DECEMBER 2020

HOW Media COMPANIES ARE Adapting & finding success IN A TIME OF PANDEMIC

CEO PERSPECTIVES: **A Platform for Discussion**

Long Hill MEDIA

MEDIA ADVISORY PARTNERS

WHAT'S INSIDE

Executive Summary

Faced with a global pandemic and an economic shutdown, many media companies have suffered year-over-year revenue declines. But the surprising story here, according to an exclusive new research report, is that some of these companies are growing. In this report you'll hear how they're doing it.

In a series of in-depth interviews, 25 executives, all C-suite and all but two of them CEOs, were by turns circumspect and realistic, and in the end both opportunistic and optimistic. All are growth oriented. All are innovating with new business lines and new served markets. From digital products to virtual events, from research and data to lead generation and subscription boxes (gift packages that come along with a print magazine subscription or a membership) there's a lot going on.

The CEO interviews were part of a study conducted by the mid-market M&A advisory firm Media Advisory Partners and the content-services firm Long Hill Media. MAP, in collaboration with LHM, created a strategic picture of the media market as 2020 draws to a close. The two firms produced a contextual framework for media executives as they pursue their business plans in the next 18 months, and provide insights into the M&A market for the months ahead.

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A FRAMEWORK for Growth

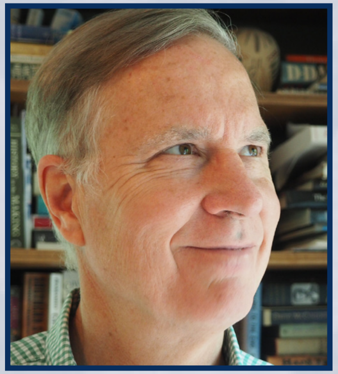
Essential takeaways include:

- Eleven of 25 respondents indicated they're just trying to get through 2020 while managing cashflow and preserving jobs.
- Ten companies indicated that they're seeking to transform themselves in the face of business challenges. All of these 10 are B2B. A speedy pivot to virtual events was a common theme.
- The economic impact from the disasters of 2020 is real. Sixteen of 25 executives say they're down year-over-year in revenue—many are down sharply.
- All but one of companies that reported they've declined had balanced revenue streams with significant exposure to events, advertising, and print. In particular, events and brand-awareness advertising have been hit hard.
- Advertising deployed in the context of generating leads is more resilient.
- All the digital pureplay companies reported growth for 2020.
- Many of the balanced-revenue companies reported digital growth, as marketers redirected event budgets into marketing services.
- Lead-generation and virtual events are the most significant and the most common area of innovation.
- Nearly all respondents are actively engaged in portfolio management. Most say M&A is a priority. Most are looking at acquisitions.
- Many companies have accelerated growth plans, especially around membership models.

METHODOLGY

Long Hill Media President Tony Silber conducted a series of live, one-on-one interviews from mid-July to early October. Twenty-five executives were interviewed in all. Participants were selected based on their size and the sectors they represent, with an eye toward delivering as broad a perspective as possible.

AUTHOR

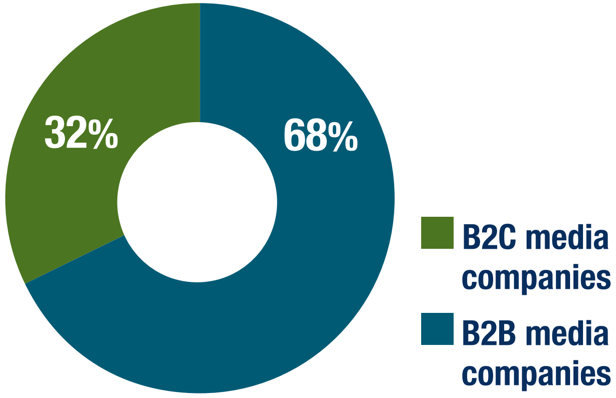


Tony Silber is president of Long Hill Media.

