



# SPOTLIGHT ON **DACH**

Unlocking the M&A potential of the creative  
industries in Germany, Austria and Switzerland

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## ABOUT THE AUTHOR



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Alistair has more than 20 years of experience providing rigorous research solutions and insights to senior management in the banking, academic, non-profit, private equity, legal and consultancy sectors.

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## **A passion for creative and technology businesses**

SI Partners is a global M&A advisor and consultancy with a passion for creative and technology businesses. Our purpose is to enable our clients to realise their businesses' potential through trusted, insightful and actionable advice.

We have advised some of the most innovative creative businesses across the globe on growth, talent and leadership development, commercial behaviour, building global businesses and growth partnerships. Our knowledge of the industry coupled with our global acquirer network and cross-border expertise enables us to develop growth strategies and originate innovative deals that deliver maximum, lasting value for shareholders.

If you'd like to find out more about SI Partners, or any of the topics discussed in this report, drop in for a cup of tea. To arrange a time, get in touch at: [shaun.meadows@sipartnersglobal.com](mailto:shaun.meadows@sipartnersglobal.com) or call the London office on +44 (0)20 7494 3080

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The DACH countries, comprising Germany, Austria and Switzerland are rich with creative-led businesses, which is why it is perhaps surprising that they have made up a relatively small proportion of overall M&A activity in recent years. Between 2010 and 2016, creative-led businesses in DACH (marcoms, the more creative IT consulting businesses and research and consulting businesses) made up just 6% of total M&A transactions in Europe. In 2017, with the DACH economies trending against the overall decline in European M&A activity, the proportion was 7.5%. The numbers suggest active acquirers are, at last, recognising the value of creative businesses in the region - a sentiment borne out by SI Partners' recent research and conversations with prospective investors.

Findings from our recent *Path To Growth* survey of 600 international marcoms groups highlighted Germany as a major priority for planned international expansion, with 9% of respondents identifying Germany as the preferred country for international expansion (tied third preference with Greater China and France). Another interesting finding was that the more creative marcoms groups were more likely to identify Germany as a region in which to expand, with around 12% of digital and creative agencies and 21% of experiential agencies all choosing Germany as a primary destination for expansion.

More than half the 400-plus active acquiring groups that SI Partners regularly communicates with have indicated an ongoing interest to partner with creative businesses in Germany, Austria or Switzerland where the right quality, scale, strategic and cultural fit exists. Some of these acquirers are locally based and already operate in those countries. However, increasing interest is also coming from companies based in other jurisdictions and often from sectors not always associated with creative strength. Demand is high and it is a good time for independents to evaluate their options with potential growth partners.



## The market opportunity and creative M&A activity

DACH is a big market, the second largest to Russia in the European land mass in terms of population. Germany, Austria and Switzerland have a combined population of c100 million and high levels of internet and mobile technology penetration, including over 46 million active social media users.

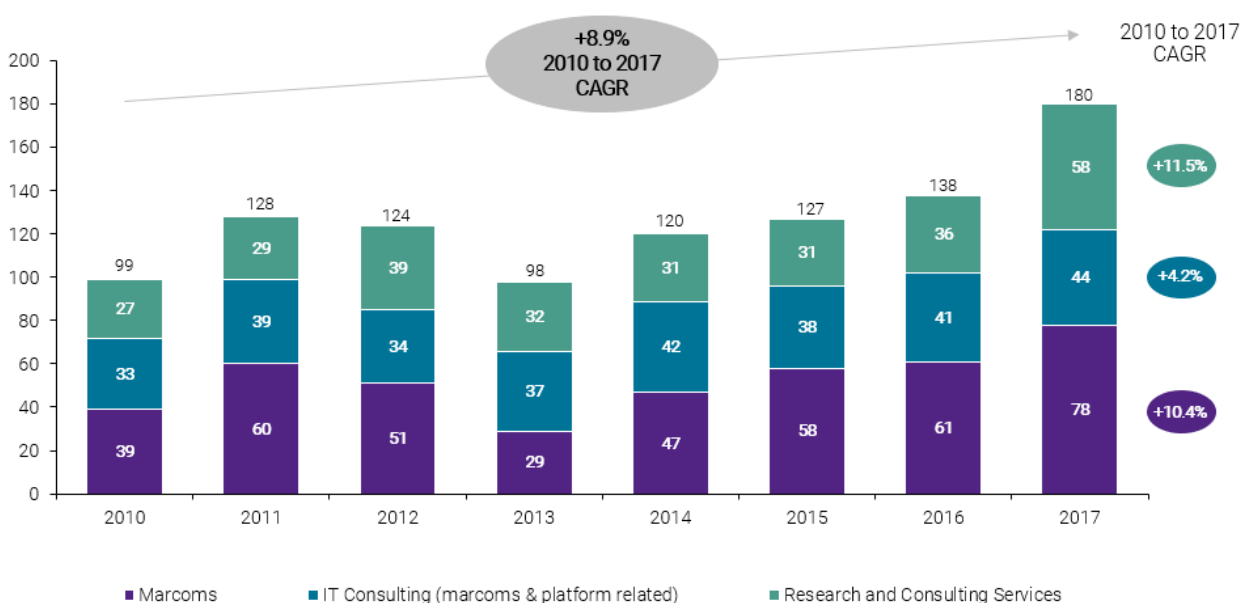
But the market is still relatively untapped. At \$20.4 billion in 2017, total ad spend in Germany is the second highest in Europe – although still well behind the \$28.1 billion recorded for the UK, and growth to 2020 is forecast at only 0.9% CAGR.

