

Grant Thornton Corporate Finance

mergers and acquisitions



Marketing services M&A update

- M&A activity
- Strategic buyers
- Private equity
- Interactive
- Conclusions

Grant Thornton Corporate Finance mergers and acquisitions Marketing Services

Ian Cookson

Director, Investment Banking

P: 617.848.4982

E: Ian.Cookson@gt.com

226 Causeway Street
Boston, MA 02114

www.GrantThornton.com

Marketing services: 'Interactive' is only half the merger and acquisition (M&A) story.

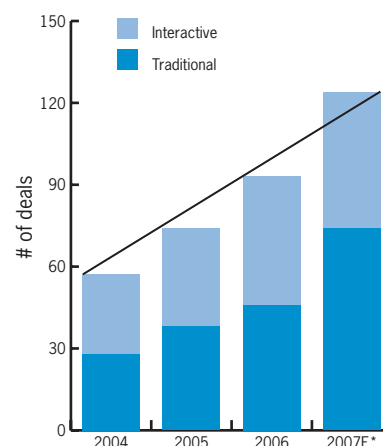
With M&A activity targeted at interactive capabilities, what alternatives are there for traditional marketing services firms? In short, options may have never looked so good.

Headlines mislead

With big agency acquisition activity focused on a desperate rush to fill interactive capabilities, it seems the exit and capital-raising options for traditional marketing services providers are few. However, nothing could be further from the truth. Through the first six months of 2007, nearly 60 percent of marketing services acquisitions have been of traditional firms. Sector M&A activity as a whole has surged, with 60 percent more deals in 2006 than in 2004. Activity in the first half of 2007 is up almost 40 percent over the prior year.

Liquidity opportunities may be better now for traditional providers than they were even during the consolidation rush of the late '90s. No longer is it just the large agencies seeking to bulk up, consolidate and access new markets. Financial buyers and private equity groups are becoming major players, accounting for a third of transaction volume.

M&A activity by target type



*2007E doubles number of deals in first half of 2007

Source: Capital IQ, GTCF analysis

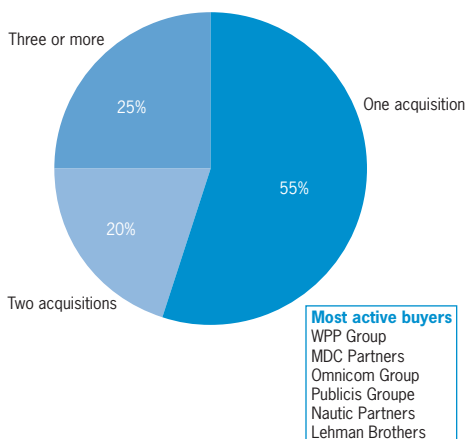


New buyers

Acquiring companies are not restricted to the familiar names. Indeed, the majority of transactions (55 percent) have been made by buyers that have completed only one marketing firm acquisition in the last 3 ½ years. Only twelve acquirers (led by WPP, MDC and Omnicom) were involved in three or more marketing-related deals, together accounting for only 20 percent of deal volume. Buyers purchasing two firms made up a quarter of the transactions. The message to sellers is clear: Broad marketing of a business will be well rewarded.

Number of acquisitions per buyer

January 2004 - June 2007



Source: Capital IQ, GTCF analysis

This is particularly true given that roughly half the transactions were made by strategic players seeking to acquire new capabilities (e.g. functional skills or industry expertise) or by non-marketing firms entering the sector through acquisition. Surprisingly, only a quarter of deals were made to expand market share¹.

¹ Capital IQ, company press releases, GTCF analysis

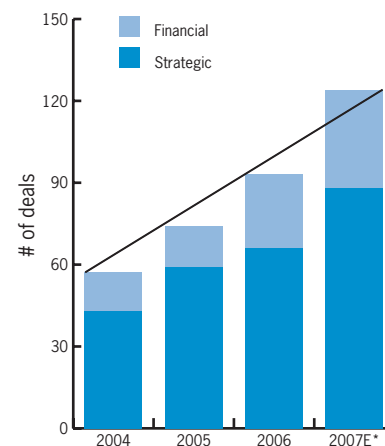
² Citigroup Global Markets

Is private equity a better solution?

Private equity made up around a third of the acquirers in marketing services transactions. These private equity buyers have been attracted to the sector by the opportunity to invest in a growing but fragmented industry and to help management teams deliver their growth aspirations. As private equity has boomed and ever larger amounts of capital have been raised (the amount spent on U.S. buyouts doubled in 2006 to \$260 billion²), investors have become increasingly comfortable with people-dependent businesses they traditionally shied away from.

The private equity model can be attractive for sellers and for entrepreneurs seeking to expand their businesses. Under the traditional strategic buyer model, exit multiples of, say, 10x EBITDA were thrown around, but the mystery was in the structure of the deals, with frequently half the consideration being distributed over several years in the form of earn-out. Nowadays, the upfront cash component may be the same, but the “down-the-road upside” can be far greater, through partial retained ownership and a subsequent second transaction. Availability of capital has also permitted alternative structures whereby shareholders can obtain substantial liquidity, taking very significant amounts of cash out of the business while selling a minority position and/or giving up minimal equity.