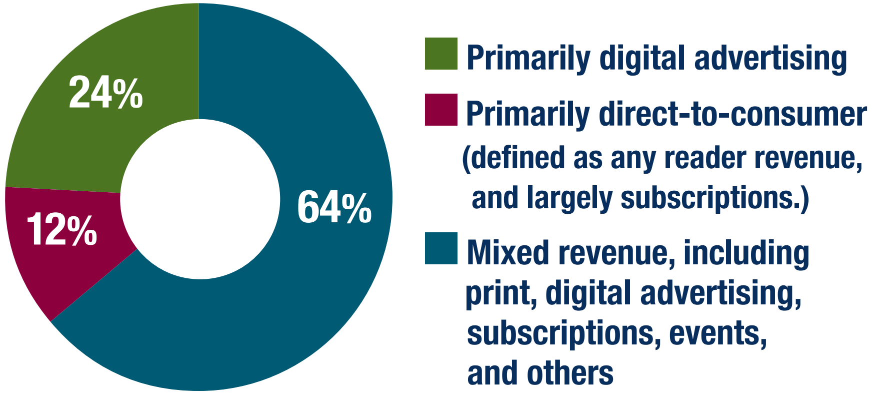
In 25 interviews, media-company CEOs were realistic and cirtcumspect, opportunistic and optimistic.

