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Private Equity's Evolving Playbook in Performance Marketing

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A decade ago, private equity firms had yet to take much interest in traditional advertising and marketing agencies. At that time, PE firms saw the space as idea-based businesses controlled by large publicly-traded holding companies such as Omnicom and Publicis.

Today, PE firms are aggressively seeking attractive middle market performance marketing agencies (firms delivering measurable actions taken by audience members) as platform investments, often with the goal of acquiring additional services, scale and specialties. There are a significant number of such partnerships currently in effect and at least seven transactions in this specific vertical have closed so far in 2023.¹

The space has evolved over the past several years with the rise of quantifiable and measurable actions taken on digital, social, Connected TV ("CTV"), and mobile advertising platforms. As successful performance marketing agencies pursue campaigns based on key performance indicators that enable clients to more accurately quantify their specific return on investment, competition often comes down to efficiency at producing the strongest KPIs and ROI within a given spend.



PE Deal Dynamics

It is now table stakes for viable targets to demonstrate robust direct sales and/or direct conversions by tracking users' devices and actions after viewing specific content. Display ads, emails, social reels, streaming platforms, and CTV campaigns that include clicking on downloadable brochures, direct purchase links, mobile coupons, and QR codes are all used to measure these performance metrics.

PE acquirers are seeking platform investments that differentiate themselves within these channels through tech-enabled capabilities that facilitate better analytics, media planning, iterative testing, execution and measurement. Serving a diverse set of enterprise clients with recognizable brands, crafting compelling go-to-market campaigns, executing digital transformations, and obtaining credentials such as being a "Google Preferred Partner" or a "Meta Business Partner," also can help targets enhance their competitive positioning and appeal.

Investors can then bolt on services and complementary capabilities through further acquisitions, in order to make the platform a true one-stop-shop and capture a larger piece of the client's overall ad budget. This investment thesis may have paid dividends in recent years, as large performance marketing agencies that have acquired a broad set of capabilities across the full advertising funnel could potentially control bigger ad spends, and subsequently could potentially earn higher exit valuations.

From the seller's perspective, many founders seek out PE investors when their agency has organically grown as much as it can without a further external catalyst. This often occurs upon reaching approximately \$5 million to \$10 million in EBITDA. Sellers often benefit from not only a PE firm's capital, but also their acquisition and integration expertise and resources, to achieve the scale necessary to land enterprise brands as clients.

One nuanced aspect of traditional agency M&A still remains, which could significantly determine the success of a potential combination, and that is culture. Given that performance marketing agencies still utilize a significant amount of creative and consultative talent, it is often imperative to have cultural alignment between two merging platforms.

It is critical for the overall staff to possess similar mindsets and ambitions, but it is especially important for the key performers and executives to align on account ownership, incentives, and establishing titles and swim lanes. While performance marketing may have enabled more quantitative analyses and justifications for PE investment, there potentially remains a significant qualitative art to a successful deal.

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Some successful founder-owned performance marketing agencies also have been known to select PE buyers over strategic holding companies that have garnered reputations for bureaucracy and getting lost within a massive machine – even when those strategics may offer higher purchase prices than the PE firms.

Noteworthy Transactions

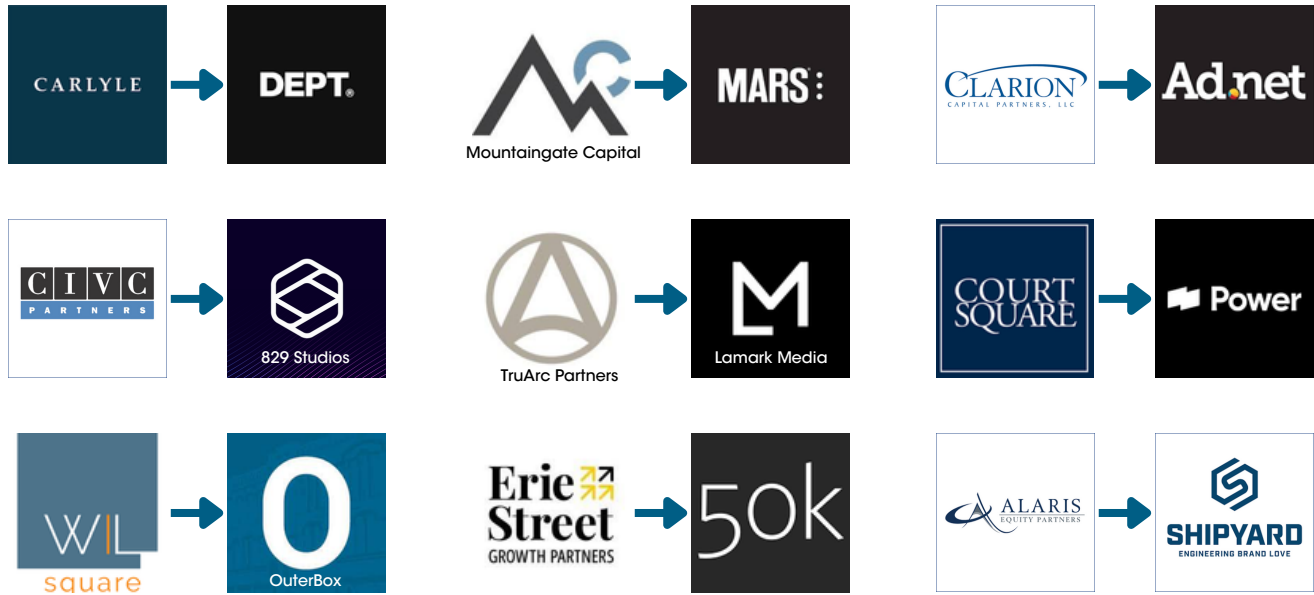
In December 2020, Tinuiti, one of the largest independent performance marketing firms, was sold from Mountaingate Capital to New Mountain Capital. Tinuiti previously had conducted organic investments in talent and technology, as well as completed the acquisitions of OrionCKB, Email Aptitude, and CPC Strategy.² In August 2021, Tinuiti acquired Bliss Media and its subsidiary, Prospect Point Media. Tinuiti simultaneously launched its Streaming+ division, a performance marketing offering across over-the-top (OTT), linear, streaming TV, and digital audio.³

