

Davis+Gilbert
2020 Public Relations Industry
M&A Activity Report

April 2021

A Surprisingly Active Year
in Public Relations M&A





A Surprisingly Active Year in Public Relations M&A

Last year at this time, with the uncertainty of the COVID-19 pandemic, the deal-making environment for 2020 was unknown. The year had gotten off to a fast start, with more than 20 publicly reported M&A transactions completed by early March. However, the sudden shutdown of economies worldwide, and the mass shift to “virtual office environments” understandably put many potential deals on hold as buyers and sellers took stock of where things were headed. After an initial slowing of activity, M&A picked up in the second half of 2020 and finished 2020 down only slightly from 2019.

While the composition of deals appears to have changed, a key trend from 2019 carried over to 2020 – private equity firms and private equity-backed PR firms (collectively referred to in this report as “PE firms”) remained active buyers in the market, and public holding companies remained mostly on the sidelines compared to prior years.

With the discovery and rollout of effective vaccines, there is optimism for a return to normalcy in 2021 in many countries, which may bode well for a robust M&A market in 2021.

For years, **Davis+Gilbert** has advised both buyers and sellers on acquisitions of public relations agencies, provided strategic counsel and insight on trends in the M&A market, and published data about acquisition activity. Once again this year, we present our *Public Relations Industry M&A Activity Report*, in which we provide an in-depth analysis of deals completed in 2020 based on publicly available material.

Specifically, our research revealed several major takeaways in 2020.

There were **62 publicly reported transactions** completed. This was down from 72 in 2019, but generally in line with recent years (66 in 2018 and 66 in 2017). A much stronger year than many would have anticipated back in March.

Smaller deals done by independent buyers continue to dominate the M&A market.

PE firms remain active buyers.

Although down from 58 different buyers in 2019, the number of buyers in 2020 remained large at 48.

Here's what we found:

In 2020, the number of deals involving the acquisition of firms with annual revenue greater than \$25 million fell 64% (from 11 to only 4 deals in 2020), putting this activity back in line with the number of like deals in 2018 (5 deals), 2017 (3 deals), and 2016 (5 deals).

Independent PR firms continued to dominate the buying in 2020. While the number of such deals has remained relatively consistent in recent years, the share of deals involving an independent PR firm in 2020 jumped to 79% compared to 67% in 2019. Public firm buyers decreased from 18% of the buyers in 2019 to 8% in 2020. PE firm buyers held steady in 2020, going from 15% in 2019 to 13% in 2020.

PE firms continued with a strong showing in number of deals, acquiring 8 agencies in 2020, 2 of which had revenue in excess of \$25 million. While the number of deals by PE firms did not experience as much growth as it did the year prior (11 in 2019), the number of deals did not fall back to the level of prior years: 1 in 2018, 2 in 2017 and 2 in 2016.

“Independent PR firms continued to dominate the buying in 2020 – the share of deals involving an independent PR firm jumped to 79% compared to 67% in 2019.”

In 2020, only 5 (8%) of the buyers were public holding companies, which was down from 13 in 2019 (18%). Of these deals, all of them were smaller deals. All of the target companies had less than 75 employees and revenue below \$25 million (2 of the 5 deals involved a seller revenue range of \$3-6 million, one deal involved a seller revenue range of \$6-10 million and 2 involved a seller revenue range of \$10-25 million).

There were only 4 transactions involving sellers with revenue in excess of \$25 million. Of the 4:

- 2 were completed by PE firms
- 2 were completed by independent buyers

Of these 4 deals, all of the sellers specialized in either healthcare or technology. In addition, the highest grossing revenue sellers reported having content creation or digital for their industry services.

As competition among the three different types of buyers continued to be balanced for completed purchases of larger agencies, the hold that **independent buyers** had on the sales of smaller firms continued in 2020.

Independent firms were the dominant buyers for firms with reported revenue of less than \$10 million, and especially dominant in the purchase of firms that reported less than \$3 million in revenue.

More than 90% (25 out of 27) of all deals done with reported revenue of less than \$3 million, and more than 80% (33 out of 40) of all deals with reported revenue of less than \$10 million, were done by independent buyers.