RESPONDENT Profile

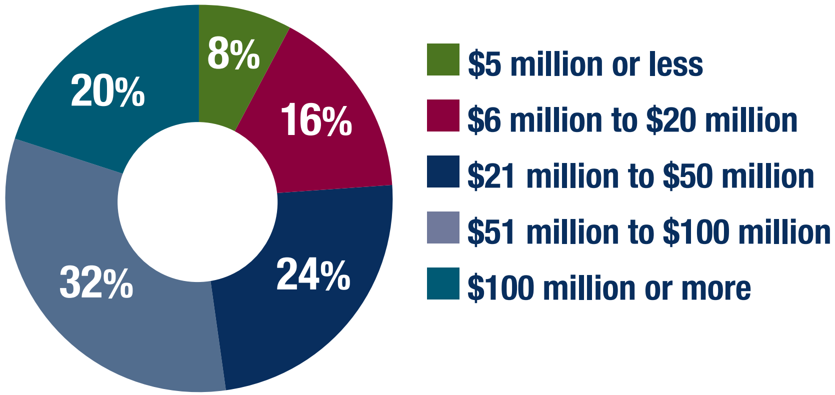
TYPE OF COMPANY



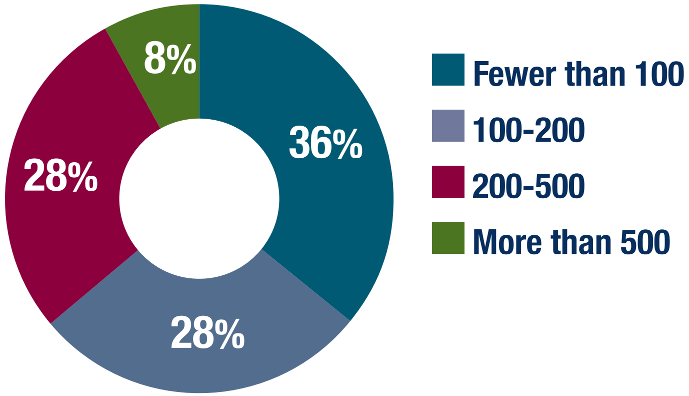
REVENUE MODEL



SIZE IN REVENUE



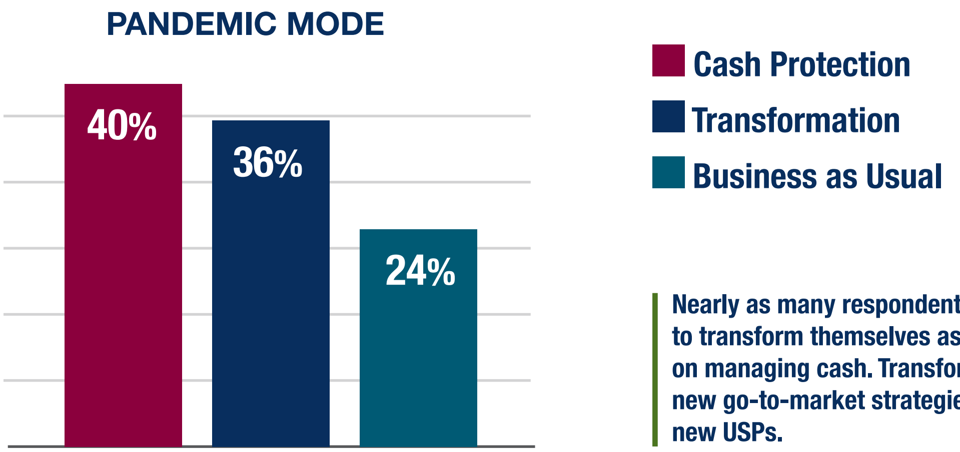
SIZE OF WORKFORCE



- Most CEOs combined two approaches to pandemic publishing. The first several months of the pandemic were about cashflow, meeting loan covenants, and wondering when live events would come back. More recently, it's been about portfolio rationalization and innovation.
- There is evidence of economic turbulence. "We have 23% year on year growth in our digital portfolio," one CEO says. "But when you lose 70% of your revenue stream, events, that hurts."
- Four respondents said 2020 was more or less business as usual for them—some weren't experiencing much of a falloff in revenue. These companies had one or both of these characteristics: They were all digital, or rely on subscription products. Digital businesses have done well because live-event budgets have been diverted to digital marketing.

Respondents' Strategic Goals and Priorities

Eleven of 25 respondents indicated that they were just trying to get through 2020 while managing cashflow and preserving jobs as much as they can. These companies run the gamut: Five of them are B2C publishers while six are B2B. Ten companies indicated that they're seeking to transform themselves. All of them, interestingly, are B2B. One CEO summed it up this way: "We're transitioning from a media company to a performance-marketing company. We are always going to have media, but it will be used to solve pain points and goals. We will use research and mine data. The days of brand awareness as a driver of a business are dead."

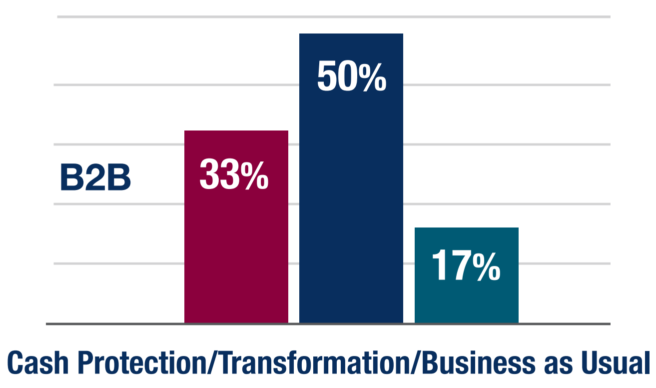


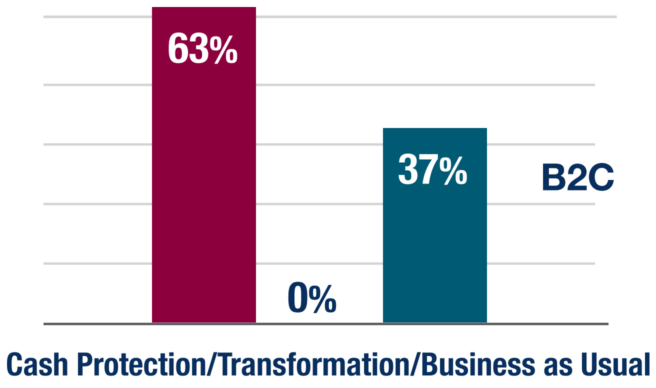
Nearly as many respondents spent 2020 trying to transform themselves as those that focused on managing cash. Transformation mostly meant new go-to-market strategies, new products, and new USPs.