M&A activity by buyer type



*2007E doubles number of deals in first half of 2007

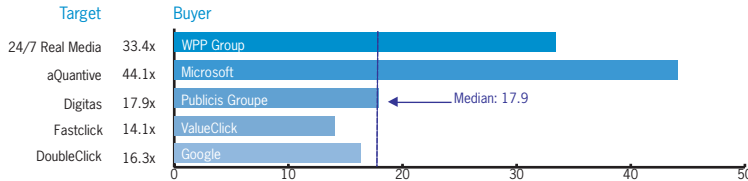
Source: Capital IQ, GTCF analysis

Attractions of private equity transactions:

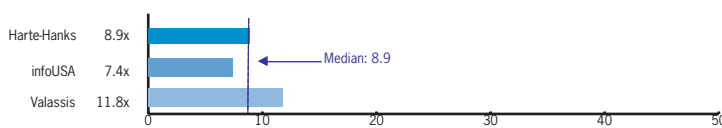
- Potentially higher payouts as greater upside is provided by the retained stake than with a traditional earn-out
- Retaining management control and the entrepreneurial culture that made the business successful
- Liquidity. Upfront cash may be comparable with a traditional agency sale
- Financing is made available for future growth and acquisitions
- Reduced risk. “Taking cash off the table” frees management to be more aggressive and generous in sharing future equity

Enterprise value to EBITDA multiples

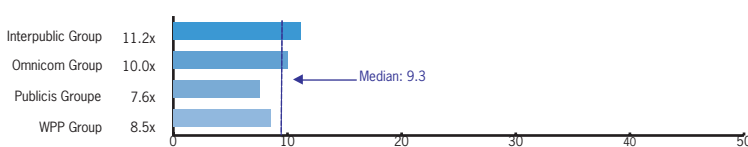
Acquired digital marketing firms*



Publicly traded direct marketing firms**



Publicly traded advertising conglomerates**



*Multiples at date of transactions
 **Multiples as of August '07

Source: Capital IQ, GTCF analysis

Interactive effects

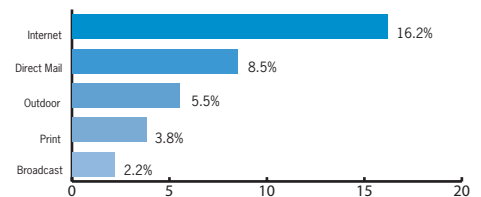
Interactive marketing firms have been targeted by players from both inside and outside the traditional marketing arena. Agency conglomerates (e.g. WPP and Publicis) are seeking to avoid client defections, while technology players (e.g. Google and Microsoft) are trying to control online revenue.

The strong growth prospects of interactive marketing are reflected in the

transaction prices paid. Public interactive companies were acquired at a median multiple of 18x EBITDA, twice the 9x EBITDA that direct marketing firms and advertising conglomerates trade at in the public markets. This differential is not surprising given that the 16 percent-a-year expected average growth of Internet marketing is five times the three percent growth expected in print and broadcast media (2006 to 2009)³.

However, the impact of interactive marketing is deeper than transactions and statistics. Online functionality is changing behavior and focusing agency clients' attention on return on investment and results measurement. This, in turn, is driving dollars toward a breadth of data-driven, multi-channel, direct marketing campaigns ranging from in-store samples to direct mail. Buoyed by strong demand for interactive marketing among mid-sized businesses, smaller agencies are also building out their digital capabilities through acquisition and hiring.

Ad spending growth by medium
 2006 - 2009



Uses compound annual growth rate (CAGR)
 Source: ZenithOptimedia, Veronis Suhler Stevenson

³ Zenith Optimedia, Veronis Suhler Stevenson

Conclusions

M&A alternatives for marketing services businesses abound — but not where business owners traditionally expect to find them:

- M&A activity is strong. Interactive deals are stealing the headlines, but traditional firms account for the majority of transactions.
- New buyers have emerged. Over half of all transactions involve a buyer that has not completed an acquisition within the previous 3 ½ years.
- Private equity has become a sound transaction alternative to traditional advertising conglomerates — frequently with more attractive terms.



About Grant Thornton Corporate Finance LLC

Grant Thornton Corporate Finance LLC provides investment banking and ownership consulting services to middle-market companies in the United States and around the world. For additional information or to discuss: ownership transition issues; acquisitions, divestitures and capital raising strategies; please feel free to contact Ian Cookson on 617.848.4982 or by email at Ian.Cookson@gt.com.

About Grant Thornton LLP

Grant Thornton LLP is the U.S. member firm of Grant Thornton International, one of the six global accounting, tax and business advisory organizations. Through member firms in more than 110 countries, including 50 offices in the United States, the partners and employees of Grant Thornton member firms provide personalized attention and the highest quality service to public and private clients around the globe. Visit Grant Thornton LLP at www.GrantThornton.com.

Grant Thornton LLP offers investment banking services through its wholly owned broker-dealer subsidiary Grant Thornton Corporate Finance LLC.

The factual statements contained herein are taken from sources believed to be reliable, but such statements are made without any representation as to accuracy or completeness or otherwise. Grant Thornton Corporate Finance LLC does not engage in the business of recommending or effecting transactions in securities. The above information is presented solely in connection with describing Grant Thornton Corporate Finance LLC's mergers and acquisitions services, and should not be considered as constituting a research report or as providing information reasonably sufficient upon which to base an investment decision.