

AdvertisingAge®

Sorrell Digs Deep to Snag TNS

The Question For Analysts Is Whether He's Paying Too Much to Be the Biggest

By Michael Bush
July 14, 2008

NEW YORK (AdAge.com) -- Martin Sorrell wants WPP to become the biggest marketing-services conglomerate in the world -- but at what price?

He spent big to buy Madison Avenue giant Young & Rubicam and digital outfit 24/7, only to see his company's share price decline after the deals. Now the WPP Group chief's persistent and aggressive bids for the research behemoth TNS have some wondering whether he is at risk of overpaying in his quest to further grow and diversify WPP.

As WPP's highly public courtship of TNS has repeatedly failed in the past few months, Mr. Sorrell has been forced to raise his offer from \$1.87 billion in early May to last week's hostile bid of \$2.13 billion. (Meanwhile, the German firm GfK is said to be putting together financing for an all-cash deal after merger talks with TNS fell through.)

After this latest bid was rejected by TNS, a WPP spokesman seemed to confirm some analysts' sentiment that it'd reached its limit on price, saying the company was going "to be very disciplined on this in terms of price." Having already upped its offer a quarter of a billion dollars in two months, however, it's not clear whether that means it definitely won't go above the current offer.

A number of analysts said a disciplined approach would be the smart path for WPP and Mr. Sorrell, who has a history of spending heavily on acquisitions such as Y&R (\$4.7 billion), Grey (\$1.8 billion) and 24/7 Real Media (\$649 million). Each of those deals was followed by declines in WPP's share value that were worse than the overall market performance, even though several of them could be said to have been strategically sensible.

Worry

Gareth Thomas, media analyst at Collins Stewart, said Mr. Sorrell's history of acquisitions should cause some concern. "It is true that one would have to be slightly nervous [because of some prior acquisitions] that he is going to pay an uneconomic price as such to reach a strategic objective," he said. "There is a risk that WPP lets its strategic objective override the economic arguments."

"In terms of WPP's track record, there's clearly a significant value it has placed on expansion and becoming the largest ad-agency holding company in the world," said Simon Baker, media analyst at Credit Suisse. "And in terms of that endgame, a number of those acquisitions have become more stretched. WPP will frequently be thinking in terms of the more important strategic direction of the group over and above the importance of giving shareholders a short-term earnings accretion."

An acquisition of TNS would make WPP the second-largest market-research entity in the world behind Nielsen. John Prunier, partner at Petsky Prunier, an investment bank focused on the marketing, advertising and digital-media industries, said WPP could make the deal pay out by selling TNS products through WPP research properties such as Kantar. "TNS's offerings have a financial profile that generate gross margins that are attractive, but admittedly you have to pay a price to attain that," Mr. Prunier said.

Asked if overtaking Nielsen was driving this acquisition, the WPP spokesperson said via e-mail that it has nothing to do with size; "it's about client offering. The acquisition fits our strategic objectives. We want quantitative disciplines to be half of our group revenues [and] we want marketing services to be two-thirds of group revenues." And, to be sure, there's still strong demand from marketers for improved media-measurement tools, particularly those that find ways of analyzing the collective result of an investment across different media and even different marketing disciplines.

Delivering

Still, Mr. Baker said WPP is "paying up highly for TNS" and that its current offer is an "extremely full" price. Credit Suisse's report on the proposed deal said the offer is a 52% premium on the "undisturbed" TNS share price. "To justify [that price] WPP will have to really deliver on the proposed synergies," he said. "At this level it leaves very little incremental value to be unlocked by WPP."

Collins Stewart's Mr. Thomas said WPP hasn't yet overpriced TNS but is approaching that territory. Mr. Thomas said he understands Mr. Sorrell's aggressive pursuit of TNS and likes the fact that it would further diversify WPP. "You could argue that diversifying away from the straightforward advertising is a good move because the market-research industry is slightly less cyclical than the ad industry," he said. "It isn't just ego; there's some logic to it."

Others see the move as sensible and the only way left for Mr. Sorrell and WPP to grow. Arthur Anderson, senior adviser at Morgan Anderson Consulting, said there's only so much internal growth that's available in today's marketing industry, and growing revenue organically is becoming a bigger challenge. "It's not an easy task, and you need acquisitions," he said.

Claire Koeneman, co-president of Financial Relations Board, the investor-relations arm of MWW Group, an Interpublic Group-owned company, said the acquisition would "almost be like an ROI" for WPP.

"As they counsel clients on trends and deploy ad dollars, they can back it up with research and hard quantitative data," she said. "It may also make them more educated on what to go after."