

INDEPENDENT PUBLIC RELATIONS FIRMS SURVEY AND ACTIVITY HIGHLIGHTS

OCTOBER 2018

Davis & Gilbert conducted a confidential survey focused on the dynamic changes facing the public relations industry, including the biggest challenges and opportunities that lie ahead. The material that follows provides data on changes PR firms have implemented to drive their success — whether those changes have been to their service offerings to clients, practice areas, hiring practices, organization structure, financial operations, or all of the above. In addition, we analyzed published data regarding completed investments, purchases and sales of PR firms in the last 12 months. Here are the highlights:

Survey Respondents Profile

Headquartered In



Number of responding firms
109

In business for over 10 years
73%

Have acquired another PR firm
27%

Projected 2018 revenue in excess of US \$5M*
49%

Describe their companies as

- 46%** A full-service PR firm
Down from 53% in 2017
- 19%** A technology PR firm
- 12%** An integrated marketing agency
Down from 16% in 2017
- 9%** A consumer PR firm
- 9%** A corporate/financial PR firm
- 5%** Other (public affairs, healthcare PR, digital / social media)

2017-2018 revenue comparison

- 80%** Experienced an increase in annual revenue

< 5%	5 – 10%	11 – 20%	> 20%
18%	24%	14%	24%
- 8%** Experienced a decrease in revenue
- 12%** Experienced no change

These results show a significantly more positive financial revenue outlook for the high-performing firms in the PR marketplace than reported in the 2017 survey, particularly because 24% of firms reported an expected revenue increase of >20% as opposed to last year's response of 15%.

Percentage of revenue spent on compensation

- | | |
|------------|------------|
| < 50% | 50 – 53% |
| 25% | 20% |
| 54 – 56% | 57 – 60% |
| 17% | 21% |
| > 60% | |
| 17% | |

* 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 Difficulty in attracting and retaining talent (and the related increase in costs)
- 2 Client budgets remaining flat or declining
- 3 The rising cost of talent

(The results were the same when firms were asked the same question as it relates to the “next” 12 months, indicating that firms are increasingly more worried about attracting and retaining talent.)

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

- * 1 Hiring a greater percentage of mid- and senior-level employees skilled in business development and client relationship management
- 2 Hiring a greater percentage of employees with a design background
- 3 Training existing employees to integrate data and measurement as a “horizontal activity” throughout all their firm’s practice areas

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

- * 1 Having all divisions of the firm operate under one profit-and-loss statement
- 2 Using financial management tools to more accurately budget and price client engagements
- * 3 Training key managers or using financial management tools to more accurately budget and price client engagements

Top 3 organizational or strategic changes which 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 Increasing marketing and business development efforts by key employees
- 3 Hiring specialized senior-level talent to provide a new or enhanced service offering

Top 3 organizational or strategic changes that the firm expects to have the greatest impact in the next 12 months

- 1 Re-organizing client teams so that they are “discipline neutral,” with employees with experience in PR, marketing, advertising and branding
- 2 Hiring specialized talent to provide a new or enhanced service offering
- * 3 Enhancing professional development and training programs to existing employees to elevate the level of the employee’s skill and expertise

* Ranked much higher in importance in this year’s survey than in last year’s survey

Market Insights for Growth and Exit Strategies

Why Sell

Top 3 reasons Owners consider selling

- 1 Personal financial reward
- 2 Personal exit strategy
- 3 Opportunity to take on greater challenges in a larger firm

Respondents ranked as least important

- Greater demand for geographic reach

Talent

35% Have a program in place to award an equity equivalent (such as “phantom” or “contract” equity) to key employees

56% Have a long-term incentive program (LTIP) for key employees

Reasons for an LTIP or phantom equity program

74% Solely to attract and retain talent

This is a sharp increase from 2017 when only 62% used LTIP to attract and retain.

26% To attract and retain talent, as well as prepare for the sale of their firm

Financial Statements

78% **Use an outside accounting firm to prepare annual financial statements**

33% Audited statements

32% Reviewed statements

35% Compiled statements

Compiled statements has become the most popular, up 13% from last year.

M&A Outlook

79% **Have been approached about selling in the last four years**

92% **Have been approached to sell their firm within the last two years**

This is a significant increase from the 83% of firms who reported in the 2017 survey.

36% **Have been approached about selling more than three times in the last four years**

54% **Thought it was likely or very likely they would sell their firms within the next three years**

Top 3 preferred buyers in the eyes of a seller

- 1 Large independent PR firm
- 2 Large publicly traded holding company
- 3 Small or midsize PR firm

Large independent PR firms were also the preferred buyer in the 2017 survey, but consulting firms and private equity firms scored much lower than in last year's survey.

M&A Activity

Davis & Gilbert annually compiles data on mergers and acquisitions based on publicly available deal activity and its extensive experience in the public relations and integrated marketing communications sector. Below are the highlights for the 12-month period October 1, 2017 – September 30, 2018.

Total Transaction Activity

- 66 Publicly announced completed worldwide transactions
- 57 Different buyers consummated these transactions
- 15 of these transactions were consummated by six different buyers

Who are the buyers?

- 61% Independent PR firms
- 37% Public holding companies
- 2% Private equity firms

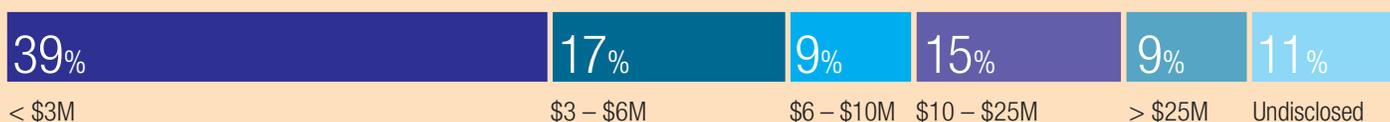
Sellers' principle office

- 46% North America
- 47% Europe
- 3% South America
- 2% Asia
- 2% Middle East

Who did they buy (specialties)?

- | | | | |
|--------------------------|--|--|---------------------------|
| 39% Technology / Digital | 7% Financial Services / Investor Relations | 7% Travel & Tourism | 6% Business to Business |
| 6% Consumer | 6% Healthcare | 6% Public Affairs | 6% Sports / Entertainment |
| 3% General Practice | 3% Hospitality | 2% Education | 2% Energy |
| 2% Life Sciences | 2% Real Estate | 3% Other (Comprises fashion and non-profit.) | |

Sellers' annual revenue



Noteworthy Differences in M&A Activity When Comparing 2017 to 2018

- ↑ 12% Representing an increase in PR deals in which the sellers were technology/digital agencies
- ↓ 15% Representing a decrease in PR deals in which the sellers were general practice firms
- ↑ 15% Representing an increase in deals involving selling firms with annual revenue in excess of \$10M; demonstrating the industry's appetite for larger transactions
- ↓ 10% Representing a decrease in deals involving selling firms with annual revenue of under \$3M
- ↑ 8% Representing an increase in PR deals involving public holding company buyers