution to combat the deprecation of third-party cookies, adoption of data cleanrooms and customer data platforms is not yet sufficient to allow for truly effective targeting. Agencies are well positioned to help clients with this issue, and many see data as a key area for investment as a result.

“In the past 6 months we have introduced a data infrastructure incubator. Businesses can go through our incubator, which is about a 6-month process, and thereafter their data will be structured such that AI can be applied to it.”

Approach to Integration

In a challenging market, agency groups are increasingly focused on the benefits that can be driven by integration.

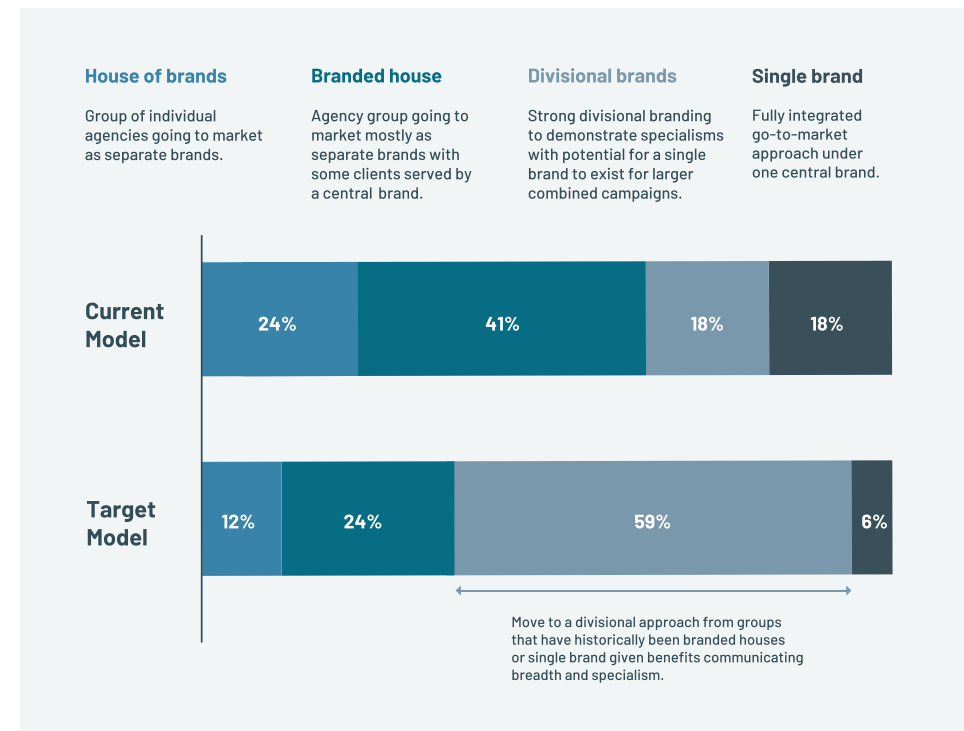
The benefits of back-office integration are well understood and have typically been implemented by agency groups. However, generating top-line growth through integration has proven more difficult. There are two main themes that came through from interviews with integrated groups.

- **Communication of breadth vs. specialism:** how to broaden the service offering whilst maintaining specialism, and in particular the ability to demonstrate to our clients that the specialism exists within the group?
- **How to drive cross-sell:** how do we promote the performance of acquired agencies whilst ensuring the group as a whole and our clients benefit from the cross-sell opportunities?

“We simply have two ways to market – via a specialist capability or the group offering, where we bring together those capabilities and collaborate across the entire value chain.”

Communication of breadth vs. specialism

The market appears to have reached the consensus that a strong central brand with divisional specialisms is the answer. Internally, this approach empowers divisions to innovate and develop bespoke solutions while allowing the central brand the opportunity to pool best-of-breed resources to tailor bespoke solutions for clients. Externally, it showcases capabilities and allows brands to communicate specialism within the group while maintaining a strong central brand identity.



