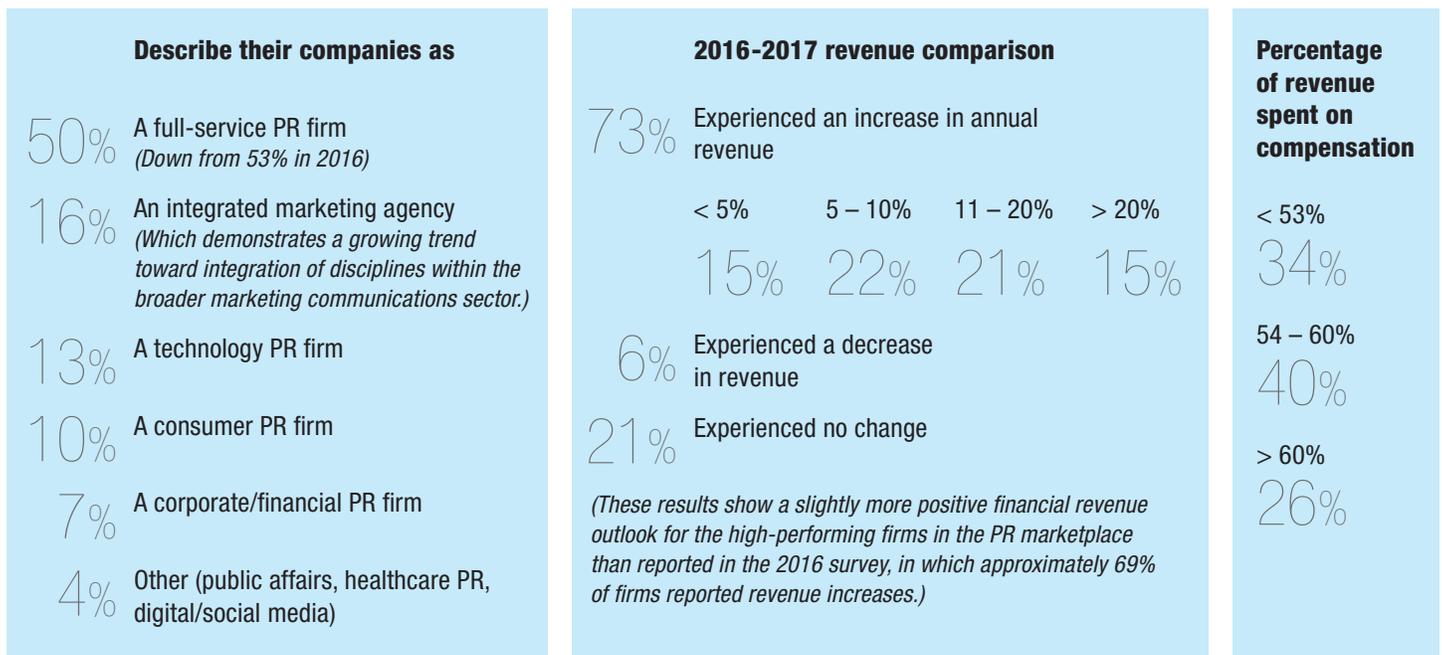
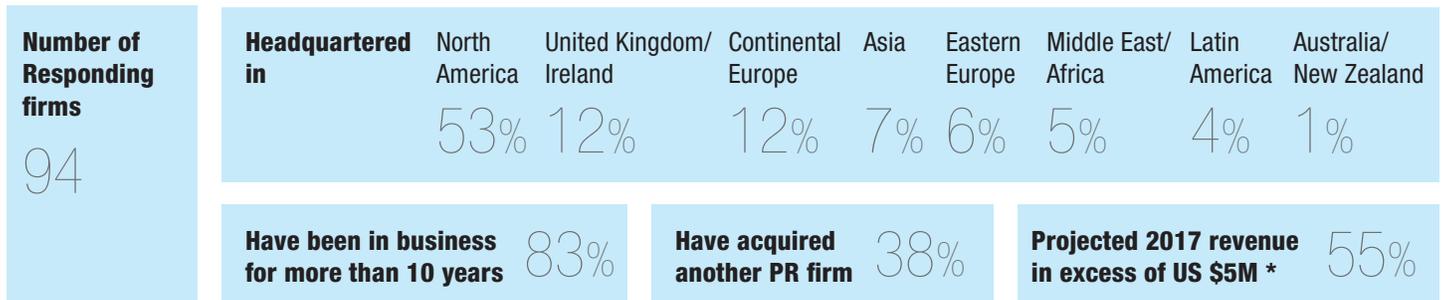


2017 INDEPENDENT PUBLIC RELATIONS FIRMS SURVEY AND ACTIVITY HIGHLIGHTS — OCTOBER 2017

Davis & Gilbert, in partnership with *The Holmes Report*, conducted a confidential survey focused on the opportunities and challenges facing the PR industry. In addition, Davis & Gilbert analyzed published data regarding completed investments, purchases and sales of PR firms in the last 15 months. The material that follows provides data about what PR firms find to be their biggest challenges, strategies PR firms expect to implement to drive continued success, and insights into exploring growth and exit opportunities. Here are the highlights:

Survey Respondents Profile



* All currencies are in US Dollars

Opportunities and Challenges as the PR Industry Looks to the Future

Top 3 challenges PR firms

... faced in the last 12 months

- 1 Client budgets declining or remaining flat
- 2 Difficulty in attracting and retaining talent (and the related increase in costs)
- 3 Difficulty in maintaining or increasing profit margins

... expect to face in the next 12 months

- 1 Difficulty in attracting and retaining talent (and the related increase in costs)
- 2 Client budgets declining or remaining flat
- 3 Difficulty in growing top-line revenue

The 3 most important hiring practices that have had a positive impact on revenue within the last 12 months

- 1 Hiring employees with expertise in content development and content marketing
- 2 Training employees to integrate data and measurement throughout the firm's practice areas
- 3 Hiring employees with data and measurement experience

(The results were the same when firms were asked the same question as it relates to the "next" 12 months, showing the continued importance of content, data and measurement in the PR industry.)

The 3 most important "financial practices" that have had a positive impact on revenue within the last 12 months

- 1 Using financial management tools to more accurately budget and price client engagements
- 2 Compensating key employees based primarily on the overall financial performance of the firm
- 3 Compensating key employees based primarily on the practice area of the firm they oversee

(The results were the same when firms were asked the same question as it relates to the "next" 12 months.)

The 3 most important "organizational or strategic" changes that have had a positive impact on revenue within the last 12 months

- 1 Integrating client teams to include employees with expertise in PR, digital, social, creative, marketing, advertising and branding
- 2 Hiring specialized senior-level talent to provide a new or enhanced service offering
- 3 Reorganizing client teams to focus on specialized industry-sector experience

(The top 3 results were the same when firms were asked the same question as it relates to the "next" 12 months; however, firms ranked quite high the opening of a new office or acquiring another firm.)

Market Insights for Growth and Exit Strategies

Why Sell

Top 3 reasons to consider selling

- 1 Personal financial reward
- 2 Expanded career and development opportunities for employees
- 3 Enhanced opportunities by selling to a larger firm

Respondents ranked as least important

- Greater demand for geographic reach
- Access to enhanced administrative resources

Talent

39% **Have a program to award an equity equivalent (such as “phantom” or “contract” equity) to key employees**

57% **Have a long-term incentive program (LTIP) for key employees**

Reasons for an LTIP or phantom equity program

62% Attract and retain talent

9% Prepare for the sale of their firm

29% Both of the above reasons

(These results are similar to the results in the 2016 survey.)

Financial Statements

81% **Use an outside accounting firm to prepare annual financial statements**

43% Audited statements 35% Reviewed statements 22% Compiled statements

M&A Outlook

92% **Have been approached about selling**
(This is a significant increase from the 75% of firms who reported this fact in the 2016 survey.)

83% **Approached to sell their firm *within the last two years***
(Further evidencing the high level of current M&A activity in the PR sector.)

68% **Approached about selling *more than three times***

56% **Thought it was likely or very likely they would sell their firms *within the next three years***
(Compared to 50% in the 2016 survey.)

Top 3 preferred buyers in the eyes of a seller

- 1 Independent PR firm
- 2 Consulting firm
- 3 Private equity firm

Based on Davis & Gilbert's extensive experience in the PR and integrated marketing communications sector and active involvement in the M&A space, we have compiled the below data based on publicly available information.

M&A Activity

103
Publicly announced completed worldwide transactions between June 2016 and October 2017

63
Buyers

15
Repeat buyers

Buyers

Who are the buyers?

66% Independent PR firms 29% Public holding companies 5% Private equity firms

Who did they buy (specialties)?

27%	Technology / Digital	18%	General Practice	12%	Consumer
8%	Financial Services / Investor Relations	8%	Healthcare	7%	B2B
4%	Environmental / Planning	4%	Public Affairs	3%	Travel & Tourism
3%	Sports / Entertainment	2%	Crisis Communications	4%	Other *

* Comprises fashion, education & non-profit, hospitality, and food & beverage

Sellers

Annual revenue

35%	< \$3M	8%	\$3 – \$6M	7%	\$6 – \$10M
5%	\$10 – \$25M	4%	> \$25M	41%	Undisclosed

Headquartered in

North America	Europe	Asia	Australia	Africa
47%	44%	7%	1%	1%

Noteworthy Differences in M&A Activity When Comparing 2016 to 2017

89 Number of consummated and publicly disclosed transactions in 2016
(increased to 103 in 2017)

57% Deals involving independent PR firm buyers in 2016
(increased to 66% in 2017)

39% Publicly disclosed transactions in which the buyers were public companies in 2016
(decreased to 29% in 2017)

For the second year in a row, the technology and digital sectors remained the top specialty areas involving M&A activity in the PR industry.

For additional information on these results, please contact:

Michael C. Lasky
Public Relations Law Chair/
Litigation Practice Group Co-Chair
212.468.4849
mlasky@dglaw.com

Brad J. Schwartzberg
Partner/Corporate Practice
Group Co-Chair
212.468.4966
bschwartzberg@dglaw.com

D&G | DAVIS & GILBERT LLP