

Davis & Gilbert 2019
Public Relations Industry
M&A Activity Report

Another Robust Year
in PR M&A Activity 

Another Robust Year in PR M&A Activity

2019 was a particularly busy year in the M&A market for public relations firms, and, along several metrics, there was more to observe than at any point in recent history.

In fact, this upward trend of increasing M&A was already established in the beginning of 2020, with 19 publicly reported M&A transactions completed through the end of the first week of March. However, what a difference a few weeks can make. The COVID-19 pandemic, which has basically shut down economies worldwide, has resulted in a tremendous amount of uncertainty and has virtually grounded most M&A activity to a halt. With economists hopeful that a measurable recovery is possible once this crisis is resolved, the 2019 results are still instructive and can guide us once equilibrium returns.

For years, Davis & Gilbert has advised on acquisitions of public relations agencies, provided insight on trends in the M&A market and published data about acquisition activity. This year, we undertook to provide our first-ever Public Relations Industry M&A Activity Report. Based on publicly available material, the report provides an in-depth analysis of deals completed in 2019.

Specifically, our research revealed three major takeaways in 2019:

More transactions (**72**) were completed than in either of the two previous years.

Deals were completed by more buyers (**58**) than ever before.

The appetite for larger deals increased.

These findings were supported by three significant changes.

First, twice as many deals involved the acquisition of firms with annual revenue greater than \$25 million than in the prior two years. This reflects the fact that, in addition to organic growth, many PR firms are now aggressively engaging in smaller, “tuck-under” type acquisitions before embarking on a potential sale of their own firm.

Second, independent PR firms dominated the buying in 2019 by using strategic M&A to enhance their growth strategy. This was one of the major factors that contributed to the record volume of deal activity.

Third, private equity firms and private equity-backed PR firms (collectively referred to in this report as “PE firms”) continued to show their interest in the public relations market, acquiring 11 agencies, nearly half of which had revenue in excess of \$25 million. Deals by PE firms more than doubled in 2019, compared to 2018. In fact, the number of private equity deals completed in 2019 alone was about the same as the total number of PE deals in the three-year period from 2016-2018.

However, PE firms weren’t the only buyers to focus on larger sellers. Some recent articles have suggested that public holding companies had largely abandoned the PR M&A market, but the actual data tells a different story. Instead, public holding companies tended to concentrate their efforts on acquiring larger firms, even as their overall number of transactions declined considerably.

The research further shows that of the ten reported transactions involving sellers with revenue in excess of \$25 million:

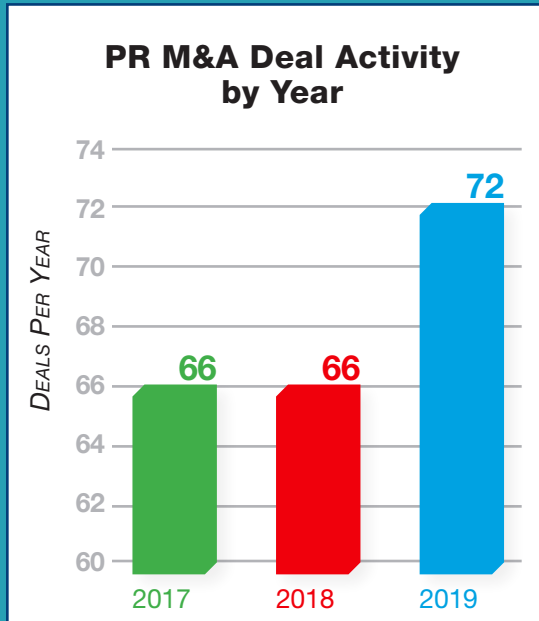
- » **4** were completed by PE firms;
- » **3** were completed by public holding companies; and
- » **3** were completed by independents.

As competition among the three different types of buyers was particularly spirited and almost evenly balanced for completed purchases of larger agencies, a different story played out among the sales of smaller firms. There, independent firms were the dominant buyers for firms with reported revenue of less than \$10 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 this year.

Buy-Side *INSIGHTS*

The total number of M&A deals for public relations firms increased by six in 2019, as compared to each of the two prior years.



