



Presentation to Local Media Association

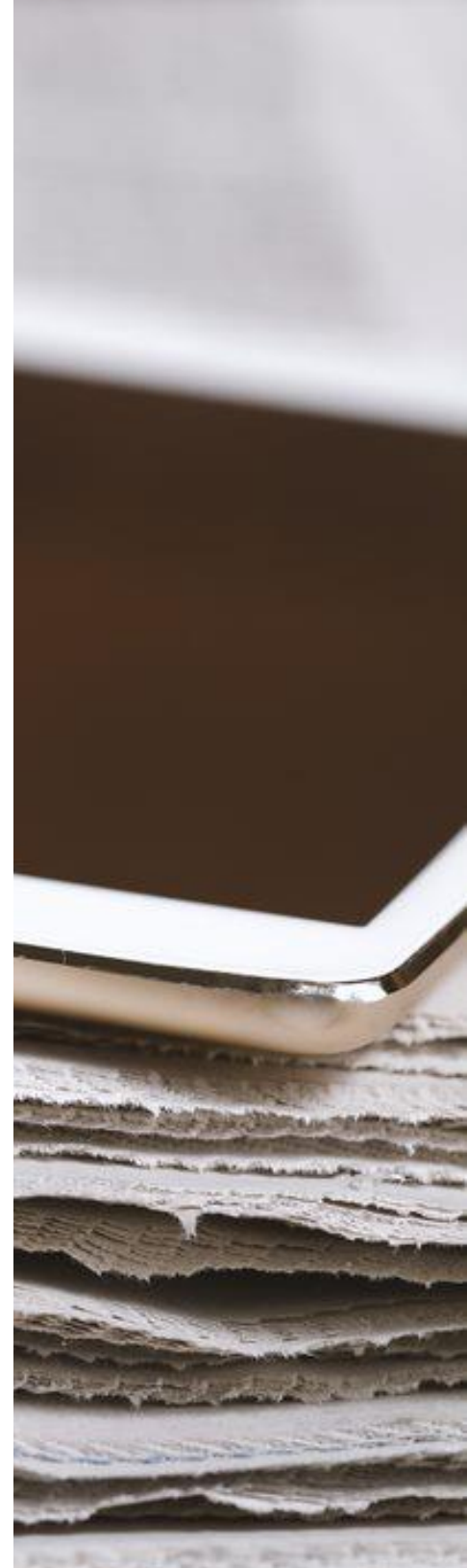
# Industry Outlook and a Path to the “New Normal” for Local News