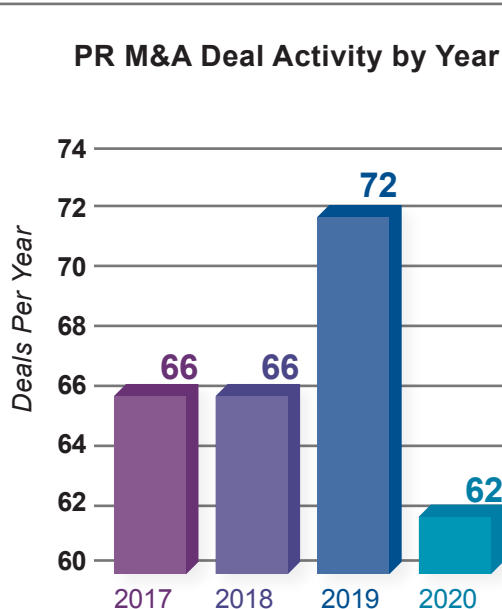
Independent buyers focus their activity in these segments, with more than half of their deals (25 out of 49) for firms that reported less than \$3 million in revenue and more than 67% (33 out of 49) with reported revenue of less than \$10 million.

Many of the independent buyers were small themselves. Out of the 62 deals, 35% were done by independent buyers that had revenue between \$6-25 million.

This report provides an in-depth analysis of the PR M&A market and highlights buy-side and sell-side insights, a private equity close-up and what potentially lies ahead for 2021.

Buy-Side Insights

The total number of reported M&A deals for public relations firms decreased by 10, as compared to the year prior, but only down 4 when compared to 2018.



| | 2017 | 2018 | 2019 | 2020 |
|---------------------------------|-------------|-------------|-------------|-------------|
| Total Transactions | 66 | 66 | 72 | 62 |
| Independent Firms | 45 (68%) | 41 (62%) | 48 (67%) | 49 (79%) |
| Public Holding Companies | 19 (29%) | 20 (30%) | 13 (18%) | 5 (8%) |
| PE Firms | 2 (3%) | 5 (8%) | 11 (15%) | 8 (13%) |

A characteristic that remained constant with buyers over the three-year period was that independent agencies completed a substantial majority of the total number of deals.

49 of the total deals (79%) were done by **independent buyers**, which is up from 48 (or 67%) in 2019.

- Llorente y Cuenca and Lambert & Co (formerly known as Lambert Edwards) led the way by closing 3 deals.
- APCO, Ruder Finn, SKDKnickerbocker, and Vested each completed 2 deals.

For **PE firms**, W20/Real Chemistry completed 5 deals (out of a total of 8 for the category).

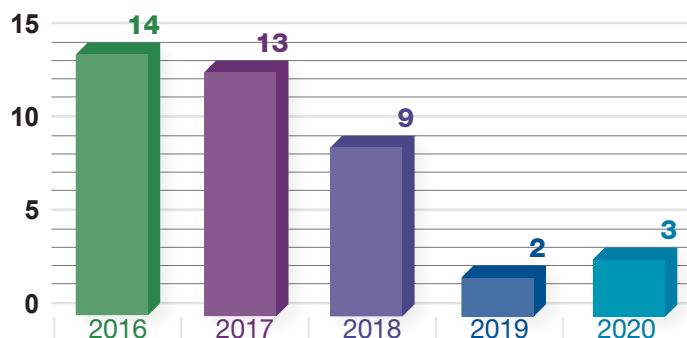
For **public holding companies**, Next15 completed 2 deals.

Several other insights about the buyers are noteworthy:

1. PE firm deals did not decrease significantly in 2020 versus the 2019 numbers and remained high relative to 2018 and earlier years. It went from 11 in 2019 to 8 in 2020.
2. Public holding company overall deal activity continued to drop. Only 8% of the transactions involved public companies, compared to 18% in 2019, 30% in 2018, and 29% in 2017.

While public holding companies' appetite for agencies with less than \$10 million in revenue has declined in recent years (only 3 deals of that size in 2020), they did favor smaller sized sellers (it represented a large share of their deals - 60% of the 5 deals done in 2020) all of which were for companies that reported only 25-75 employees.