- Some respondents indicated that their revenue has increased this year. All are digital pureplays, which have benefitted from spending windfalls that would have gone to events. "Our topline growth will be north of 25%," says one B2B executive. "We're selling bigger campaigns and adding new clients."
- Digital events are performing well as media companies have successfully brought together buyers and sellers on virtual platforms. While virtual events produce less revenue than live events, they're more profitable—and actually offer enhancements in lead-generation capability.

Section 1

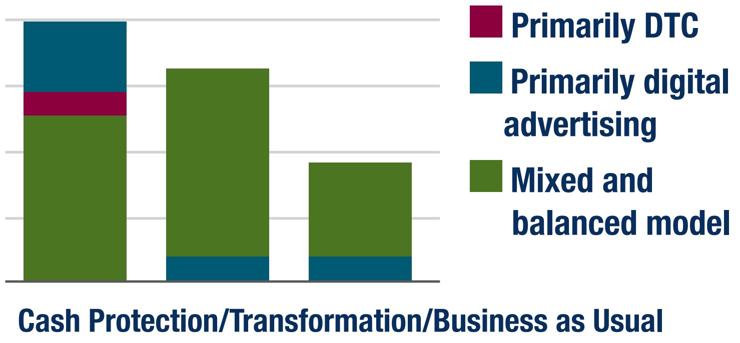
B2B OR B2C CROSS-REFERENCED TO OUTLOOK





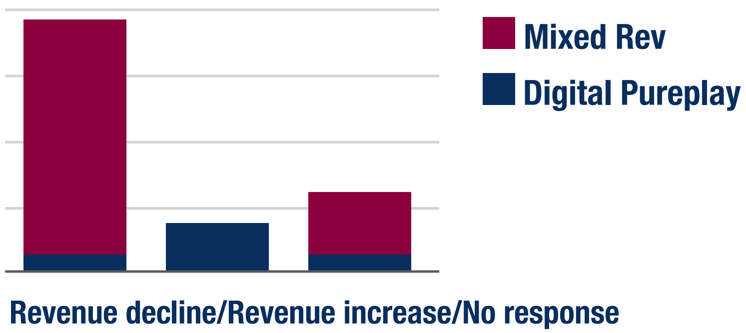
The energy around remaking business models is coming mostly from B2B. B2B media business models are more diverse than their consumer counterparts. Opportunities can be activated without extensive study, investment, and new talent.

BUSINESS MODEL CROSS-REFERENCED TO OUTLOOK



Some companies with mixed-revenue models were not feeling an urgency to remake themselves. They emphasize subscriptions, memberships, paywalls, and the like. Renewals and new business have proven stable.

TRACKING 2020 PERFORMANCE



Companies with events were most likely to suffer declines in 2020. Those with digital advertising and marketing-services benefitted from revenue windfalls.

INSIGHTS

- Combining live and virtual events are an area of focus. For example, several CEOs said they're running smaller versions of their live events and adding a virtual environment, allowing for extended education for attendees and an enhanced buyer-seller matching opportunity for sponsors.
- Lead-generation and database development were mentioned as a key priority by 12 respondents.
- Some respondents focus on pure lead-generation, but most view events and lead generation as related. "Our biggest growth area for the year has been our marketing-solutions portfolio," a B2B CEO says. "That includes some virtual events, but also webinars and lead generation."
- Another B2B CEO mentioned a focus on using the database as a source of tools for clients. "We've made a heavy cap-x investment in our database," he says. "This may be our biggest growth area in the next few years."
- Virtually all respondents who have significant subscription businesses are advocates for paid content. "A subscription-revenue stream is always going to be better as a recurring stream than advertising," one says.