The move to digital offers enormous opportunity. At \$6.1 billion in 2017, digital ad spend in Germany is also the second highest in Europe. But at just 16.1% of total ad spend and forecast growth to 2020 of 3.6% CAGR, there is still a long way to go for DACH digital ad spend to approach the 35% level of total ad spend that digital represents across Western Europe as a whole.

In contrast to the decline in most European regions, the DACH countries combined experienced a 5% increase in overall M&A activity in 2017. M&A transactions involving marcoms and creative-led technology and consultancy businesses were up a significant 30% in 2017 and well ahead of the 9% average growth since 2010. The increase in activity in 2017 was driven by the 61% jump in transactions involving research and consultancy businesses, followed by the 28% increase in transactions involving marcoms-related businesses.

Germany accounted for 77% of transactions of DACH-based marcoms and creative-led technology and consultancy businesses in 2017, slightly ahead of the 75% average since 2010. Switzerland accounted for 17% of DACH activity in 2017, on par with the historic average.

Diagram 1: Number of M&A transactions of select creative-related sectors – 2010 to 2017



## A widening arena of potential investors

The leading marcoms holding companies all have a well-established presence and have been relatively rare investors, averaging about one DACH deal per firm, per year since 2010. Their long tenure in DACH regions means they have picked up relatively few investment opportunities since 2010, accounting for just 2% of a sample of over 1,000 acquired businesses. But the interest persists, as do occasional acquisitions of businesses with quality management teams or gap-filling businesses, providing a new strategic direction or service line.

DACH-based marcoms groups have been more acquisitive, accounting for around 18% of marcoms and creative-led technology and research consultancies. First among those is Cologne-based Ströer which has completed 29 DACH-based acquisitions across a broad range of creative-led businesses since 2010, as well as 13 other DACH-based companies.