Public Holding Company Purchases of Agencies with <\$10 Million in Revenue



Private Equity Close Up

In a testament to an evolving market, PE firms and independent buyers acquired an equal number of agencies with the highest amount of publicly reported revenue at the time of investment:

Independents

- CreativeDrive by Accenture
- Socialbakers by Astute

PE firms

- Nucleus Global by Huntsworth
- 21GRAMS by W20/Real Chemsitry

PE firms favored sellers in Healthcare (6 out of the 8 firms they bought specialized in this area).

Out of the 8 PE firm deals, half were for agencies of less than \$10 million, and W20/Real Chemistry completed all of these deals. Two of the 8 PE firm deals involved the acquisition of sellers with greater than \$25 million revenue, and one of these was completed by W20/Real Chemistry.

Number of Agencies Acquired by Private Equity Firms



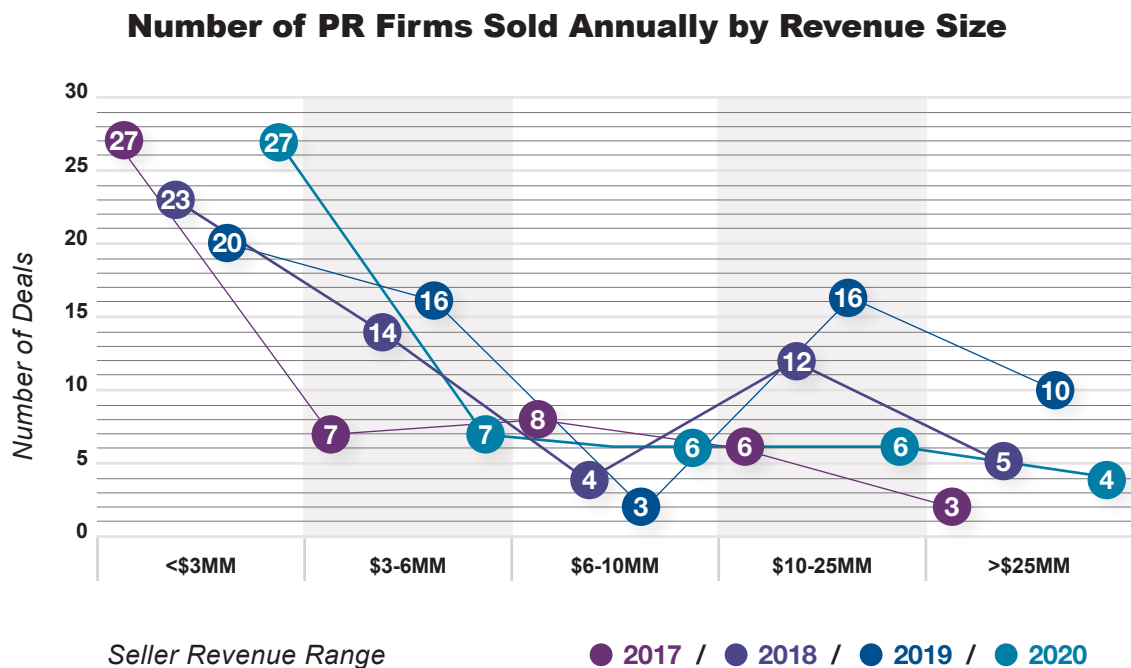
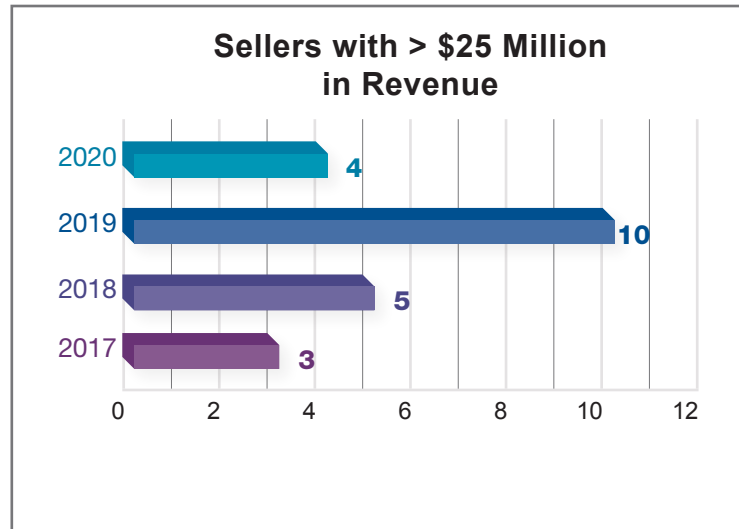
| PE Buyer | Seller | Revenue Range | Specialty |
|--------------------|----------------|---------------|------------|
| W20/Real Chemistry | Symplur | < \$3MM | Healthcare |
| W20/Real Chemistry | Discern Health | \$6-10MM | Healthcare |
| W20/Real Chemistry | Elysia Group | < \$3 MM | Healthcare |
| W20/Real Chemistry | Starpower | \$6-10MM | Healthcare |
| W20/Real Chemistry | 21Grams | >\$25MM | Healthcare |
| Huntsworth | Nucleus Global | >\$25MM | Healthcare |

