

# 2016 INDEPENDENT PUBLIC RELATIONS FIRMS MERGERS & ACQUISITIONS SURVEY AND ACTIVITY HIGHLIGHTS

Davis & Gilbert conducted a confidential survey regarding the current merger and acquisition environment for public relations firms. Davis & Gilbert has also analyzed the published data of completed investments, purchases and sales of public relations firms in the last 15 months. Here are the highlights from that data and the survey.

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## THE CURRENT DEAL FLOW

- >> There were 89 consummated and publicly announced transactions between June 2015 and October 2016. All but four of the transactions were purchases of a 100-percent interest in the acquired firms.
- >> Fifty-seven percent of the transactions were made by independent buyers, 39 percent by public company buyers, and 4 percent by private equity firms.
- >> The 2016 sellers were headquartered on virtually every continent. North America and Europe were tied for the greatest percentage of consummated deals, with each accounting for 43 percent of the completed transactions. Sellers headquartered in Asia accounted for 10 percent of the 2016 transactions; South American sellers accounted for 2 percent; and Australian and African sellers each accounted for 1 percent.

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## BUYERS, SELLERS, SPECIALTIES & SIZE

- >> In the publicly reported transactions, 12 buyers consummated more than one transaction in the last 15 months.
- >> The selling firms represented a broad array of specialty areas. The highest concentration of sellers focused on technology and digital (29 percent). The second highest concentration of specialty areas among the sellers was health (11 percent), which was followed by strong showings in consumer (8 percent), financial services (8 percent) and public affairs (6 percent). Other specialty areas among the 2016 sellers were sports/entertainment (5 percent), fashion (3 percent), education/non-profit (3 percent) and news wire services (2 percent). Even with the increasing focus on specialty areas, 25 percent of the sellers identified themselves as having a “general” practice, working across several practice areas.
- >> This year’s sellers consisted of firms with varied revenues at the time of sale. Thirty-nine percent of sellers had revenues under \$3 million. Twenty-two percent had revenues of \$3 million to \$6 million. Ten percent had revenues between \$6 million and \$10 million. Thirteen percent reported revenues between \$10 million and \$25 million. Nine percent of the sellers had revenues over \$25 million. Revenue data at the time of sale was not available for 7 percent of the transactions.

## A PROFILE OF THE SURVEY RESPONDENTS

- >> One hundred firms responded to the 2016 Davis & Gilbert Survey. Forty-three percent are headquartered in North America, 20 percent in Western Europe, 11 percent in Asia and Australia, 10 percent in the United Kingdom and Ireland, 10 percent in Latin America, and 6 percent in other regions.
- >> Over 85 percent of responding firms have been in business for more than 10 years.
- >> Significantly, 40 percent of the responding firms have acquired another public relations firm.
- >> Fifty-four percent of responding firms reported 2016 revenues of greater than \$5 million.
- >> Fifty-three percent of respondents describe their companies as full-service PR firms (down from 72 percent of firms that described themselves this way in last year's survey). Fifteen percent of respondents described themselves as Consumer PR firms, and an additional fifteen percent described themselves as Technology PR firms. The remaining 17 percent of respondents specialized in either Corporate/Financial PR, Public Affairs or Healthcare PR.
- >> Sixty-nine percent of responding firms had an increase in revenues this year over 2015, of which 61 percent increased their revenues by more than 5 percent, and 19 percent increased their revenues by more than 20 percent. Eighteen percent reported flat revenues, and 13 percent reported that revenues had declined. These results show a slightly more positive financial revenue outlook for the high-performing firms in the PR marketplace than reported in the Davis & Gilbert Survey, in which approximately 50 percent of firms reported revenue increases of 5 percent.
- >> Responding firms experienced a wide variance in their overall ratio of compensation expense to revenue. Last year, almost 30 percent of firms were able to hold their compensation expense to revenue ratio to less than 50 percent. This year, however, only 20 percent of the firms said their ratio of compensation expense to revenue was less than 50 percent. These results demonstrate that public relations firms are responding to pressure to raise compensation to retain talent. In addition, more than 40 percent of respondents indicated that they spend more than 55 percent of total revenue on employee compensation.