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. This trend was further reinforced, with independent buyers backing 48 of the 72 total deals (67%) in 2019. Finn Partners led the way by closing six deals. Private equity backed W2O completed three deals. Six other firms — Huntworth, UDG Healthcare, Shelby Anderson, MMG Global, Cision and Acceleration — each completed two deals.

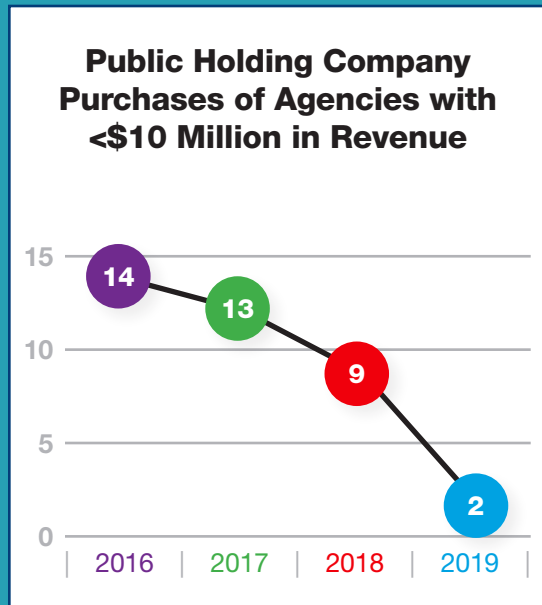
Four other insights about the buyers are noteworthy from 2019:

1. PE firms ramped up their activity in the M&A market. When combined, the total number of deals in 2016, 2017 and 2018 were almost equivalent to the total numbers of deals in 2019.

2. Public holding company overall deal activity decreased 40% in 2019 versus the prior year, with their focus mainly on larger transactions.

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

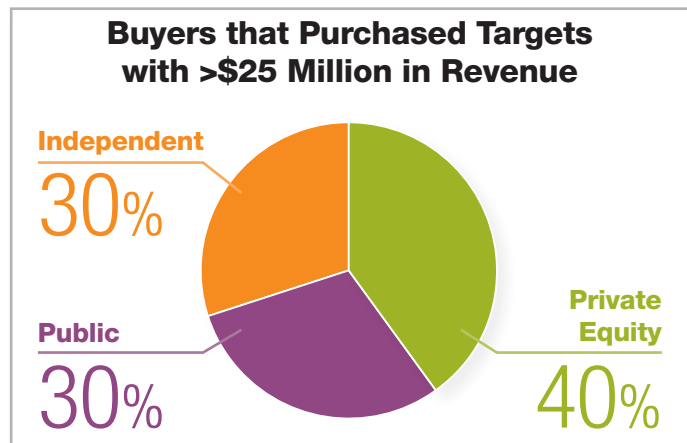
Public holding companies' appetite for agencies with less than \$10 million in revenue has declined in recent years.



- The buyers and the buying activity had an interesting contrast. While the three primary buyers equally pursued high-revenue targets (i.e., PR firms with revenue in excess of \$25 million), it's the independents that dominated the lower end of the market (i.e., buyers with less than \$10 million in revenue).

As public holding companies and PE firms focused their efforts on this segment of the market, this left the independent PR firms predominately on their own to acquire smaller targets.

- More than 20% of buyers had revenue between \$6-\$24 million. This indicates that smaller independent PR firms deployed M&A as a growth strategy.

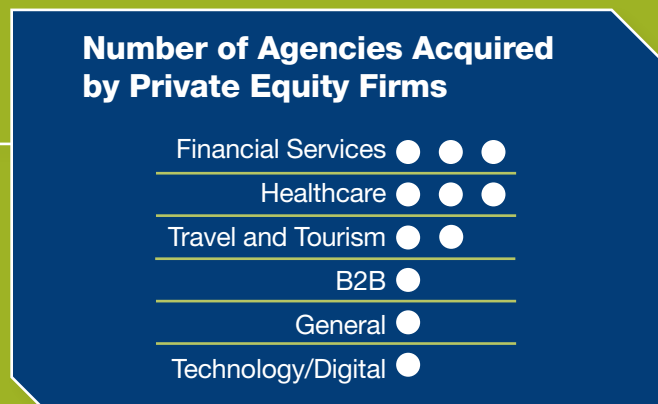


Private Equity *CLOSE UP*

In a testament to an evolving market, PE firms were responsible for acquiring agencies with the highest amount of publicly reported revenue at the time of investment: Cision (\$730 million), Teneo (\$700 million) and W20 (\$177 million).