Sell-Side Insights

Sales of PR firms with more than \$25 million in revenue fell to 4 in 2020, compared to 11 the prior year. As a result, these larger deals only represented 6% of all reported deals, down from 15%.

In 2020, only 10% of seller firms had revenue between \$10-25 million (down from 22% the prior year). In 2020, sellers with revenue of less than \$3 million accounted for 44% of the completed deals (up from 28% the prior year).

There was a sharp increase this year in sellers with revenue under \$3 million, as they represented 44% of the overall deal activity, which is the highest percentage in the past five years.

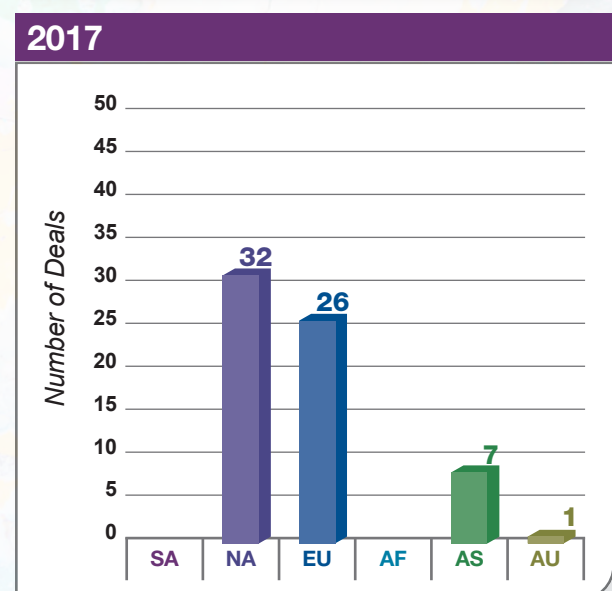
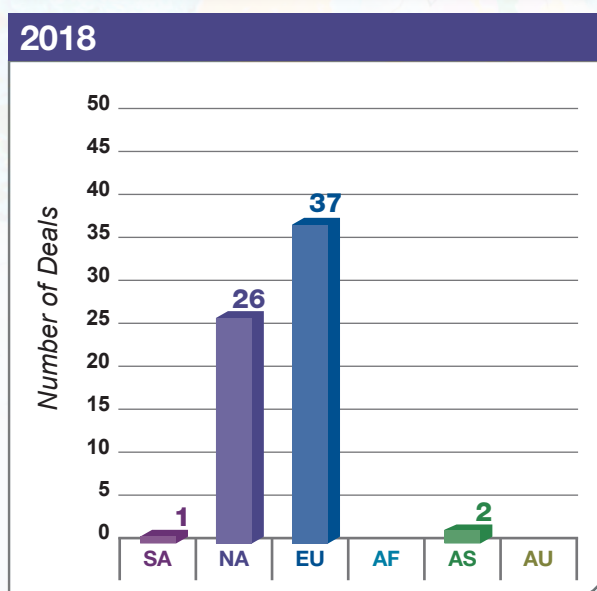
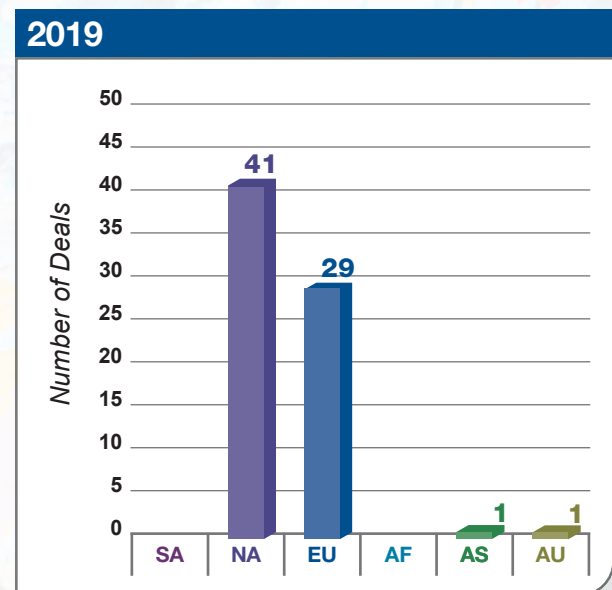
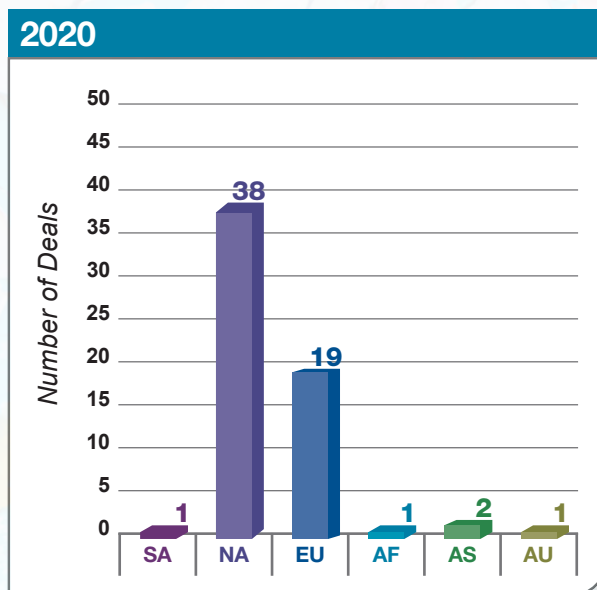