In December 2021, Stephens Investment Banking served as the exclusive financial advisor to New Engen on its sale to Insignia Capital Group.⁴ The goal of the partnership has been to accelerate the agency's organic growth trajectory through strategic investments to enable its vision of becoming a global leader in the space, while continuing to enhance its service portfolio. In January 2022, NewEngen acquired the influencer agency Acorn, and in June 2023, New Engen acquired the affiliate marketing agency LT Partners.^{5,6}

In September 2023, private equity firm Trinity Hunt Partners (THP) launched its digital marketing services agency, Agital. The move came after THP completed four investments in the past two years: Exclusive Concepts, Highnoon, REQ, and EK Creative.⁷ Agital comprises a full suite of marketing services encompassing holistic and channel-specific offerings designed to advance client performance. These range from paid and organic search, social media, email, and programmatic to PR, creative, web development, and UX design, with an integrated approach that aims to achieve client goals.

Three other recent deals feature platforms that could pursue add-ons as part of their overall strategy. In October 2022, digital marketing agency Wpromote was sold to the private equity firm ZMC.⁸ In September 2023, Falfurrias Capital Partners invested in the global agency Brainlabs.⁹ And in October 2023, the integrated marketing services firm Barkley became a portfolio company of Keystone Capital.¹⁰

Sampling of Additional Private Equity-Owned Digital Agencies



The Potential for AI

Performance marketing agencies have begun to explore how to leverage artificial intelligence to improve the measurement and attribution of their campaigns. So far, advances have been limited by both the nature of the data sets and the quality of the outputs.

Whereas performance marketing agencies require either first-party data, or private data used to measure a specific campaign for a specific brand across specific channels, most available AI data sets still pull broadly from public information.

And although many agencies are starting to inform generative and predictive AI programs with their own data or data from specific campaigns, even with first-party data it still has not replaced the human element of judgement and creativity. This has led to something of a "culture of experimentation."¹¹

However, future breakthroughs on the AI front may one day serve as an effective complementary tool for performance marketing agencies, and further factor into M&A considerations for PE firms in the space.

Growth on the Horizon

In response to the level of recent activity, which we expect could escalate for agencies with over \$100 million in enterprise value, Stephens recently held its annual Performance Marketing Summit for private equity owners to discuss trends and explore opportunities in the space. Optimism and excitement were the key takeaways from the leading players, and we look forward to reconvening next year to reflect on what should be a significant amount of progress in 2024.

As PE firms continue to explore potential acquisition and investment targets in the space, Stephens Investment Banking is committed to providing objective and actionable expertise on technological developments, changing market conditions, the competitive landscape, deal dynamics, and more.



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Source List

[1] Pitchbook Data, Inc. * Data has not been reviewed by PitchBook analysts or any other external reviewer

[2] [Tinuiti Announces Investment from New Mountain Capital to Accelerate Next Phase of Growth](#)

[3] [Tinuiti Completes Acquisition of Bliss Point Media and Officially Launches Streaming+](#)

[4] [Stephens Investment Banking Transaction Page: New Engen, Inc.](#)

[5] [New Engen and Acorn Influence Join Forces to Create Expanded Digital Marketing Offering](#)

[6] [New Engen Acquires LT Partners](#)

[7] [Trinity Hunt Partners Unveils Agital](#)

[8] [Wpromote Partners With ZMC](#)

[9] [Falfurrias Capital Partners Announces Growth Investment in Brainlabs](#)

[10] [Keystone Capital website](#)

[11] [Brand Knowledge Will Level Up Your AI-Driven Search Engine Marketing](#)

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