PE firms did not favor sellers in a particular specialty area; instead, they spread their buying activity among some of the hottest seller specialty areas.

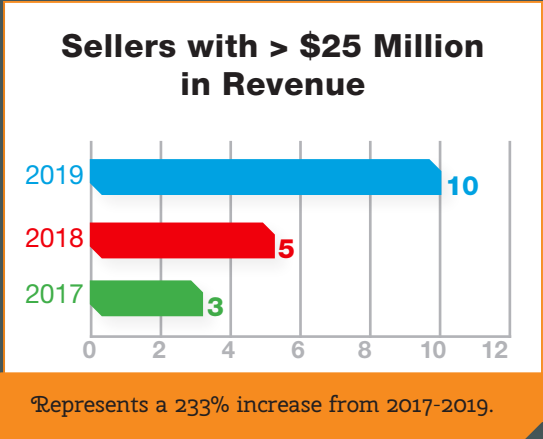
Interestingly, out of the 11 PE firm deals, nearly half (5) were for agencies of less than \$10 million, showing their interest in both large and small agencies. Two PE backed firms completed these five deals, with each of them making multiple acquisitions in their respective specialty areas.



PE Buyer	Seller	Revenue Range	Specialty
W20	Arcus Media	\$3-6MM	Healthcare
W20	Radius Digital Science	\$3-6MM	Healthcare
W20	ISO.health	\$6-10MM	Healthcare
MMGY Global	NEXTFactor	<\$3MM	Travel and Tourism
MMGY Global	Digital Spring	\$3-6MM	Travel and Tourism

Sell-Side *INSIGHTS*

Sales of PR firms with more than \$25 million in revenue spiked to a total of ten deals. Never before had more than five PR firms of this size sold in a year.



The trend toward larger transactions reflects the overall health of the PR industry. More specifically, Davis & Gilbert’s annual [PR Industry 2019 Survey Trends & Highlights](#) reported an increase over the last two years of the number of service offerings now provided by many top PR firms, including integrated marketing, content creation and digital media. This increase in service

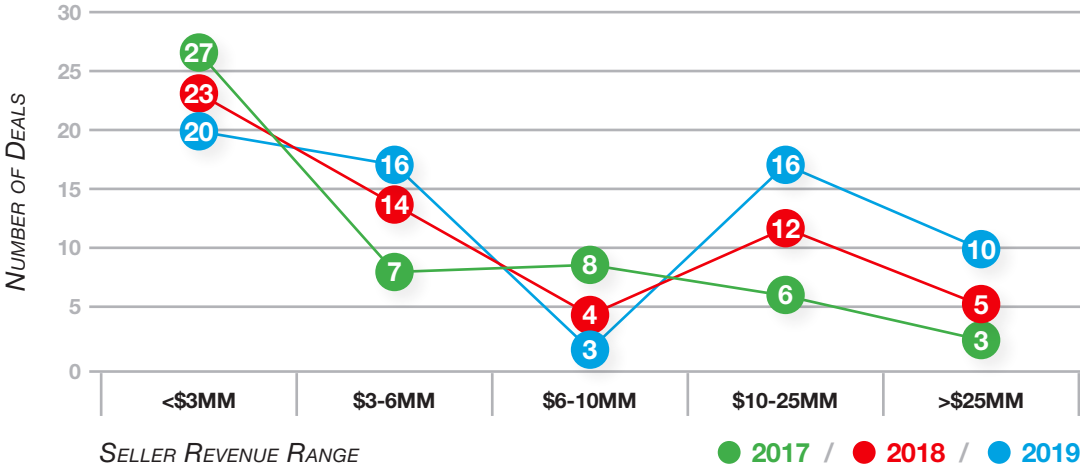
offerings, which is often the result of “tuck-under” acquisitions, also played a significant role in growing top line revenue at many firms. These larger firms have successfully deployed a strategic “buy-side” M&A strategy for a variety of reasons, such as to:

- » Obtain new service offerings,
- » Enter new geographic locations,
- » Enhance positioning in an existing industry sector,
- » Acquire new clients, and
- » Secure new talent.