Additional Seller Insights

Geography

North American and European deals continued to dominate reported deals, representing a combined 92%. A greater percentage of sellers (61%) came from North America than in recent years, while European sellers (31%) continued to drop from their 2018 levels. 2020 saw reported deals from across the globe, including 2 in Asia, and 1 each in Australia/NZ, South America, and Africa.

Geography / Deal Volume by Continent



South America

North America

Europe

Africa

Asia

Australia

Industry Specialties

The top five seller specialties were:

1. Technology/Digital
2. Healthcare
3. Public Affairs
4. Corporate
5. Consumer

Technology/Digital:

Retained its historic first place, as it did in the prior three years – accounted for **15 transactions**

Healthcare:

Accounted for **12 transactions**

Public Affairs:

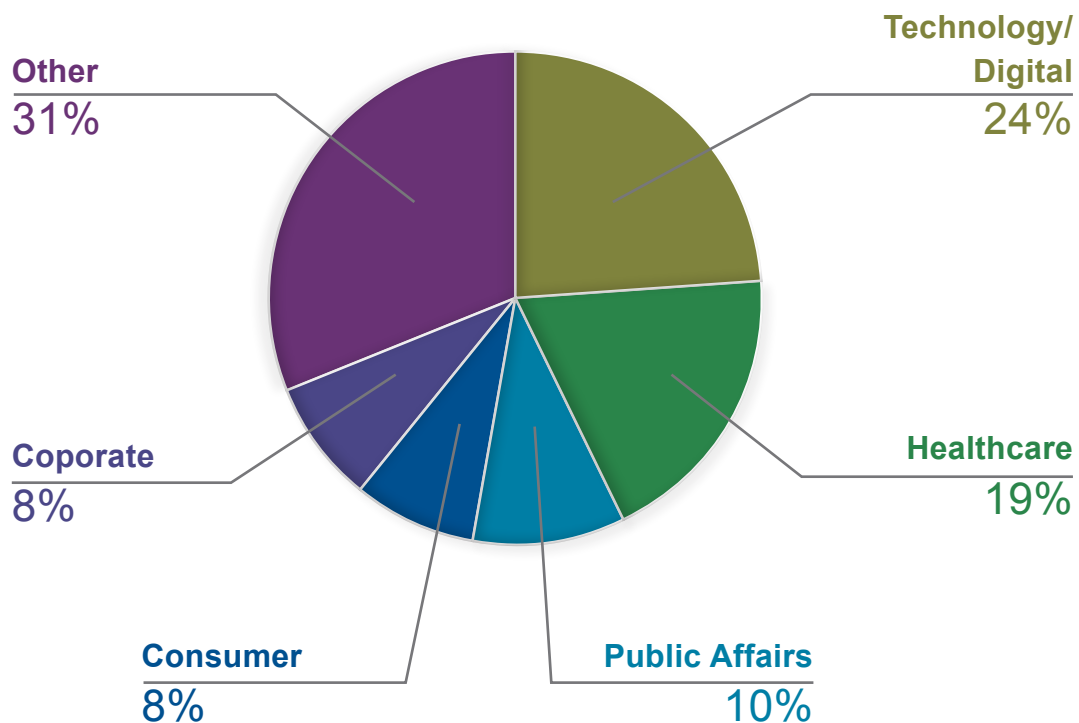
Accounted for **6 transactions**

Corporate and Consumer:

Both accounted for **5 transactions**

Public affairs and consumer posted the highest deal activity in their specialty area in the last 5 years.

Seller Specialties



Client Service Offerings

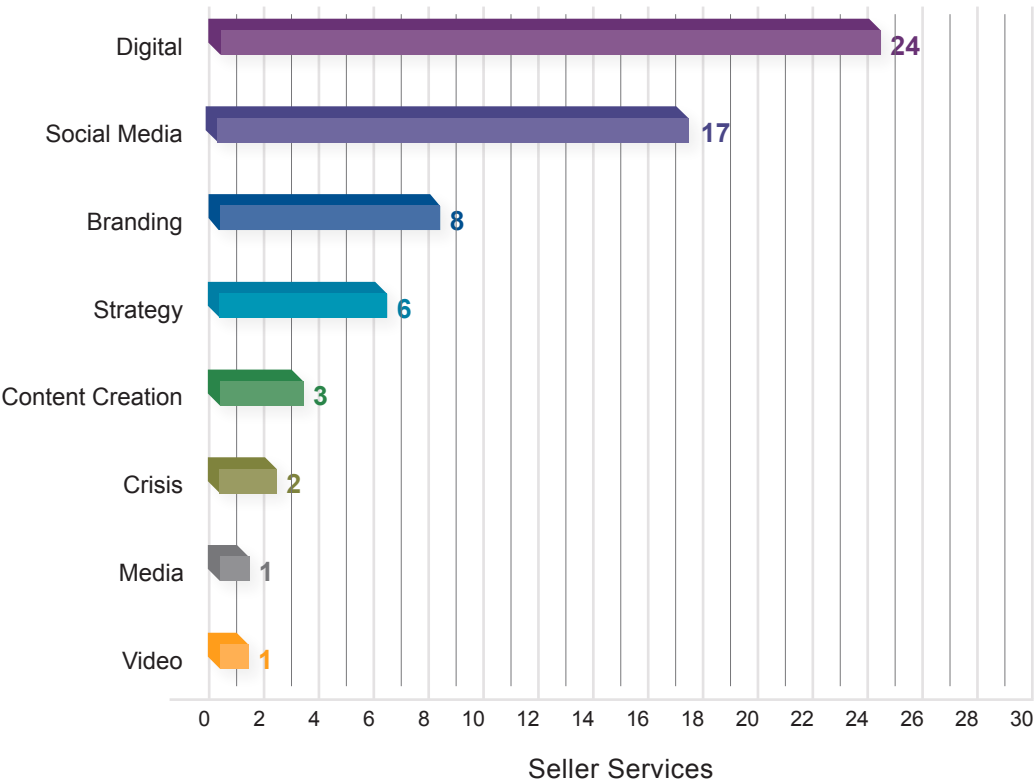
Sellers provided the following top three specialty service offerings to clients:

- 1. Digital
- 2. Social media
- 3. Branding

Notably, in 2020, **strategy** emerged as the fourth most important service offering, after never having been reported on as important before.