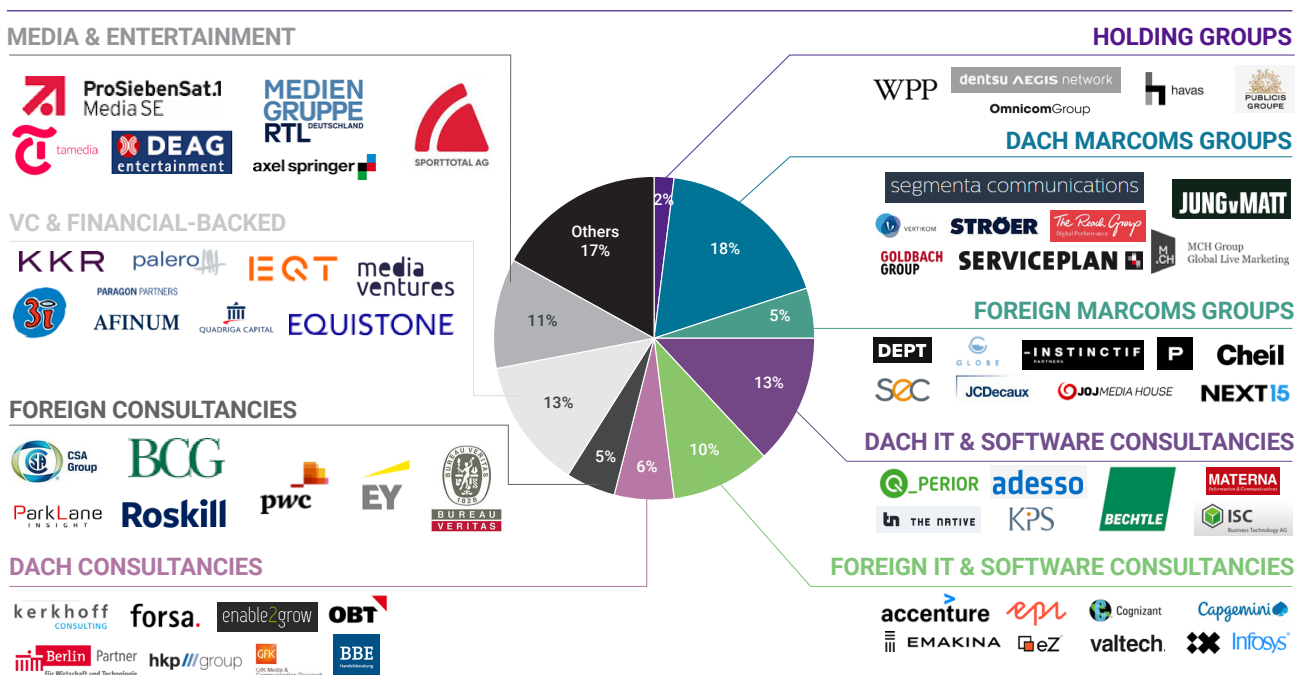
A significant 11% of assets were acquired by diversifying media and entertainment groups, mostly DACH-based in this case - the likes of ProSiebenSat.1, DEAG and Zurich-based Tamedia. Tamedia (and subsidiaries) has completed an

impressive 17 such acquisitions since 2010, including Swiss-based publicly listed marcoms company, Goldbach Group in late 2017.

DACH-based IT and other consultancies have been even more prolific, accounting for around 19% of acquired businesses since 2010. For example, Dortmund-based IT services management company Adesso AG has completed 10 deals in IT consultancy and various creative segments.

Non-DACH acquirers are increasingly interested in looking at creative-led DACH assets. Foreign investment into the DACH creative sectors is led by IT and strategy consultancies. This group includes familiar names like Cognizant, Capgemini, Infosys, Bain and BCG. Taking the lead, as with so many other markets, is Accenture (though sometimes investing through local subsidiary operations). The consultancy has acquired 6 DACH-based businesses since 2014 across marcoms, IT and media. In 2018 the group acquired Munich-based consultancy, designaffairs, as well as computer generated imagery business, Mackevision Medien Design. The consultancy also acquired a majority stake in publicly listed digital agency, SinnerSchrader, in 2017.

Diagram 2: DACH marcoms-related creative and technology businesses: spread of acquirer types – 2010 to August 2018