FTI Publishing + Digital Media Practice

# Newspaper Industry Revenue Forecast

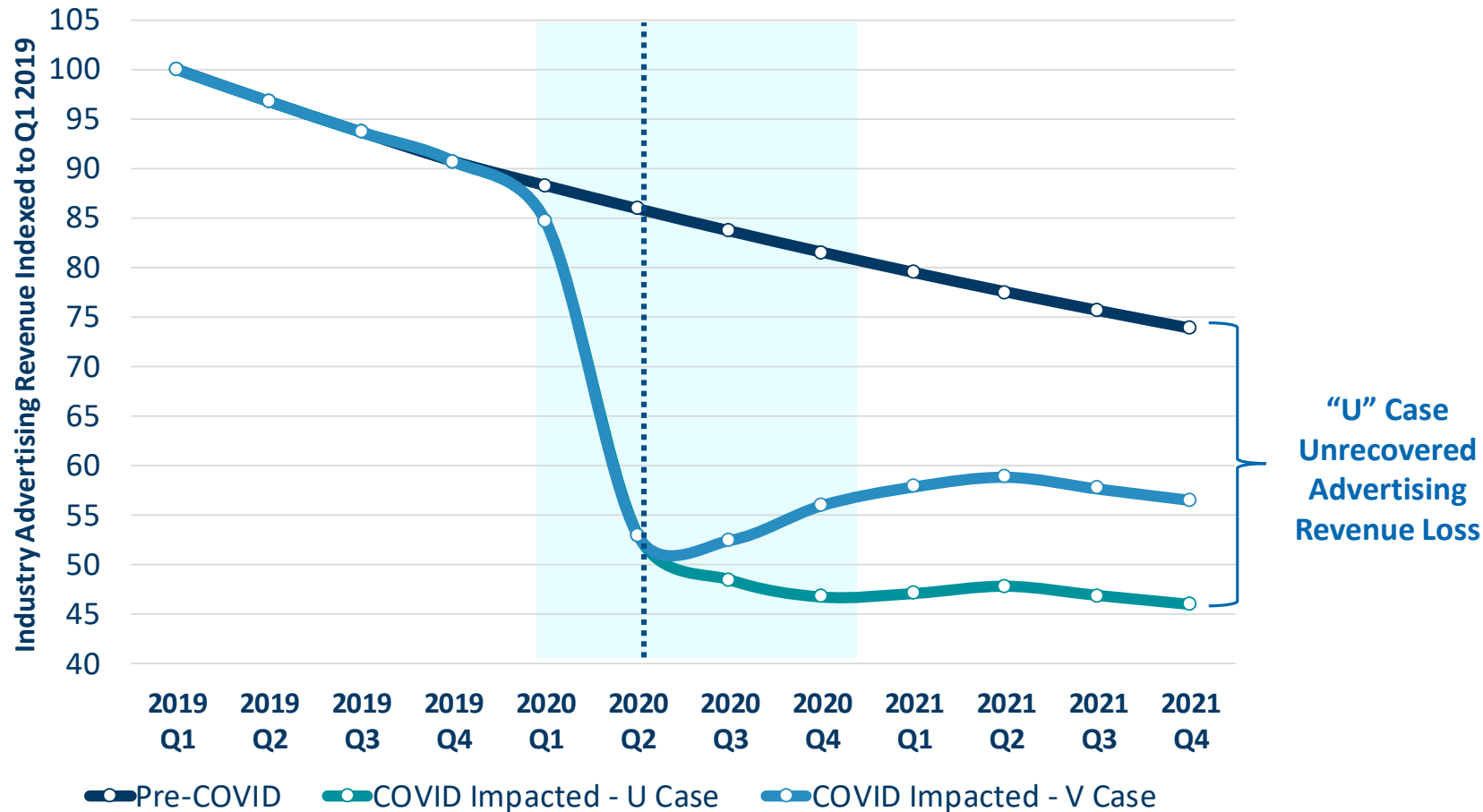
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HOW COVID HAS IMPACTED PUBLISHERS