In 2019, 22% of seller firms had revenue between \$10-25 million (up from 18% the prior year). On the other side of the spectrum, sellers with revenue of less than \$3 million accounted for 28% of the completed deals.

Although sellers with revenue under \$3 million represented 28% of the overall deal activity, there was a sharp decline this year when compared with 35% in 2018 and 42% in 2017.

Number of PR Firms Sold Annually by Revenue Size

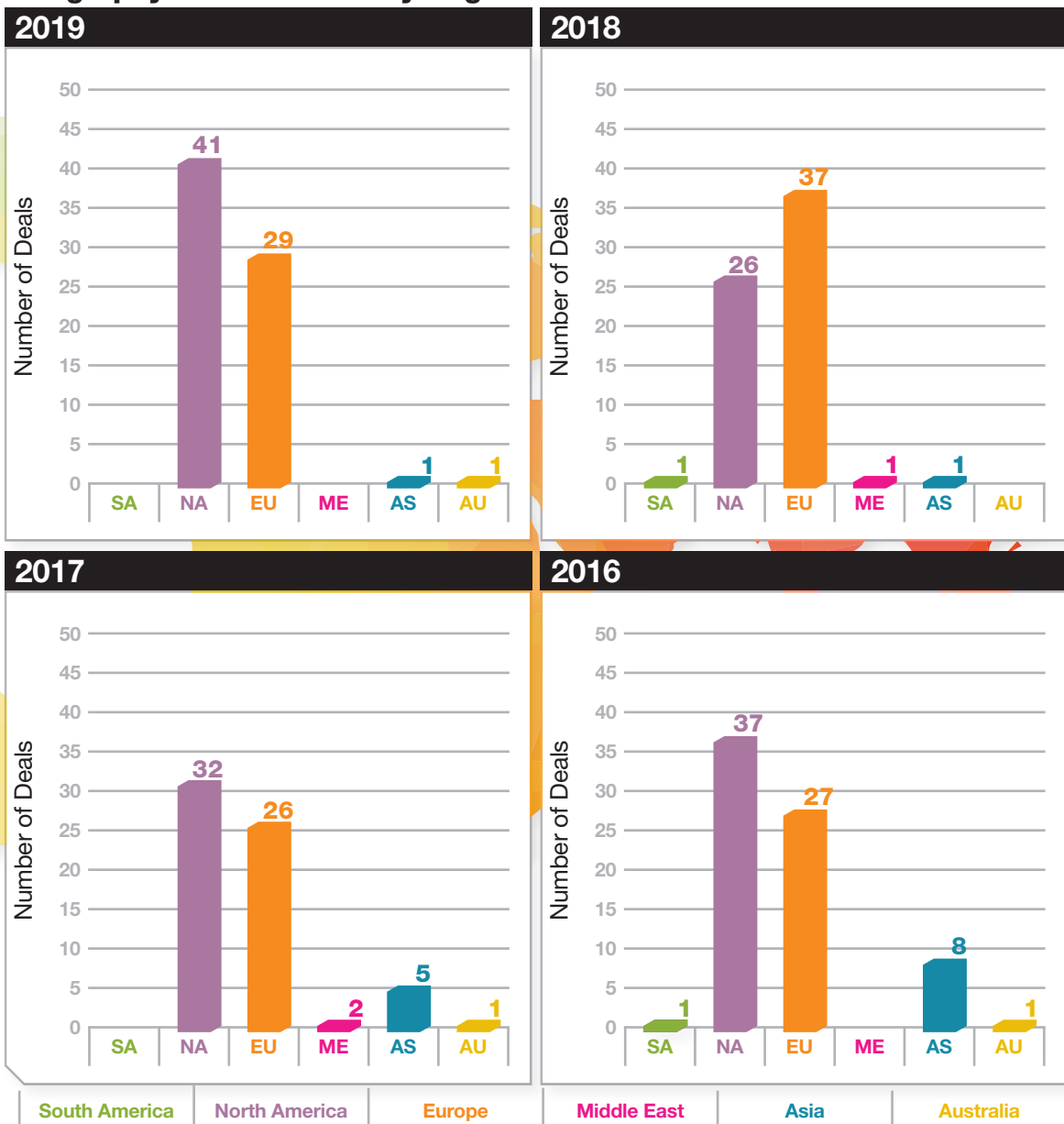


Additional Seller Insights

Geography

A greater percentage of sellers came from North America than ever before. Meanwhile, the share of sellers from Europe dropped substantially. In 2018, 56% of the sellers were from Europe and 39% were from North America. In 2019, however, the concentration of the sellers was reversed: 