Approach to Integration

How to drive cross-sell

The market has taken different approaches to driving cross-sell, but successful approaches include:

Centralised data & analytics functions

Access to data from all areas underpins the benefits, client-side, of using an integrated provider. A well thought-through data strategy can help highlight areas in need of work and using data from one campaign area to inform the strategy in another can be a differentiator, helping secure integrated contracts and to drive cross-sell.

“All of our work is data driven and this allows us to drive cross-sell. When going to market this is something we can evidence to clients. Having data across channels and then being able to integrate the strategy gives us a leg up.”

“We use technology to get insights from client data. This drives more efficient activation, and helps cross-sell additional services.”

Shared sales & new business resource

A centralised business development unit can help ensure the right capabilities are brought together in response to new work. However, given the requirement for central costs, this is something that is typically used in larger organisations.

“Currently, there isn’t too much integration between independent agencies. However, in the future there will be more integration and a central sales team to help unitise the company.”

“We do not currently have a central business development function. As we grow, I think we will implement this.”

Common operating systems

Ensuring agencies are running on the same operating systems is key to facilitate cross-sell and often the first step in integration. It helps drive transparency and accountability across agencies as well as facilitating reporting at the holding company level.

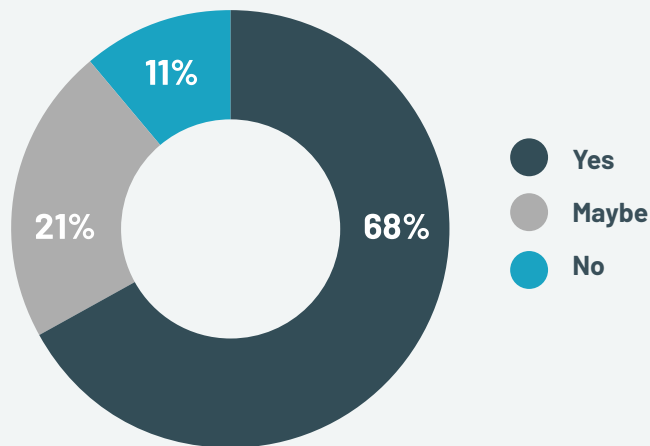
“We operate on a single ERM system to create transparency and allow each entrepreneur access to tools they may need to run their business. The founders can see the availability of the team and are empowered to see it and use it.”

“Our model requires central functions such as a common HR, CRM, policies and Salesforce to bring all the specialist areas together.”

M&A Outlook

Most respondents expect M&A to play a key part in their future growth strategy albeit noting that the M&A market remains very competitive for quality businesses.

Inclusion of M&A in near-term strategies n=19



“It is becoming tougher and tougher to identify good targets. The poor agencies get mid-single digits multiples; however, these won’t add value to the group. However, the strong targets have healthy EBITDA multiples, so this is a challenge.”

“The interesting challenge in M&A is that there are not that many scaled assets on the market in the areas I am shopping.”

“It is really difficult to find a good company and acquire it. There is more competition for assets nowadays.”

M&A Outlook

M&A is used most frequently to add new geographies (notably the US) or capabilities to the group with organic growth preferred to develop core competencies.

Expansion into the US through M&A remains a key target for most European groups given its scale.

Many respondents are focused on the growth opportunity in North America, typically looking to leverage existing client relationships. For those based outside of the UK originally, entering the UK market via M&A can be seen as an important stepping stone to access the US.

"In five years' time we would like to be the same size if not bigger in the US. The US market is 10 times the size of the UK market so we would like that to be reflected in our business."