# April Advertising Revenue Forecasts | ‘U’ and ‘V’ Recovery

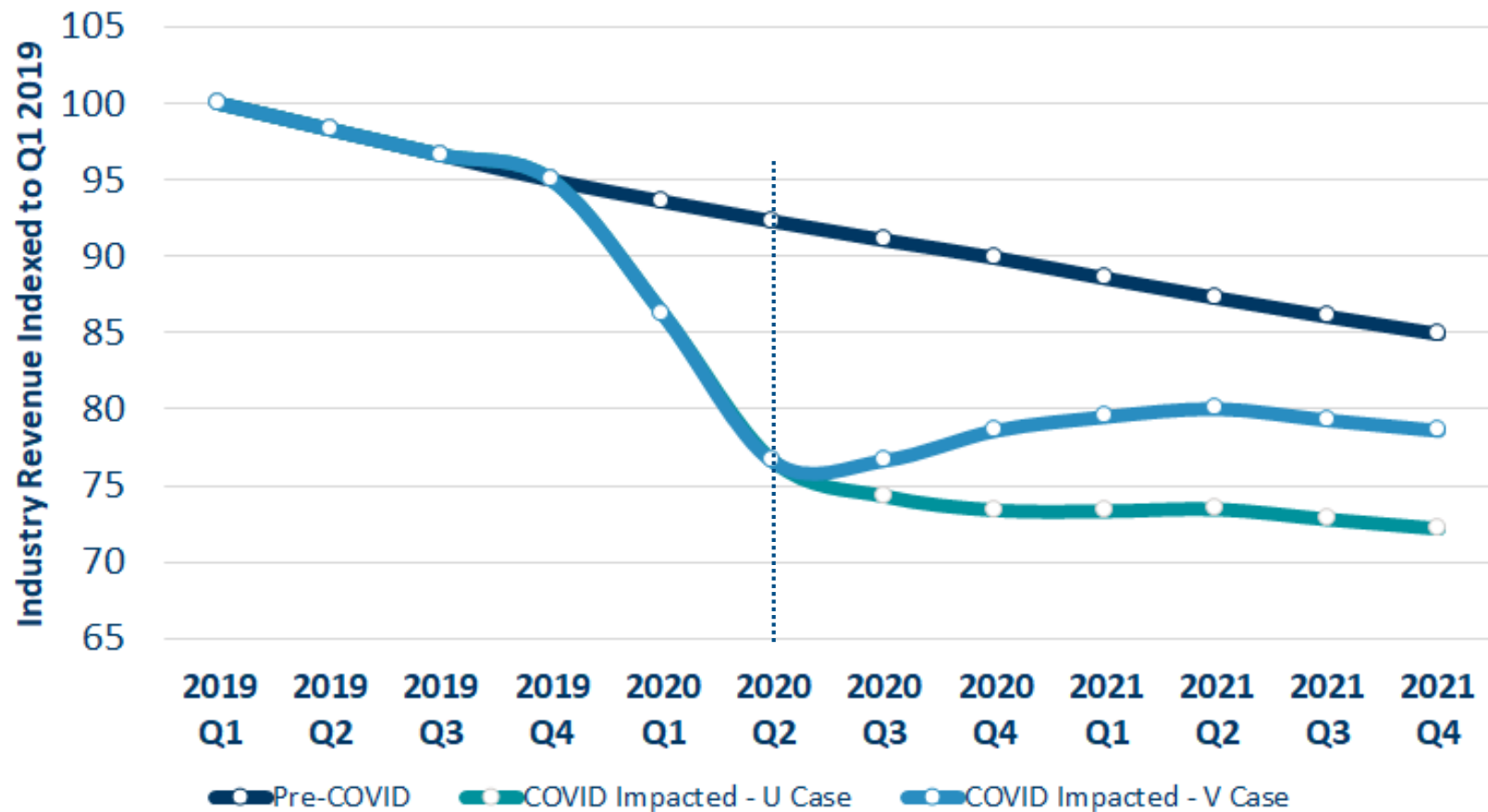
Impact of COVID-19 | Newspaper Industry Advertising Revenue



