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LEGAL

A HOT M&A MARKET FOR PUBLIC RELATIONS AND INTEGRATED MARKETING FIRMS



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.

For years, this author’s law firm, 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, Davis+Gilbert presented its Public Relations Industry M&A Activity Report, providing an in-depth analysis of deals completed in 2020 based on publicly available material.

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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.

Additional 2020 Findings

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.

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.

2021 Deals and Looking Ahead

As the rollout of effective vaccines continues, there is optimism for a return to a new normal. A more certain business climate and prospects 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.

2021 has gotten off to a solid start, with 24 reported M&A transactions. Significantly, PE firms were the buyers of 4 of the 24 2021 transactions. This is the same number of PE deals for the first five months of 2020 and double the number of PE deals in the same period for 2019. This suggests that private equity is likely to be increasingly active as 2021 unfolds.

In the first 5 months of 2021, of the 24 consummated deals, the top 5 seller specialties were: Technology/Digital (9 transactions), Healthcare (6), Corporate and B2B (4), Public Affairs (2), followed by Financial and Entertainment (1 each). During the first 5 months of 2020, in contrast, the top 5 seller specialties were: Technology/Digital (7), Healthcare (6), Corporate (4), Public Affairs (3), and Financial Services (2). The continued voracious and accelerating interest in technology/ digital and healthcare is noteworthy.

2021 deal flow also demonstrates a healthy number of transactions (also 4 out of the 24) in which the seller revenue was greater than \$10 million. This exactly the same number of transactions of this size that were completed by June 1 of 2020.

In other words, scale and size continue to matter. In addition, public buyers have shown a greater level of activity in 2021 than in 2020. In the first five months of 2021, public buyers completed 5 transactions – which is the same amount of transactions public buyers closed in the entirety of 2020. This may signal an uptick in activity by public buyers for the remainder of the year.