## Recognising the opportunity

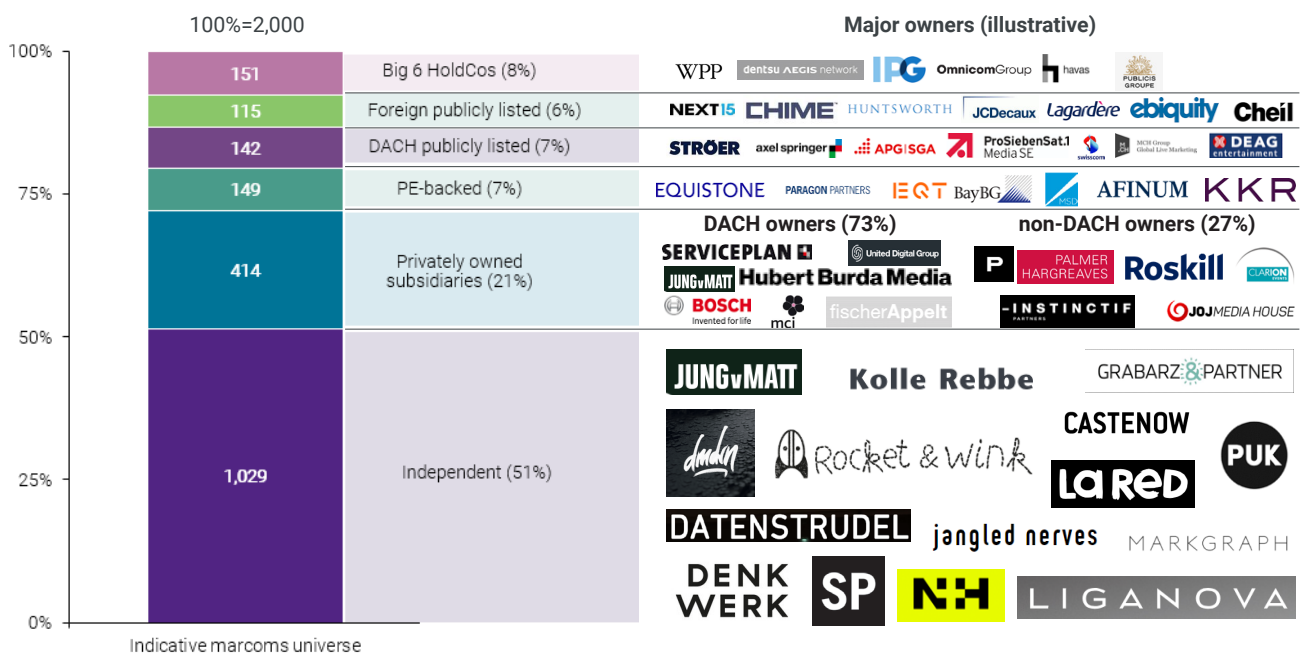
Given the preference for local capital and ownership historically associated with the enormous universe of Mittelstand industrial and mid-market creative-led companies, private equity and other financial investors have still been comparatively rare partners to DACH creative businesses when compared to other regions and sectors across Europe.

It is now more than 13 years since the German Vice Chancellor, Franz Müntefering labelled a select group of large private equity houses as locusts or “Heuschrecke” in a speech made in April 2005. Historically shy of working with creative founder-owners, the asset class has made considerable headway. As *Diagram 2* (previous page) shows, financial investors have become significant investors into DACH-based creative-led businesses, accounting for 13% of M&A activity since 2010.

A number of groups stand out as repeat investors; for example KKR, EQT and Equistone stand out as representatives for the big buyout firms. Domestic firms like Affinum and Paragon are also completing more investments into creative-led opportunities, combating familiar issues of finance, growth and succession, whilst also learning how to work with businesses led by more creative mindsets. If any group of investors can recognise a good investment opportunity and adapt to a freshly perceived opportunity, it is those within the private equity asset class.

In spite of increasing private equity activity, they are relatively late to the table. We estimate from a sample of 2,000 marcoms agencies that just 7% have significant private equity and venture backing (*Diagram 3*). The long-present 6 major holding groups own 8% of this sample by virtue of their early history of DACH-focused investment. 13% are held by domestic and international publicly listed groups and around 21% are held by other private companies (of which about three quarters are DACH-based).

Diagram 3: DACH marketing & communications agencies – spread of ownership type



Source: Capital IQ; Horizont.net; PR Journal Datenbanken; SI Partners analysis

Note: Owner universe can only be indicative. Analysis excludes large tail of many smaller companies, not picked up by Capital IQ  
Note: analysis based upon ultimate parent owner