- FTI’s “U” and “V” forecasts YoY total advertising revenue decline ranges of **35% - 40% in 2020**
- Print ad revenue primarily drives the forecast at 40% - 45% declines in 2020.
- Digital ad revenue will be more resilient with forecasted declines of 19% - 23% in 2020 and growth returning in 2021 of 8% – 22%.
- We project an unrecovered advertising revenue loss between **17% to 28%** as a result of COVID-19 by Q4 2021.

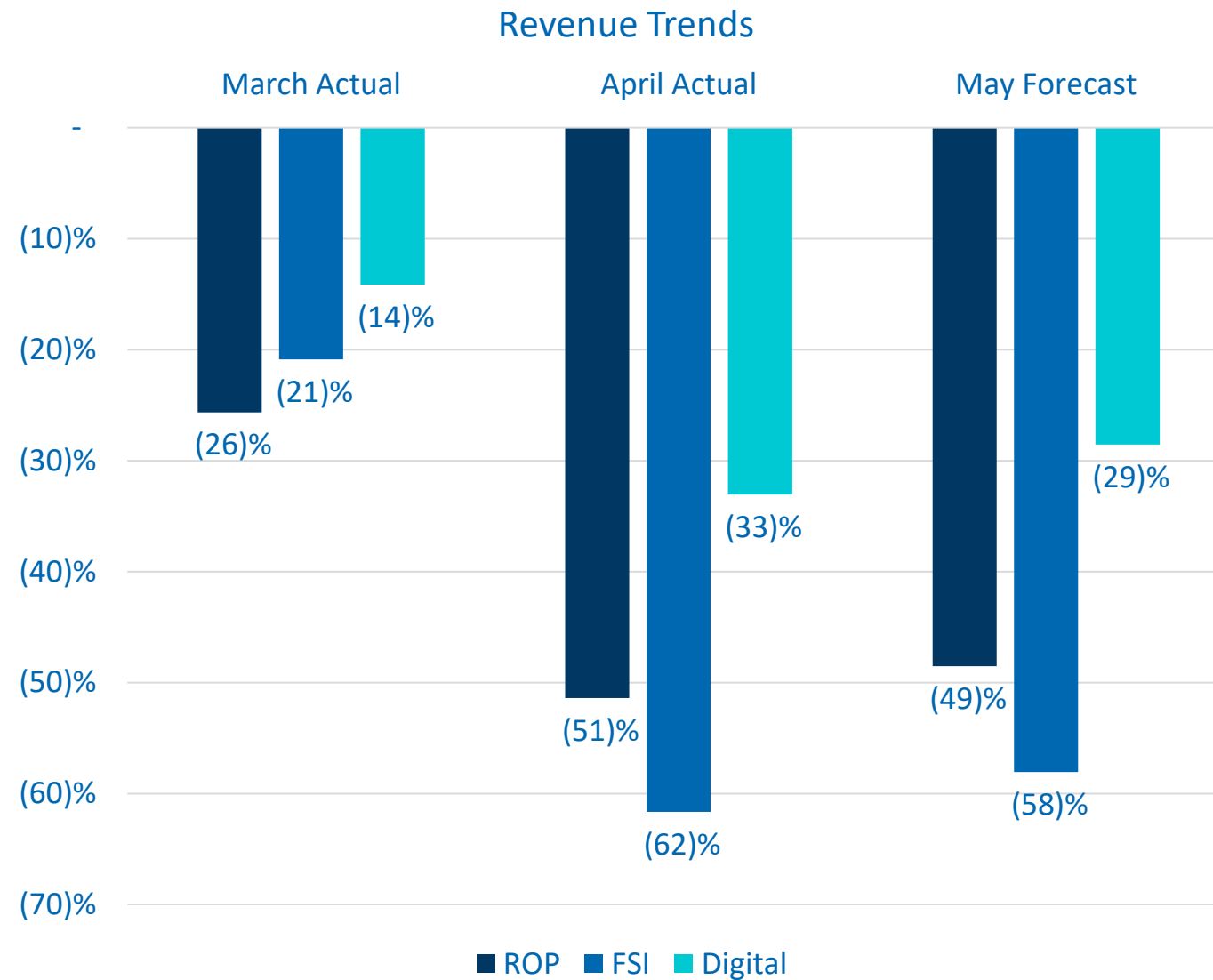
## April TOTAL Revenue Forecasts | 'U' and 'V' Recovery