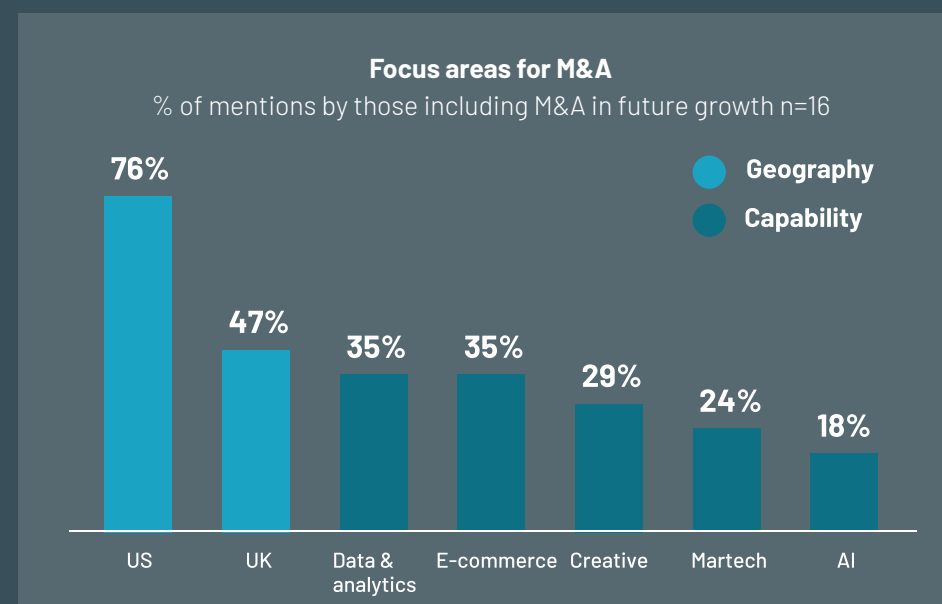
Respondents highlighted creative, e-commerce, data and analytics as key capabilities experiencing strong growth in demand. These are positioned as top priorities on the agenda to help support expansion.

The feedback from respondents mirrors broader market trends, indicating a heightened demand for capabilities in dynamic creative, premium content production, performance marketing, especially in Connected TV (CTV), retail media and influencer domains, data analytics, commerce consulting and technology implementation. This demand extends to key growth platforms like Salesforce, Commerce tools, Shopify, SAP, and others.

"In terms of M&A, we are looking to add technology capabilities and services such as data analytics, digital consulting boutiques and e-commerce."

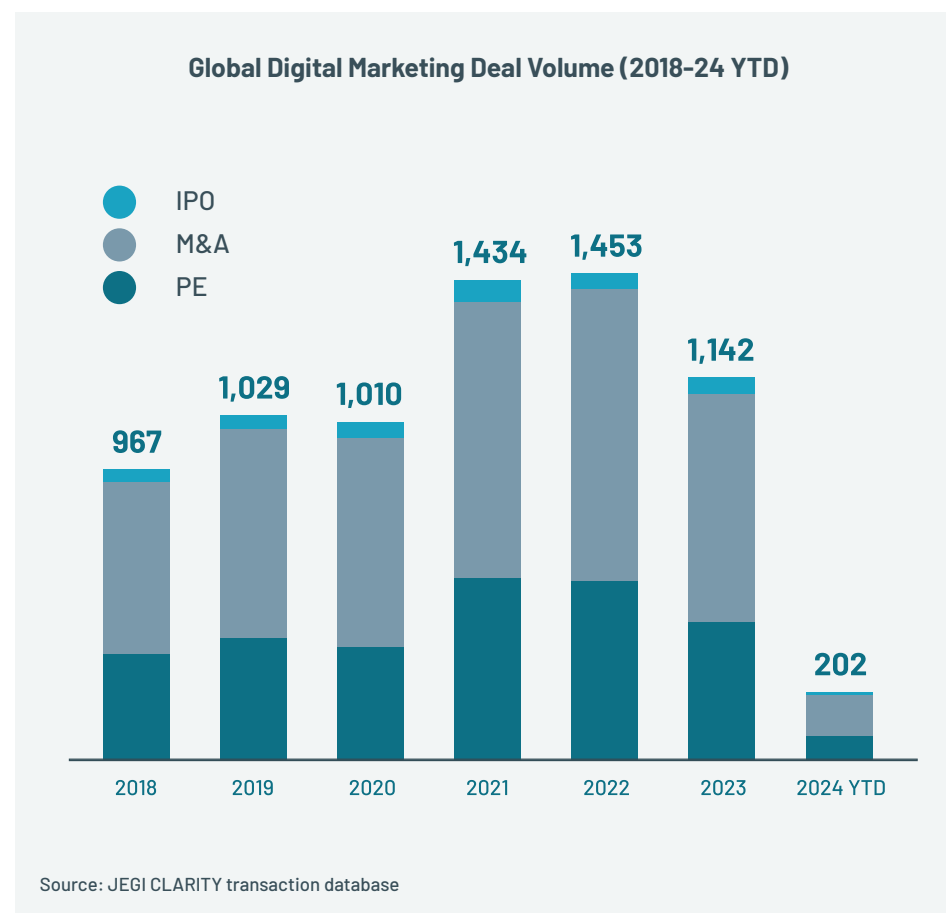
While seen as the major disruptive trend very few respondents suggested AI as a potential for inorganic growth with many preferring to develop those capabilities in-house.

