

# Was Sard Verbinen a bargain at \$150m?

Despite the fervent land-grab mentality in the IR space these days, the \$150 million plunked down by Incepta Group for Sard Verbinen left many observers scratching their heads. But Craig McGuire and Adam Leyland discover that Incepta might have gotten a better deal than first thought

It came as no big surprise when independent Sard Verbinen was gobbled up last month. In fact, Incepta Group's purchase of the New York M&A specialist is just the latest in a string of high-octane acquisitions that have rapidly consolidated the IR sector over the past 18 months (see sidebar).

What struck even the most jaded industry veterans, however, was the \$58 million price tag, which could inflate to \$150 million over the next five years with earnouts. The deal was apparently based on an extremely high multiple – after all, initial reports placed Sard Verbinen's fee income at just \$13.8 million with profits of \$2 million. Based on those numbers, the \$58 million up-front sale price was 29 times the firm's pre-tax profits and more than four times its revenue.

Independents were reported to be rethinking their much-cherished autonomy. "I thought the deal was just terrific; terrific for them and terrific for us," says Richard Torrenzano of the New York-based IR firm Torrenzano Group. "It changes the valuations in the industry. I would be happy to change my mind [on selling the business] based on this valuation."

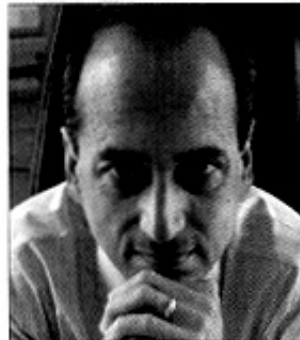
Mike Strick at Strick & Associates, the Los Angeles-based IR and crisis firm, was equally amazed. "We hear from people all the time offering to buy our business," he says. "But, nobody has said 29 times pre-tax earnings."

## Father Christmas

Upon closer examination, however, a very different story starts to emerge. In an exclusive interview with Incepta Group's David Wright, the chief executive insists that the multiples are in line with the industry norm, and he expressed his frustration at the focus on the pre-tax figures reported in both trade

## Wheeling and dealing

COMPANY	DATE	INCOME	PRICE	PURCHASED BY
Sard Verbinen	4/00	\$13.8 million	\$58 + million	Incepta
RLM	3/00	\$35 million	\$35 million	Young & Rubicam
Morgen-Walke	1/00	\$25 million	N/A	Lighthouse
Financial Dynamics	8/99	N/A	\$65 million	Lighthouse
FRB	1/99	\$32.5 million	\$40 million	BSMG Worldwide



Independent players in the IR niche... (left to right) Kekst, Strick and Torrenzano

Wright believes that the investment will reap enormous benefits – for both sides. "The fit is perfect from an operational point of view," he tells *PRWeek*, and he boasts that "this is going to blow the competition out of the water."

In other markets, he explains, Incepta's Citigate Dewe Rogerson is a strong global player, with sizeable IR operations in London, Hong Kong, Singapore, Frankfurt, Düsseldorf and Berlin. And although it has a \$12 million IR operation in the US, it was focused on transactions in Europe and Latin America.

"We needed a strong presence with the US banks, because although we were seen as the leading player in many world markets, without a domestic player in the US, we weren't taken seriously. With Sard Verbinen, we've got that and more," says Wright, explaining that Sard Verbinen now outsources a lot of work that other CDR operations can handle, like advertising and shareholder identification.

"But the deal works just as

much for Sard Verbinen," Wright insists, and not just for reasons of personal gain. "None of the specialist domestic players in the US – like Kekst and Abernathy McGregor – can offer the international service that our network brings. We're the only ones who are putting the pieces together."

"Bear in mind, a lot of US banks need help outside the US. As George [Sard] and Paul [Verbinen] realized, the financial markets have become much more international in scope. Every fund is invested out of the US, and stock migrates more than ever. You need to be international, particularly with a contested deal."

## Five-year plan

Of course, there are other factors at play that could impact the way this deal is eventually viewed, like anchoring Sard and Verbinen to the agency for the long haul. Both are tied in to five-year deals, which will take them comfortably into their late 40s and early 50s, but some industry observers have expressed doubts about the long-term value of the operation when they exit.

"Whether you're talking

employees into the long-haul integration of the business.

"Forty percent of Incepta shares are owned by 40% of our staff. We believe in the importance of equity, because otherwise there's no incentive to bring in business for other parts of the company. In other recent cash-only deals, there's no incentive to work together." That emphasis on stock involvement helps explain why UK-based Incepta is "growing faster than any other quoted company in our sector," Wright claims.

There are still some hurdles to overcome in terms of integration. The future of Citigate Dewe Rogerson's \$12 million US operations remains unclear. There has been speculation that Sard Verbinen executives are violently opposed to consolidation of the business. But it is possible that the small M&A operation (run by Owen Blicksilver, a former colleague of Sard and Verbinen at Ogilvy, Adams & Rhinehart), will be consolidated. "It's a small team, with retainer income of \$2 million, which will integrate very nicely. In fact, Sard Verbinen wanted Owen to join," Wright adds.

If the share price is going to

**"If you strip**