### Impact of COVID-19 | Newspaper Industry Revenue



- Total revenue declines, previously forecasted at 5% - 6% annually until 2021, are now expected to be between 10-15%.
- In 2020 alone, we can expect total revenue decline of 18-20%.
- We may see as high as 50%+ year-over-year growth in digital subscription revenue by Q4 2020; mostly volume.
- While we do not assume any reduction in print frequency, print ad revenue declines will accelerate the timing wherein frequency reductions become more economically viable

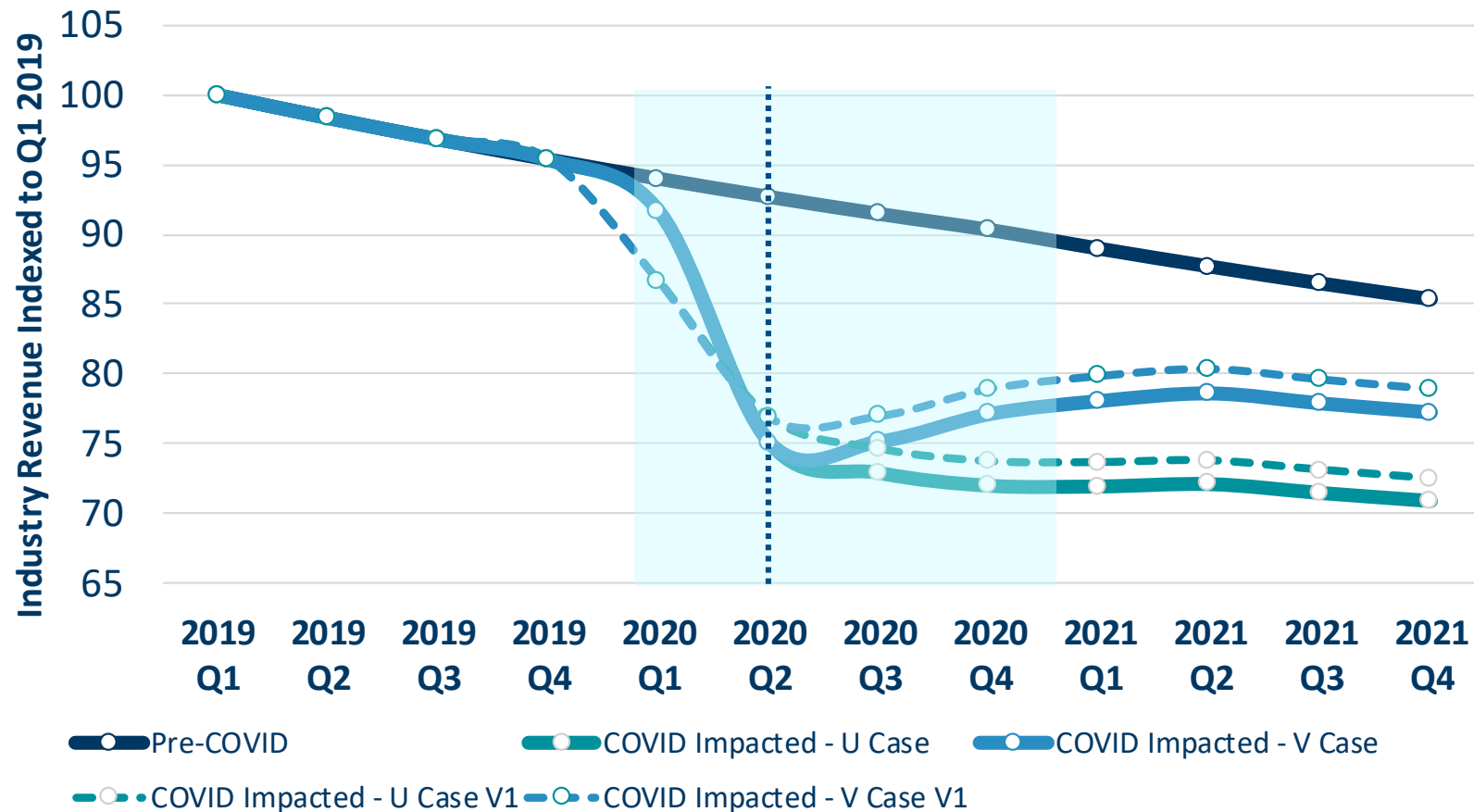
# May Forecast Update on Advertising Revenue Data



