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M&A Advisors
WHITE PAPER

Who are the Buyers for Agencies Valued Between $15 and $50 Million Dollars?

By David Tobin

In the MarComm and MarTech spaces, there can be challenges in identifying buyers for agencies valued between $15 and $50 million dollars.

For agencies valued less than $15MM, there are countless buyers, including agencies and MarTech companies that may explore growth via acquisitions, along with individuals who can secure funding with bank loans backed by the SBA.

On the other end of the spectrum, for agencies and MarTech companies valued over $50MM, there are companies with the willingness and resources to do deals of this size because they have the capital and debt capacity. These types of buyers include holding companies, consulting firms, private equity groups with committed capital, and global media companies. These buyers will pay good multiples for companies with EBITDA in the $7 to $10+ million-dollar range because they may be public companies trading at much higher multiples or because they are private companies building to a future liquidity event and will realize an arbitrage between the multiples they pay for acquisitions compared to their expected multiple when they have an exit event.

But what about that middle ground for MarComm agencies and MarTech companies valued between $15MM and $50MM – who are the buyers? In this middle market, the universe of marketing agencies with the size and balance sheets to pay these prices is limited. Likewise, companies with EBIDTA in the $2.5MM to $6MM range have historically been below the threshold for the larger private equity groups to invest to create a platform company. Unless your investment banker or M&A advisory group has the relationships and knows where to look, the buyers for companies with EBITDA in the $2.5MM to $6MM range that translates to Enterprise Values between $15MM and $50MM can be challenging to find.

At TobinLeff, our mission is to help owners maximize and monetize their life's work. That mission applies regardless of the size of the client. For that purpose, we have partners and analysts that assist with companies valued less than $15MM, and other partners and analysts that focus on getting deals done for clients valued between $15 and $75MM. For both business groups, we are continuously identifying and developing relationships with prospective buyers. We have had success in the middle market, and we are encouraged by the different types of buyers and the money that is flowing into the MarComm and MarTech spaces.

When we are engaged by middle market clients, we typically develop strategies to pursue both strategic and financial type buyers. For the strategic opportunities, we typically go wide and deep and pursue known buyers from the larger MarComm and MarTech companies, as well as consulting firms, global publishing and media companies, and digital transformation companies. Depending upon our client's value proposition, we may also pursue tech companies and e-commerce companies.

The financial type buyers or investors under the general industry term "financial sponsors" encompass many types of firms, including private equity groups, family offices, independent sponsors, venture capitalists, and capital providers.

Private equity groups come in all sizes and structures. Some have committed capital through funds raised, while others have investors lined up to assess individual opportunities. Typically, these PE groups have investment theses for the types of investments they will make and strive to return to their investors three to four times their money within three to seven years. To achieve the desired returns, they look for growing companies that may realize accelerated growth through add-on acquisitions. They usually are building for a liquidity event to sell to a larger PE group, large strategic buyer, or public company. Within our database and platforms, we have access to thousands of PE groups and are actively tracking a couple hundred that have invested in MarComm, MarTech, or related service companies.

When we can identify family offices that invest in operating companies and have investment theses that align with our clients' value propositions, we pursue those opportunities. Family offices may offer unique benefits compared to PE groups because they are not beholden to investors – they primarily invest their family's money or funds from a small group of families. If they like the investment, they may hold it for years and not feel the pressure to sell within a window of time. Also, the wealth created that necessitated the need to create a family office to manage the money may have been from the sale of a business, so they are supportive of entrepreneurs.

Over the past few years, there has been growth in the number of independent sponsors who are interested in investing in MarComm and service-related companies. On the surface, independent sponsors look like PE groups, but they do not have committed capital. Rather, they develop relationships with investors and lenders, and then they seek to find operating companies to buy. Once they get a seller to agree to a Letter of Intent, they then try to secure the capital from investors and/or debt from lenders. Independent sponsors will typically invest some of their own money in the deal and get a higher percentage of the proceeds upon the future sale of the company. While there is risk to signing a Letter of Intent with a group that does not have committed capital, many of the independent sponsors that we deal with have proven track records of getting transactions done, and they are seeking opportunities with companies that have EBITDA in the $2MM to $5MM range.

Many of our recent transactions have been to strategic buyers backed by PE groups or independent sponsors. These structures can be attractive for sellers in the middle market because the deal structures typically include a high percentage of cash at closing and rollover equity in the platform businesses.

Although we are in an uncertain economic environment with higher interest rates, inflation, and concerns about the possibility of recession, there is still a tremendous amount of capital – "dry powder" – for investments in quality companies of all sizes. If you have a story to tell – a growing company with a good value proposition, there are buyers and investors who want to be your partner or fund your exit plan today.

About TobinLeff, LLC

TobinLeff is an M&A advisory and exit planning consulting firm that helps business owners sell to strategic buyers and private equity groups. With over 13 years of service and more than 155 engagements successfully completed, the TobinLeff team of 10 M&A advisors and exit planning consultants is dedicated to the mission of helping owners maximize and monetize their life's work. Please visit our website at tobinleff.com for additional information and case studies.

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