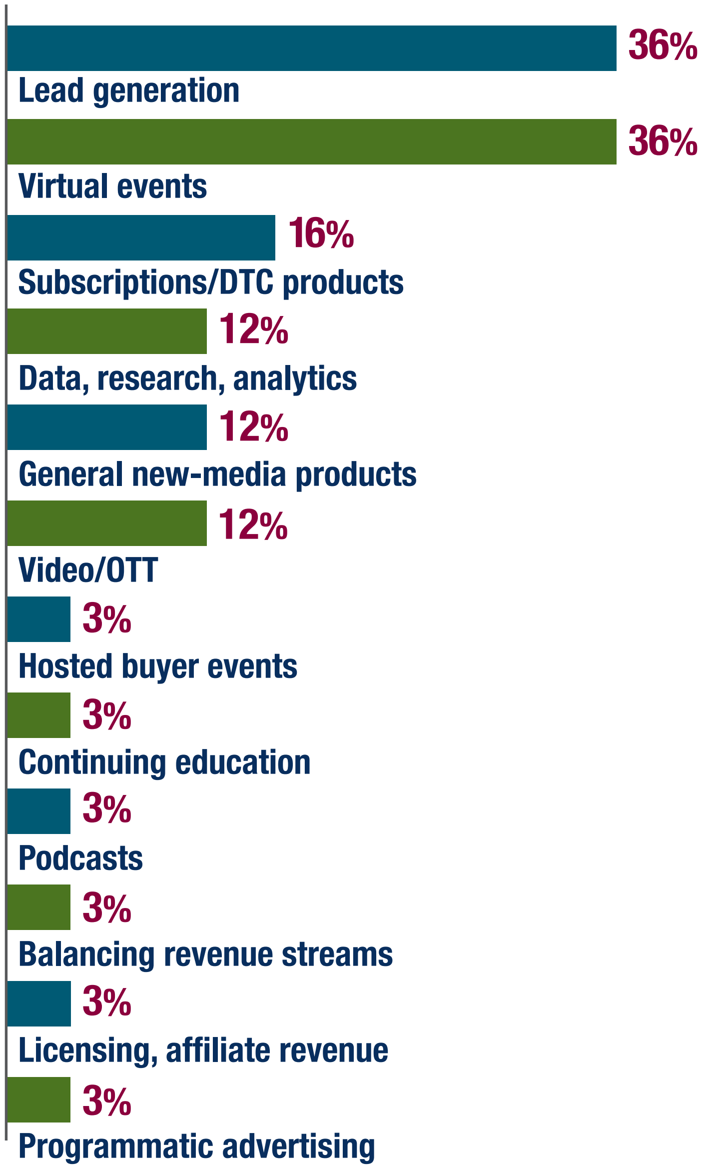
New Business Models

The overwhelming majority of respondents indicated that the innovations and initiatives they're focused on are either lead generation and database proficiency, or building up virtual or hybrid events.

Increasingly sophisticated marketing technologies have vastly improved the ability to identify and qualify leads and deliver them to marketers. Virtual events or hybrid models are now at the strategic center for more than a third of our respondents, partly because of their strong lead-gen capabilities. But there's not really a choice. Many respondents say that live events won't fully rebound until 2022 or later.

Not surprisingly, survey respondents view virtual events as an area for significant innovation. Lead generation is another.

AREAS OF INNOVATION AND INITIATIVE



- New database and research product rollouts have been aimed at unserved and tangential audiences. Some companies are expanding DTC revenue beyond magazine subscriptions.
- One consumer-media CEO is converting away from print magazines. “We have a multi-year strategy to move our customers into the digital ecosystem,” he says. “We’re telling the customer that at some point they’re not getting a 12-times magazine.” This B2C CEO says his company’s revenue is about 25% digital now, with a goal of getting it to about 80%-90% digital.
- Membership models are also a priority for 2021.