■ Updated May forecast data from publishers shows slight improvement in advertising revenue for ROP, FSI, and Digital compared to April actuals

## Total Revenue Forecasts | 'U' and 'V' Recovery vs. Previous Forecast

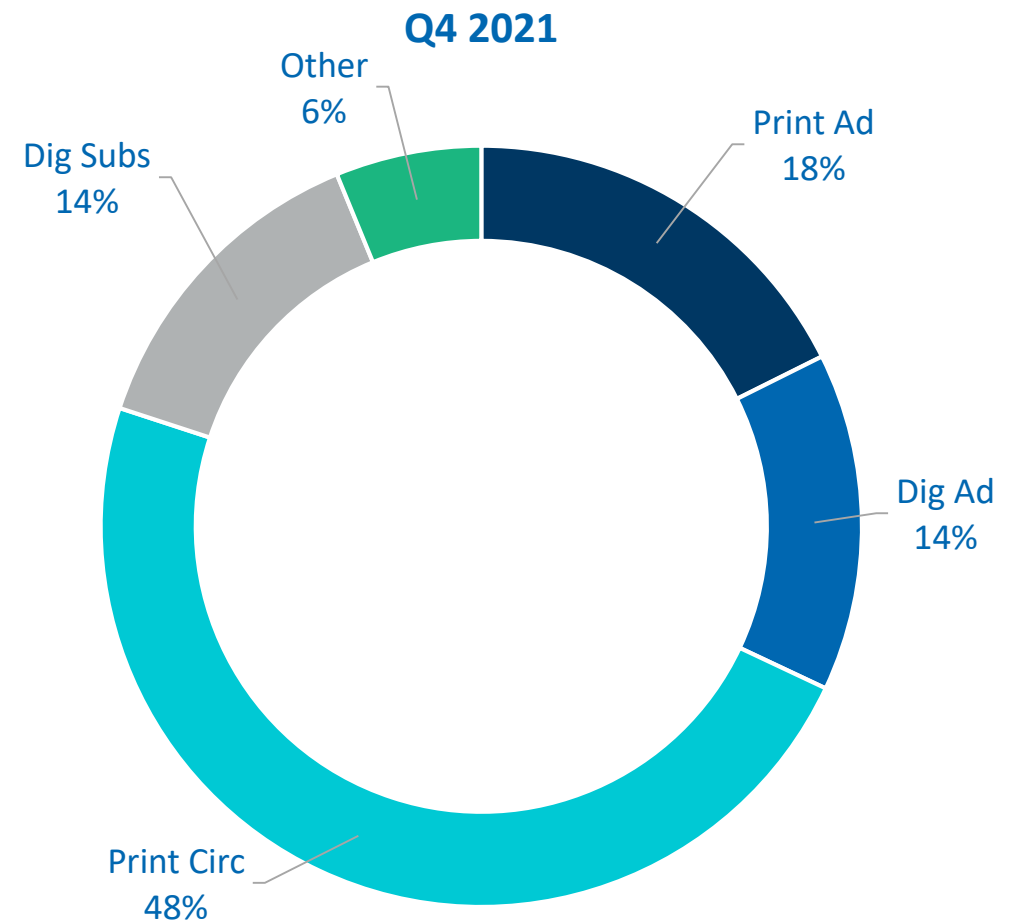
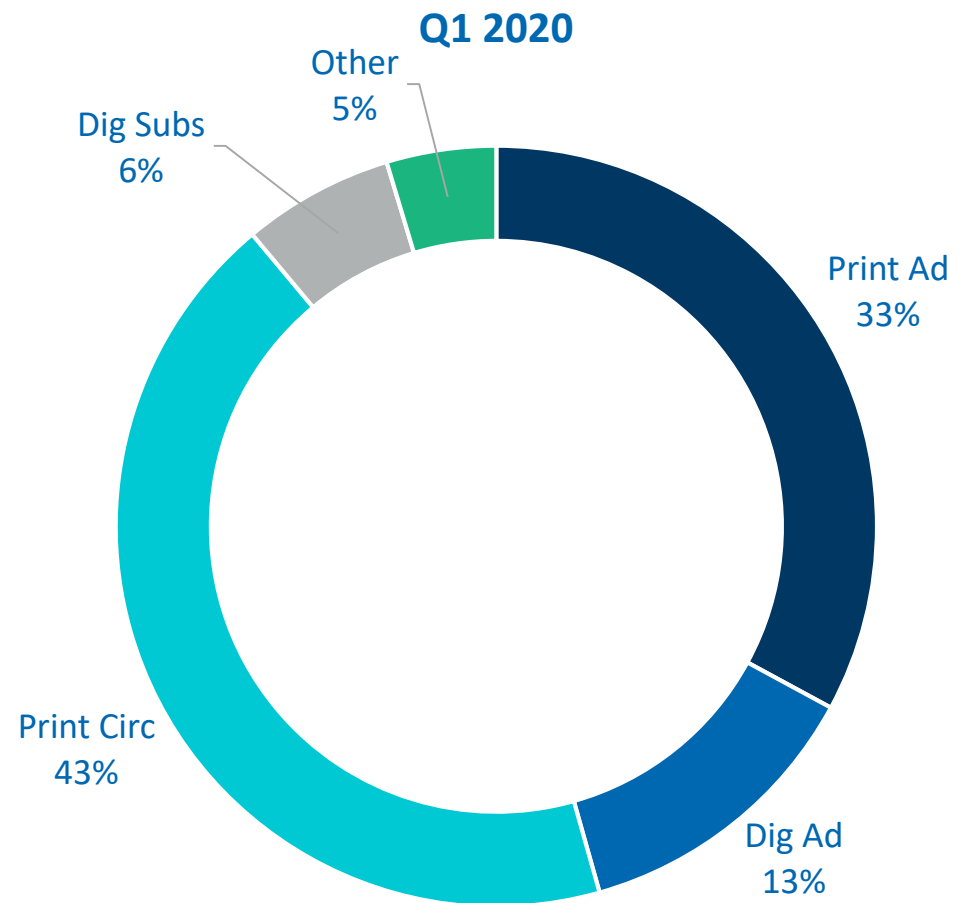
### Impact of COVID-19 | Newspaper Industry Revenue



■ Based on the improved advertising revenue trends in May, we see a slight up tick in total revenue forecast for both the 'U' and the 'V' case