57% of the deals involved sellers from North America and 40% from Europe. The number of deals that involved sellers in Asia dropped from eight deals in 2016 to just one deal in 2019 (nearly an 800% decline).

Geography / Deal Volume by Region



Industry Specialties

The top five seller specialties were:

- #1. Technology/Digital
- #2. Healthcare
- #3. Financial Services
- #4. Travel and Tourism
- #5. Public Affairs



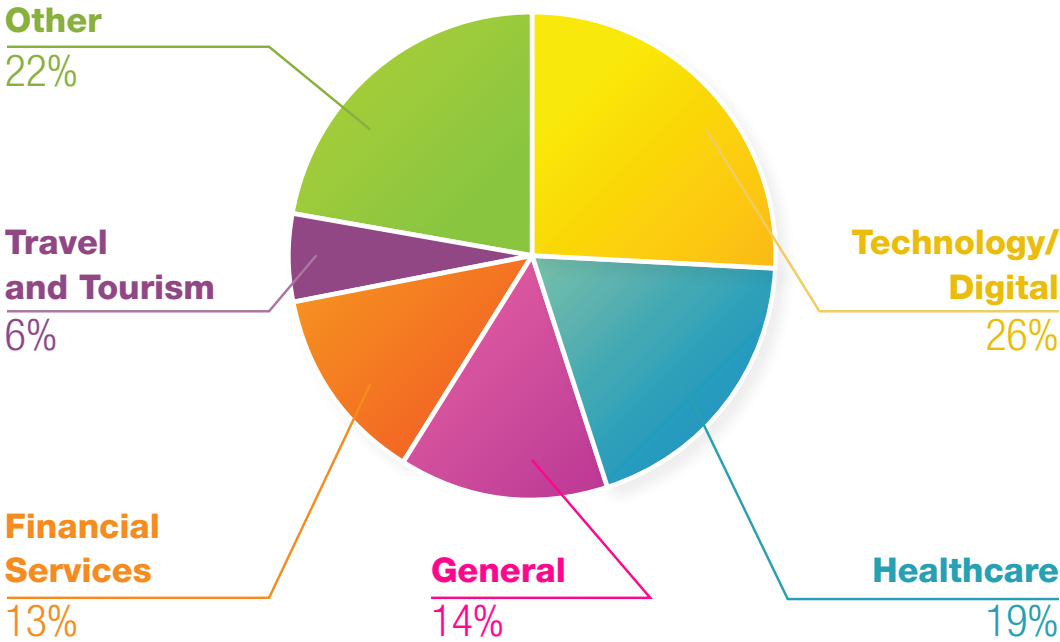
Technology/Digital:
Retained its historic first place, as it did in the prior two years —and accounted for **19 transactions** in 2019

Healthcare:
Accounted for **14 transactions**

Financial Services:
Accounted for **9 transactions**

Technology/Digital, Healthcare and Financial Services each posted record-high deal activity in their specialty areas.