## PREPARING FOR SALE

- >> In the last 12 months, 70 percent of respondents engaged in an internal process to ensure compliance with labor laws in their respective jurisdictions. However, over 70 percent of respondents have not engaged in a similar internal process to ensure compliance with the laws regarding the "craft of public relations" – the regulation of commercial speech, such as endorsement and testimonial guidelines, influencer agreements and blogging policies.
- >> Over 70 percent of respondents require their employees to sign some form of post-employment restriction, such as restrictive covenants or non-compete agreements. However, less than 20 percent of firms have had their form of restrictive covenant reviewed within the last 12 months to ensure compliance with changes in the law and/or to provide maximum protection.
- >> Eighty-eight percent of respondents lease their office space. Of those, more than 70 percent have structured their leases to provide flexibility to allow their firms to either terminate the lease early, extend the lease, or both.
- >> Seventy-nine percent of respondents use an outside accountant to prepare annual financial statements. Of those respondents who use an outside accountant to prepare annual financial statements, 20 percent have their outside accounting firm prepare a compilation; 27 percent have their accounting firm prepare a review; and 53 percent obtain audited financial statements.

## INCENTIVE & EQUITY ARRANGEMENTS

- >> Sixty percent of respondents have a long term incentive program for their key employees.
- >> Forty-two percent of respondents have a program to award an equity equivalent (such as “phantom” or “contract” equity) to key employees. Of respondents

that have such a program, almost 60 percent established the program to attract and retain talent, 12 percent established the program to prepare for the sale of their firm, and 28 percent implemented these programs for both reasons.

## THE SALE PROCESS

- >> Seventy-five percent of responding firms have been approached about selling their firm. In fact, almost the same percentage had been approached three or more times. Further evidencing the high level of current M&A activity in the public relations sector, 57 percent of respondents have been approached to sell their firm **at least once within the last year**.
- >> Fifty percent of respondents thought it was likely or very likely that they would sell their firms within the next three years.
- >> Respondents ranked in order of importance whom they would find most valuable to consult with if they decided to sell their firm. Top ranking went to a “specialized lawyer,” followed by a “specialized accountant.” The consultants who were ranked next, in order of importance, were: (1) the company accountant, (2) a broker, (3) networking with peers, and (4) the industry trade association leaders.
- >> Respondents were also asked about the areas in which they expected to need the most outside

advice when engaging in a sale. The top ranking areas of concern were “placing an accurate value on the firm” and “identifying the best buyer.” The next highest ranking area in which outside advice was needed was “understanding the purchase price structure and working capital requirements.” This was followed by “identifying potential liabilities.”

- >> Respondents also ranked the areas in which they had the least knowledge about the sale process. The two top ranking areas were “the percentage of the purchase price customarily paid on closing” and “the tax consequences of an M&A transaction.” The next two highest ranking areas on which respondents needed additional knowledge about the M&A process were in understanding: (1) “the manner in which the value of their firm impacted on the personal financial planning of the owner,” and (2) the “manner in which the corporate entity of the respondent’s firm impacts the structure of a possible deal.”

## WHY SELL

- >> Almost 60 percent of respondents said their biggest challenge in the past 12 months was difficulty in growing top line revenue. Fifty-four percent of respondents reported the difficulty in attracting and retaining talent as one of their top two challenges. Ranking as the least important challenge was the inability to work for clients on a national or global basis, with only 23 percent of respondents listing that as one of their two top challenges.

- >> Respondents were also asked about the importance of a variety of factors in their decision to sell. Not surprisingly, the highest ranking factor was for the owner to obtain personal financial reward and to obtain a personal exit strategy. Significantly, the next highest ranking factors were obtaining “expanded career opportunities for employees,” followed by obtaining “additional management expertise.”

## PREFERRED TYPE OF BUYER

>> Respondents also ranked the type of buyer to whom they would most likely sell if and when they decided to sell their firm.

- Twenty-three percent of respondents said they would prefer to sell to a large independent PR firm.
- Thirteen percent indicated that their preferred buyer was a large PR firm that is part of a holding company.

- Twelve percent indicated that their preferred buyer was a consulting firm.
- Eleven percent indicated it was to a digital or social media agency, and another 11 percent indicated it was to a small or mid-size PR firm.

## CONTACT US

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