## Forecasted Change in Revenue Mix from Q1 2020 to Q4 2021

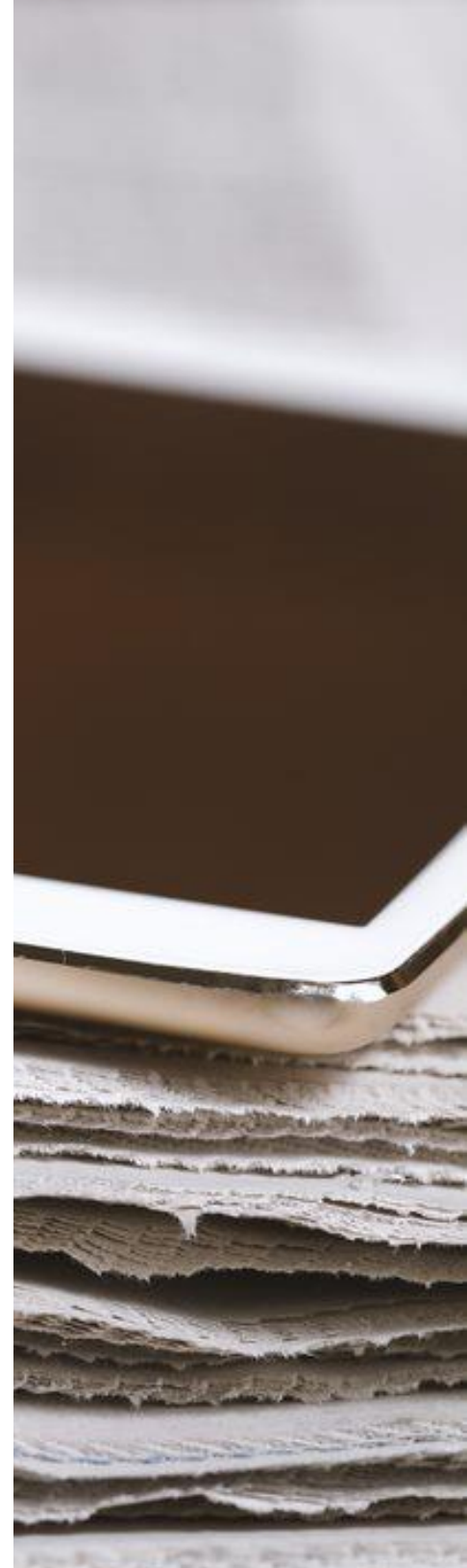
By the End of 2021, print advertising revenue is approaching the same relative size as both digital advertising and digital subscription revenue. That is a much different business than today.



# Path to New “Normal” for Publishers

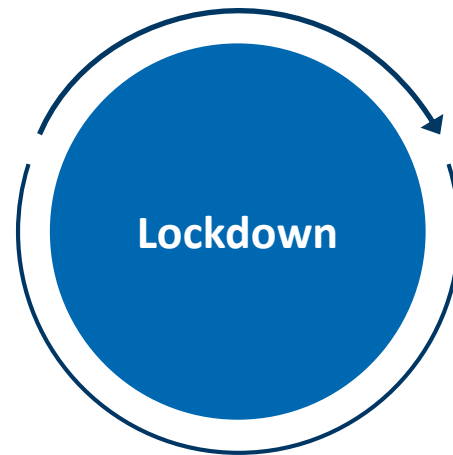
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NAVIGATING THE THREE PHASES OF THE PANDEMIC | DETERMINING THE FUTURE BUSINESS MODEL

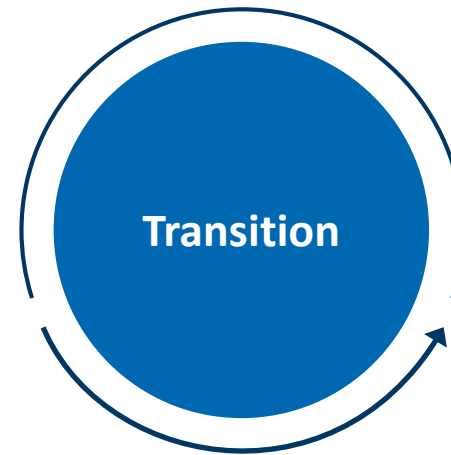




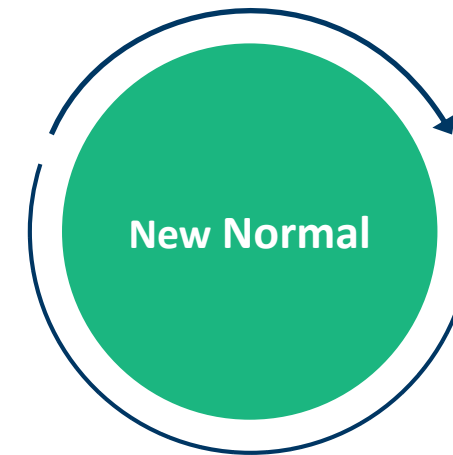
## Three Potential Phases of Managing the Pandemic



- Possible timing: **Mar '20 to Jun '20**
- **Key focus areas:**
  - Reduce expenses, preserve cash
  - Maximize digital audience and subscription potential