Top Service Offerings Provided by Sellers





Q1 2021 Deals and What Lies Ahead

As the rollout of effective vaccines continues in many countries, there is optimism for a return to normalcy in 2021 and beyond. A more certain business climate and prospects may bode well for a robust M&A market in 2021. Additionally, with the potential for increases in capital gains rates in the United States, U.S. sellers may have extra motivation to close transactions.

The first quarter of 2021 has gotten off to a solid start, with 14 reported M&A transactions.


Among these are the:

- acquisitions of Swoop and IPM.ai by Real Chemistry (formerly known as W20),
- acquisition of AdvisorPR by J Connelly,
- acquisition of Octopus Group by Publicis, and
- acquisition of Gramercy Communications by The Martin Group.

Significantly, PE firms were the buyers of 4 of the 14 Q1 2021 transactions. This is greater than both the number of deals as well as the percentage of deals consummated by PE firms in either the first quarter of 2019 or 2020. This suggests that private equity is likely to be increasingly active as 2021 unfolds.

The first quarter 2021 deal flow also demonstrates a healthy number of transactions (4 out of the 14) in which the seller revenue was greater than \$10 million. This is a slight increase from the first quarter of 2020 deals when only 3 of the 23 completed transactions involved sellers with revenue in excess of \$10 million.

In other words, scale and size continue to matter. In addition, 3 of the first quarter deals were by public buyers (2 of which were north of \$10 million), even though public buyers completed only 5 deals in all of 2020. This may signal an uptick in activity by public buyers for the remainder of the year.



Terminology + Methodology

Background on terms used in this report and its methodology.

Independent: Agencies that are not publically traded. The independent buyers are overwhelmingly owned by one or more of the executives working at the firms.

Public Holding Company: Companies that trade on a national or international securities exchange. Many of the public company buyers are holding companies primarily in the marketing communications sector.

PE Firms: Private equity firms and private equity-backed PR firms that provide investment capital for the purpose of enhancing a business for a future sale. This includes capital for “tuck-under” or “bolt-on” acquisitions into an existing PE portfolio company.

Methodology:

Davis+Gilbert annually compiles data on mergers and acquisitions based on publically available deal activity, utilizing its extensive experience in the public relations and integrated marketing communications sector.



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Michael C. Lasky is founder and chair of the firm's Public Relations Law Practice Group, the only legal practice group devoted to meeting the legal needs of public relations and marketing communications firms. Mr. Lasky is proud to represent many of the fastest growing and most prominent public relations firms in the United States.

Public Relations Law Practice

Davis+Gilbert combines a thorough understanding of the public relations industry with a broad spectrum of legal services to help our clients achieve their business objectives. The practice is designed to meet the needs of public relations and communications consultancies especially firms at inflection points in their strategy, ambition and growth. Our attorneys work with clients to bring a best practices approach to their legal arrangements with their clients, their employees and in the operations of their business to reduce legal risks and enhance the value of the firms.



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Brad J. Schwartzberg is co-chair of the Corporate Practice Group of Davis+Gilbert. Mr. Schwartzberg is involved in all aspects of the firm's general corporate practice, focused primarily on mergers and acquisitions, financings, and general commercial matters.

M&A Practice

Davis+Gilbert has extensive experience advising on mergers and acquisitions involving companies on both the buy and sell sides in the public relations and marketing communications space. Widely recognized as a leader in this area, the firm represents many of the world's most prominent agency holding companies and their operating subsidiaries – with many relationships extending over many decades – as well as a number of equally prominent independent public relations firms, in deals across the United States.



Davis+Gilbert is a strategically focused, full-service mid-sized law firm of more than 130 lawyers. Founded over a century ago and located in New York City, the firm represents a wide array of clients – ranging from start-ups to some of the world's largest public companies and financial institutions – throughout the United States and internationally.

Widely regarded as the #1 law firm for the marketing communications industry, Davis+Gilbert has practices focusing on:

- Advertising, Marketing + Promotions
- Benefits + Compensation
- Corporate
- Digital Media, Technology + Privacy
- Entertainment, Media + Sports
- Insolvency, Creditors' Rights + Financial Products
- Intellectual Property
- Labor + Employment
- Litigation
- Private Client Services
- Real Estate
- Taxation