Revenue and Media Mix

Respondents indicated a wide mix of priorities, almost as varied as the number of respondents themselves. They range from boosting advertising back to pre-Covid levels to expanding lead-generation, data, research, marketing services and customer-insights. But when all the very specific priorities are grouped into slightly broader buckets, a clear priority emerges. That objective is diversification of product mix and revenue streams.

STRATEGIC PRIORITIES

Even though companies that have balanced portfolios were most exposed in 2020, revenue diversity remains a key objective.

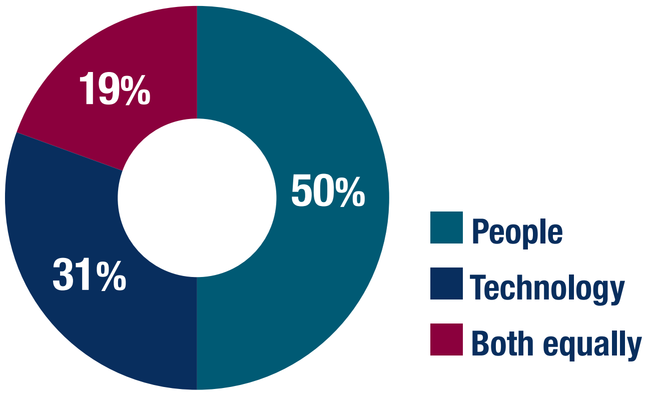
- Several companies with private-equity backing said they appreciated the access to investment capital during the pandemic. And some with private-ownership said they were relieved that they were debt free and didn't face performance pressure.
- Survey participants indicated that their emphasis remains on people, even during a difficult year.
- Adding account-management staff was a priority. Programs require a lot more work in post-sale content creation, marketing, and tracking results.
- Robust advertising revenue is now directly tied to lead generation, not brand awareness.
- Some companies are playing catch up. "We have not been a tech-first company," says a B2C CEO.

Staffing, Tech and Capital

This is where things get tricky for media-company leaders. Most companies have had layoffs and furloughs, leaving them short-handed as they attempt to roll out new products. Mostly, they have no choice, and the constraints vary depending on their ownership structure.

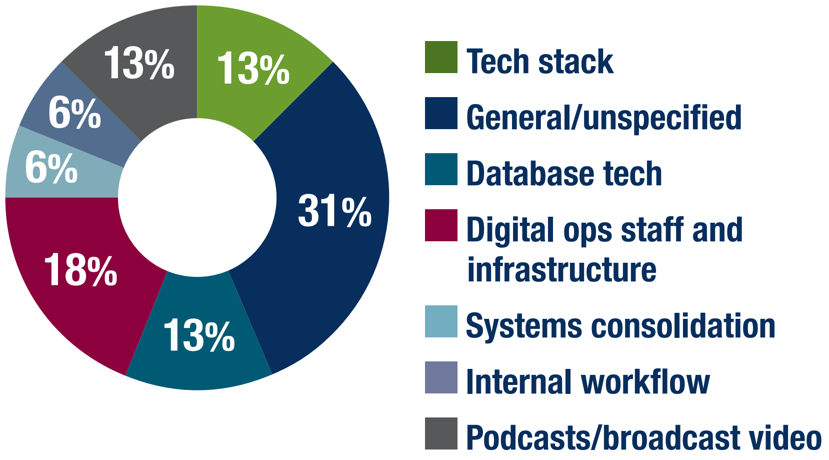
"The better capitalized companies can last longer," says a B2B company CEO who's backed by private equity. "I have access to plenty of capital."

INVESTMENT SPENDING PATTERNS



Even with furloughs and layoffs, most respondents are focused on their people.