"I'm not sure acquiring an AI business is the right strategy, but there are certainly partnership opportunities. Our current thinking is that we might partner with an AI business so AI capabilities can be built internally."



M&A Activity

The graph below shows the volume of deals across the digital services market sub sectors, looking at both trade and private equity interest.



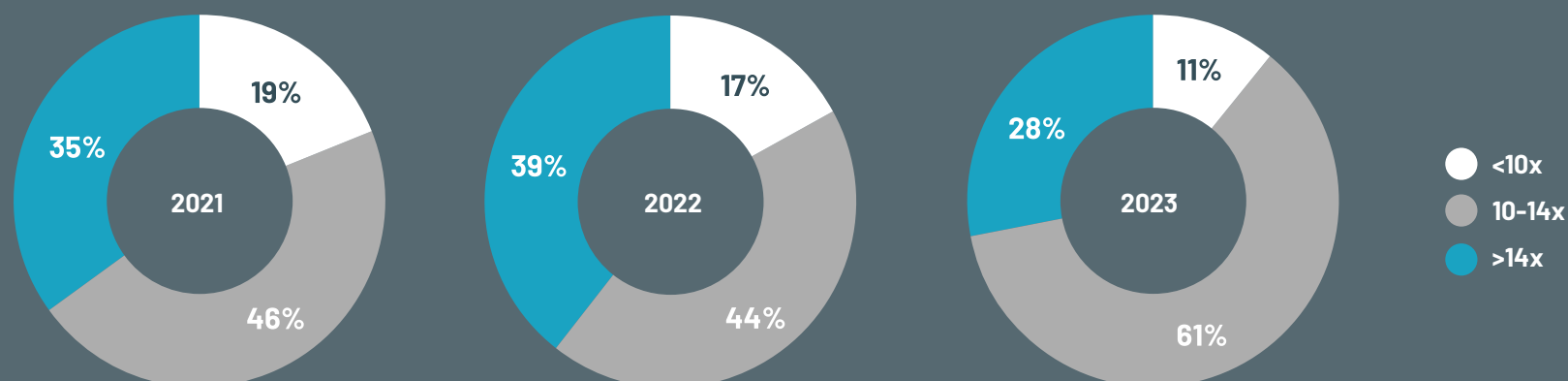
The Digital Services market has not been immune to the slowdown in the broader M&A market, with 2023 global deal volumes down by over 20% on 2022. That said, the sector has remained comparatively robust and we have seen a number of high-profile transactions complete over the period including:

- Bridgepoint's investment in Samy Alliance, a global integrated, social-first technology and data-enabled digital agency, to support the huge market opportunity in social media and Influencer Marketing
- Omnicom's \$835m acquisition of Flywheel from Ascential to significantly enhance its position in the rapidly growing digital commerce and retail media sectors
- Globant's acquisition of GUT, a leading creative agency, to strengthen and boost their technology and creative solutions for clients
- The acquisition of UK performance agency Realtime Agency by Pixis, an AI-powered full-stack marketing platform recently backed by Softbank, as it looks to disrupt the "traditional" agency model.