Seller Specialties



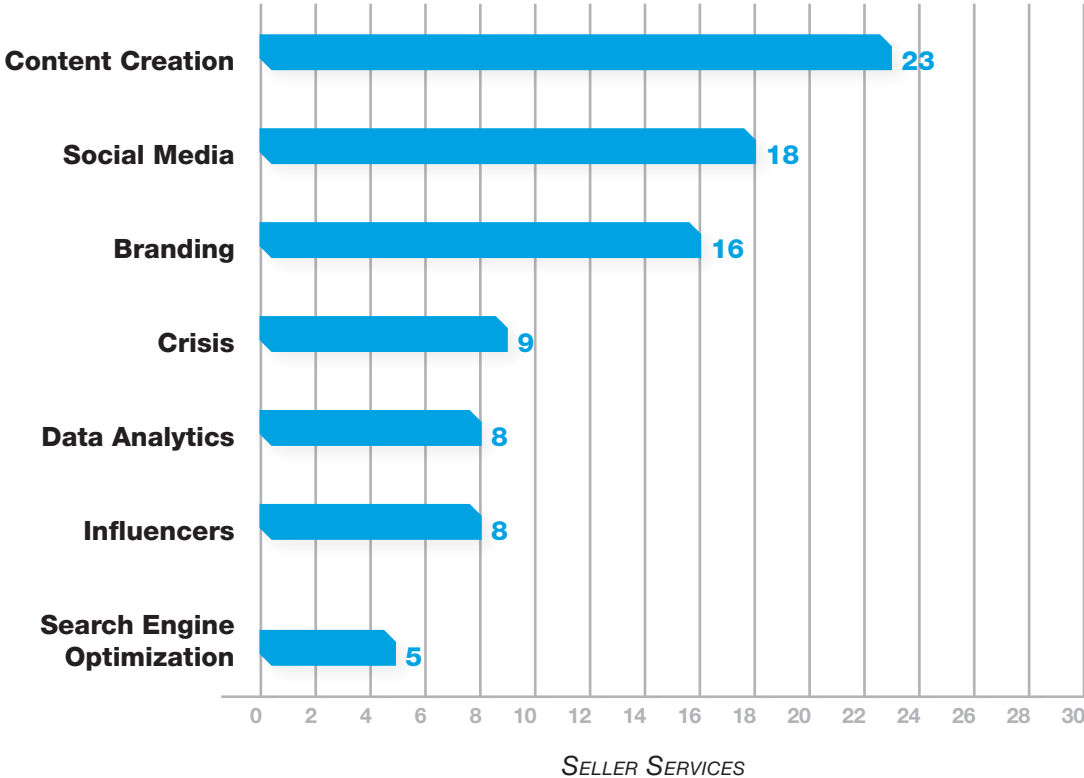
Service Offerings

The top three specialty service offerings provided by sellers were:

- #1. Content Creation
- #2. Social Media
- #3. Branding

Content creation on earned and shared media was the most popular service sellers provided to their clients and, by definition, the service that buyers found most appealing. It was offered by 26% of the sellers.

Top Service Offerings Provided by Sellers



What Lies Ahead for 2020

Q1 is traditionally a slow time for M&A activity in the PR market. Yet, a healthy 19 M&A transactions had already been completed through the end of the first week of March. Since then, an additional two deals have been completed, with 21 deals in total as of the date of this report.

While the appetite for M&A in the early stages of 2020 (prior to the COVID-19 pandemic) was quite strong, the uncertainty surrounding the worldwide economic shutdown has resulted in virtually all PR M&A transactions being put on hold. Most buyers and sellers are taking a “wait and see attitude,” with the hope that once the crisis resolves, both can continue pursuing their underlying business objectives — only time will tell.

“The uncertainty surrounding the worldwide economic shutdown has resulted in virtually all PR M&A transactions being put on hold.”

Terminology and Methodology

Background on terms used in this report and its methodology.

Buyers:

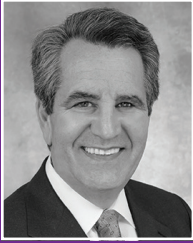
Independent: Agencies that are not publically traded. The independent buyers are overwhelmingly owned by one or more of the executives working at the firms.

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.

About Davis & Gilbert LLP

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 and Taxation.



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