TECHNOLOGY INVESTMENTS



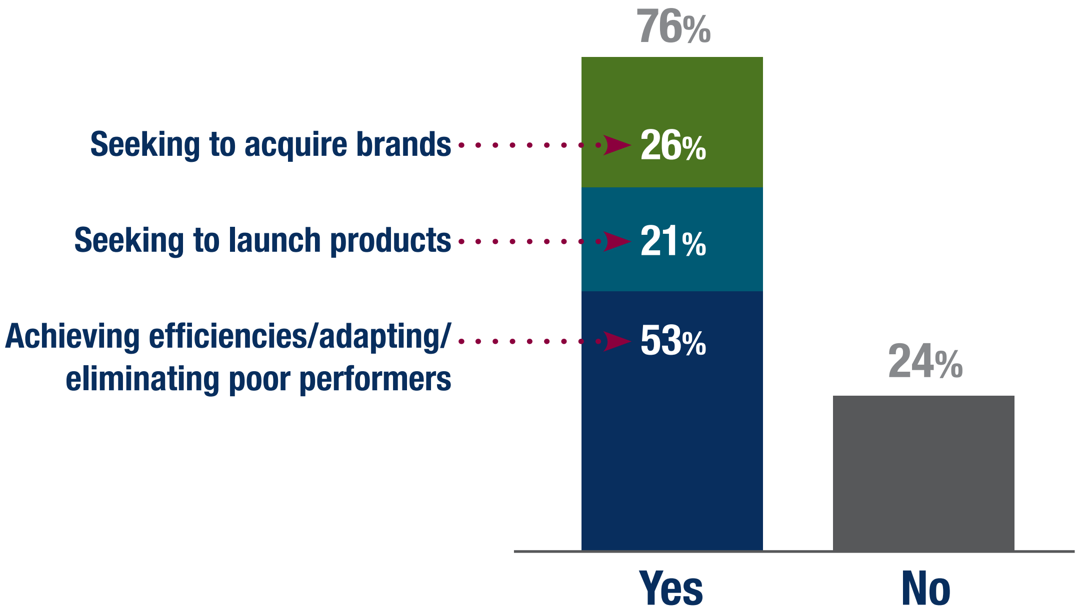
Digital operations is the single most mentioned tech priority, though many areas of focus have the attention of respondents.

- Of those who are examining their portfolios, there were three motivations, broadly speaking. The first is growth through acquisitions. Another is growth through internal product launches. "There are white-space growth opportunities around our businesses," says one B2B CEO. The final objective is defensive: Eliminating poor performers, dialing back too-ambitious initiatives, adapting as media-consumption patterns change, and cutting back events that suddenly became non-viable in 2020.

Portfolio Management

Nearly all participants in the MAP/LHM media survey are actively engaged in portfolio management for an array of reasons, led, naturally enough, by one overriding consideration as summed up by this B2B CEO. "We're focusing much harder on what's working and what's not working," he says.

PORTFOLIO MANAGEMENT ACTIVITY



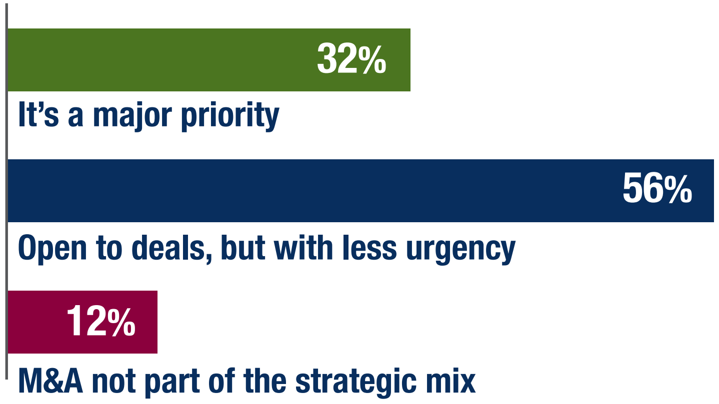
Most survey participants are actively engaged in managing their portfolios, for a variety of reasons.