M&A Activity

The outlook for 2024 is more positive as a combination of more stable macro economic conditions, improving business performance and capital availability is expected to drive M&A activity. It is anticipated that over the next 12 – 18 months a number of scaled platforms are also likely to take advantage of the improving M&A environment to come to market.

Proportion of M&A transactions by EV/EBITDA multiple range by year



EV/EBITDA multiples have remained reasonably stable over the last 12 – 18 months across the digital marketing services ecosystem, partly reflecting the fact that those deals completing are typically for higher quality businesses.

Although the average multiples have remained stable, however, the proportion of transactions completing at firmly above market averages (+14x EV/ EBITDA) fell from 39% in 2022 to only 28% in 2023, with buyers being more comfortable in the mid-range of 10 – 14x EV/EBITDA.

Source: JEGI CLARITY transaction database

Conclusion

Despite the hurdles of 2023, the Digital Services sector harbours cautious optimism for 2024, fuelled by improving economic conditions.

Digital marketing services stands out as a route to accelerate growth. There is an expectation of a swift rebound in spend based on capabilities, which can be rapidly deployed vs. more complex technology services led implementation projects with longer lead times and larger budgets.

While AI looms large as a disruptive force, businesses foresee its short-term impact as subdued. Many anticipate it can drive efficiencies and speed in delivery. Equally they anticipate that clients will recognise this and may put pressure on fees in response.

For multi-agency groups, including many of the scaled platforms, whilst 2023 was a year of streamlining back-office operations and back-end synergies, 2024 is about evidencing that having multiple capabilities and agencies in the group can drive growth.

M&A remains a key part of the strategy for 2024, with almost two thirds of respondents focusing on near term acquisition of capabilities or geographies to drive growth.

Despite a marked fall in M&A activity last year, the market remained reasonably robust in comparison to other sectors. From a valuation perspective, in particular, transaction multiples held up albeit unsurprisingly, buyers were less willing to pay truly premium valuations vs. 2021.



“

“We are seeing clients commit again to larger programmes. Projects that were shelved last year due to their complexity and length are coming back. There is movement, but not at the level we were used to in 2022.”



JEGI CLARITY is a pre-eminent M&A advisory firm for the global media, marketing, information and technology industries.

As the definitive independent M&A advisor in our sectors, we are recognized for our deep domain expertise, market insights, global reach, and extensive transaction experience.

With over 35 years and more than 800 transactions completed, we advise Founders, Investors and Global Corporations with a range of services including Buyside and Sellside M&A advisory, recapitalizations and divestitures, as well as debt advisory solutions.



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Founded in 1986, CIL provides strategy consulting, value creation and due diligence support to management teams and investors.

As a dedicated growth strategy firm, we bring deep sector knowledge in our specialist areas and combine that with close collaboration with our clients to deliver business-specific insights.

We have extensive experience supporting businesses in identifying and prioritising growth opportunities, allowing us to create efficient and effective workflows, reduce disruption, and produce high-quality research that delivers value well beyond the process. Our clients rely on us to ask the right questions, challenge preconceived ideas and provide actionable, evidence-based insight.



Mergers & Acquisitions

- Due diligence
- Market entry strategy
- Buy & build strategy
- 100-day planning



Value Creation

- Pricing & margin strategy
- Growth prioritisation
- Sales capability optimisation
- Business planning



Advanced Analytics

- Analytics use case audit
- Business intelligence builder
- Location analytics & site roll-out
- Customer experience tracking



Tabby Elwes

Partner

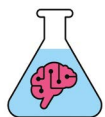
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Digital agency group

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Digital agency group



Advertising focused VFX/
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campaigns

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