## A widespread opportunity across DACH regions

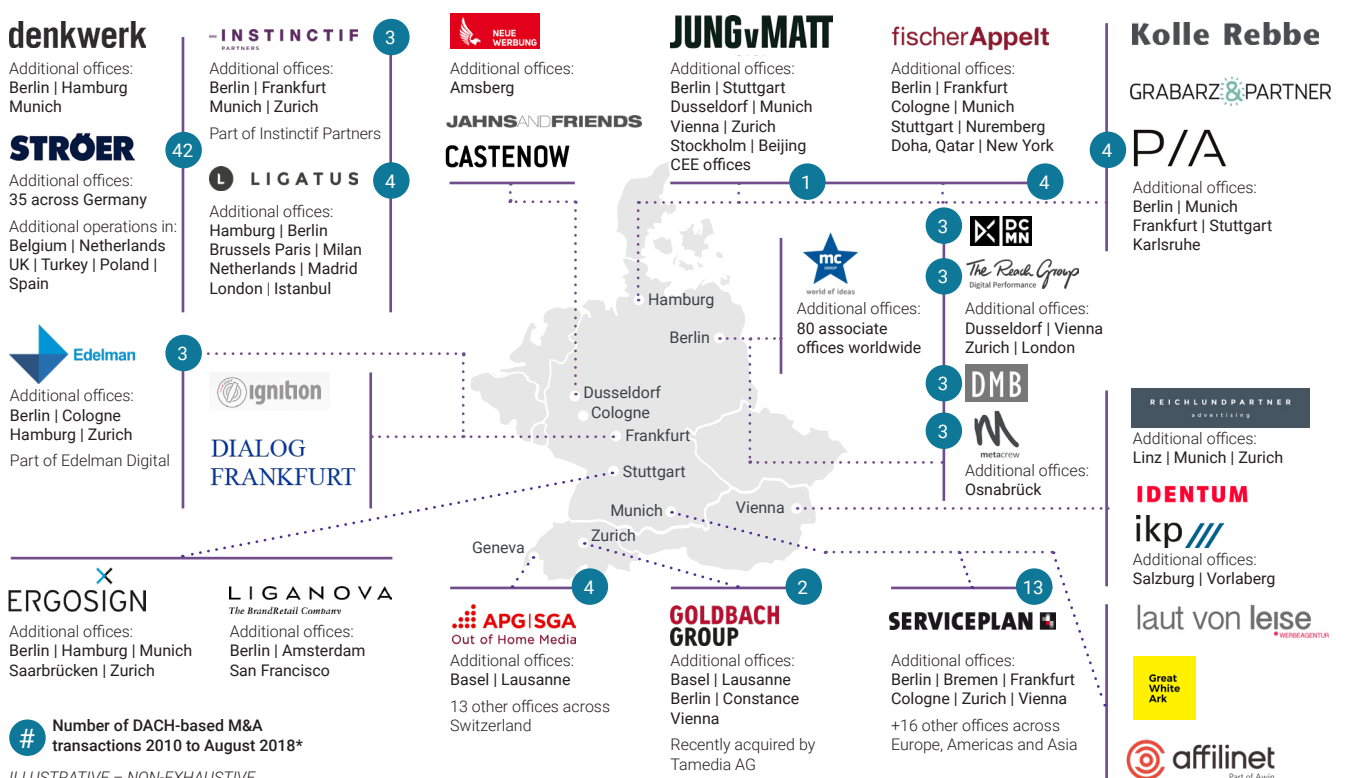
For potential investors, the opportunity is widespread across DACH regions. Unlike London, which boasts over 30% of all UK creative businesses, the creative landscape across Germany, Austria and Switzerland is far more dispersed.

Diagram 4 illustrates how well distributed some of the more DACH-focused agencies have become. Just over 54% of the sampled set of 2,000 sizeable marcoms businesses are headquartered in ten major DACH cities. The other 46% are spread widely across many towns and cities in all three countries, as are a host of smaller businesses not surveyed here. Some are well-distributed subsidiary operations; some are publicly-listed; and others are fully independent. The chart also illustrates how assertive with respect to growth through M&A a number of marcoms groups have been. Some adopt this strategy to expand geographic coverage in addition to enhancing revenue. Similar dynamics can be observed within the IT and research consultancies sectors with many growing, but still relatively small businesses distributed widely across the region and not restricted to the major cities.

## Conclusion - a wealth of opportunity for growth partners, creative entrepreneurs and owners

The creativity is already out there and expanding ever further as Germany in particular accelerates its digital transformation. Almost half of the 2,000 marcoms companies sampled in *Diagram 3* are fully independent of the major holding companies, other publicly listed parents, financial or other investors. This means there remains a huge and relatively untapped pool of DACH creative businesses with which investors can partner, nurture and guide to further growth. There is also a long tail of local and small marcoms operating companies (and creative businesses in other sectors) yet to achieve the scale for the right growth partner. For those potential investors prepared to look closely, there is an enormous pipeline of DACH-based creative opportunity to come over the next few years.

Diagram 4: Locations of select major DACH agencies



\*Note: numbers reflect all DACH-based M&A and not necessarily 'creative' by SI Partners definitions



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