- All respondents indicated that they understand the challenging conditions in the current market. There's a lot of money available to underwrite deals, but accurately valuing media businesses based on 2020 performances is difficult.
- Not only will more deals have an earnout component, the earnout will be a larger percentage of the deal value.
- Disagreement on valuations between buyers and sellers will increase, making deals more difficult to close.
- The dynamics that often drive buying and selling continue to be factors. One CEO noted that he's 57. "I don't know that the third generation is going to carry on, so the end game is probably going to be to sell."

The Role of M&A

Mergers and acquisitions remain on the minds of most publishers, even as they struggle to right the ship. For some participants, it's a major priority. For others, it's opportunistic—they'd consider the right deal under the right circumstances. For still more, M&A is in the mix, but probably not this year or early next. And for three participants, it's not in the mix at all.

M&A ACTIVITY



M&A is a priority for all but three survey participants, but the level of aggressiveness varies.

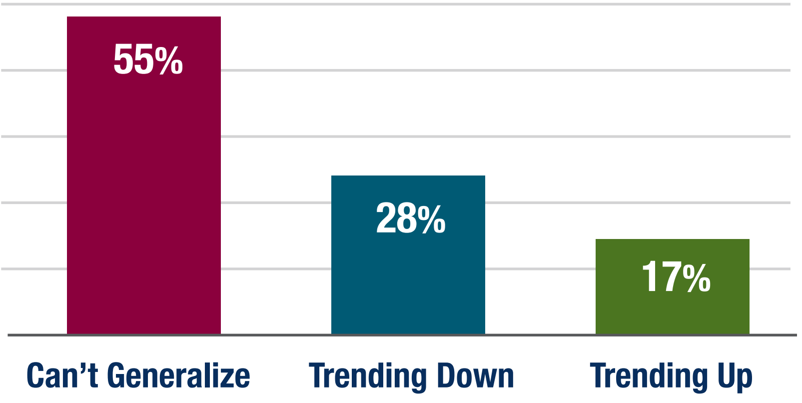
- Generalizing in pandemic mode won't work. There are financial buyers on the sidelines with a lot of money, but multiples overall have come down one or two turns.
- Transaction multiples will depend on intangible factors like "fit." Or performance against a peer set.
- One wild-card will be the private-equity market. If PE firms keep pouring money into digital pureplay businesses, a lot of smaller companies could become too expensive for many buyers.

Expectations for Transaction Multiples

One significant impediment to deals in this Covid-19 year is that it's very difficult to establish multiples. It used to be a near certainty that events businesses would command EBITDA multiples in the high-single digits to mid-double digits. Similarly, diverse media businesses with a robust digital component and growth would produce a multiple above six-times EBITDA. And slow-growth print businesses would attract multiples of less than five.

Those assumptions are gone. "Figuring out what things are worth—that is definitely the challenge," notes one CEO. In some presentations, sellers would simply rather skip over the year 2020, he says. "But you can't assume that 2019 is what 2021 is going to look like. I have never been in a situation where looking at the industry has been this murky."

PREDICTING MULTIPLES



It's a complex time to measure deal multiples, but a couple of things are assured. They're going down for live events, and up for digital.

Long Hill Media has decades of expertise in content creation, sales, communications, P+L responsibility, and strategic management. We us e content marketing to successfully connect sellers with buyers. We're experts in editorial, research, online and print communications, event programming and production, marketing and sales.

Media Advisory Partners was founded in 2010 to provide financial advisory services to small and mid-size marketing services, media, and related companies. We balance your unique goals, considerations, and valuation to optimize your outcome, serving as a true advisor.

Mark Holdreith

Conclusion

The primary takeaway from this report, implicitly expressed by virtually all 25 participants in the MAP/LHM survey—even those who spent the better part of the year hunkered down and managing cash—is expressed in one word: optimism. They all believe they're playing a vital role in their served markets. And they all believe they will continue to leverage that role into monetization. There's no ambiguity on the point.

"We're going full throttle," sums up one CEO. "We have new talent, new capabilities, new capital, and new tech solutions. There was no transformation needed. We had the right model for these times."

Long Hill MEDIA

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