- Possible timing: **Jul '20 to Dec '21**
- **Key focus areas:**
  - Increase digital readiness
  - Prepare for/execute LTD scenarios
  - Deprioritize print advertising
  - Scale digital subscribers



- Possible timing: **2022**
- Return to structural decline
- **Key focus areas:**
  - Build new organization and cost structure
  - Scale digital subscribers

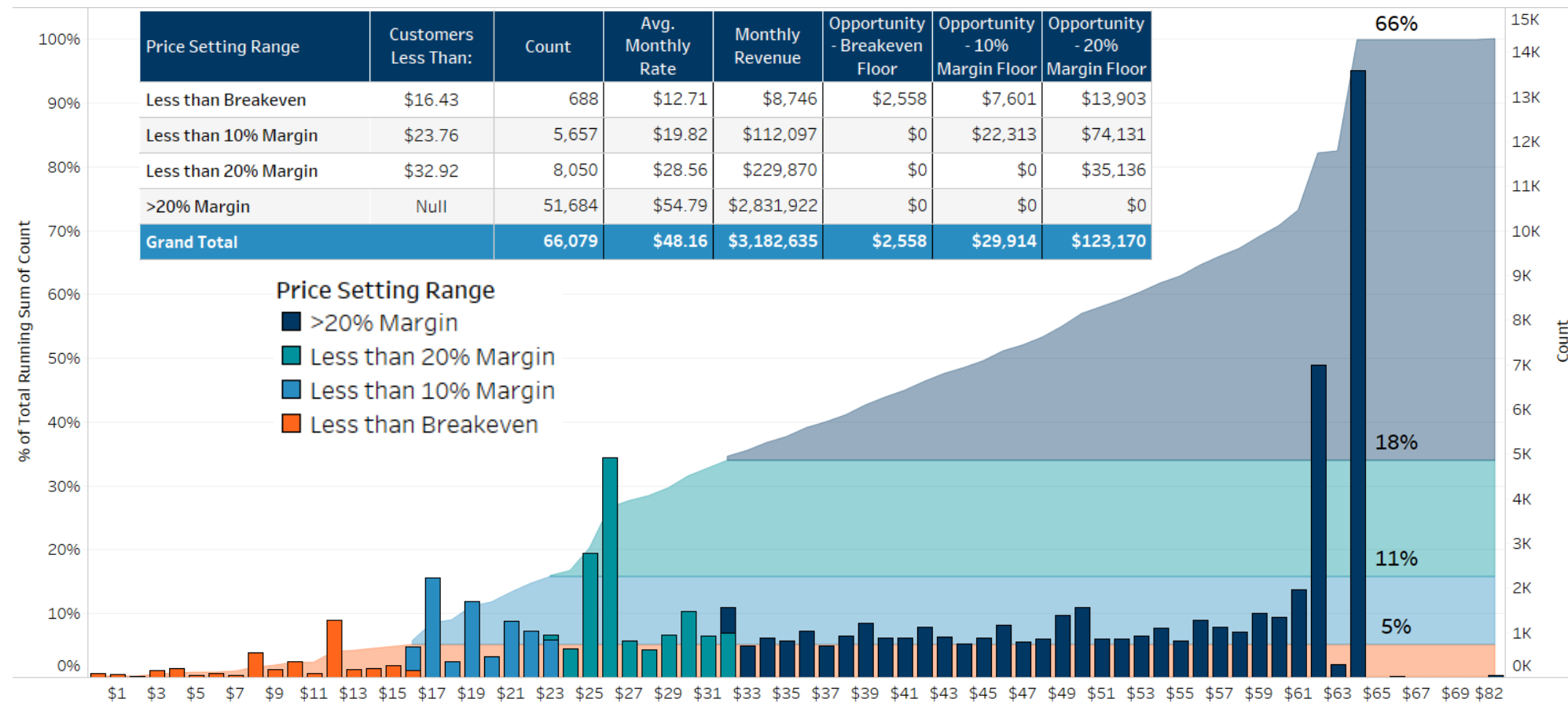
## What should we consider to continue to adapt?

### Transition Phase and Getting to the New Normal

 <b>Print Advertising</b>	<p>Super-serve <b>top accounts only with high CLV</b>, move rest to inside sales and reduce cost-of-sale while getting out of replacing 50% of your advertisers each year.</p>
 <b>Digital Advertising</b>	<p>Focus only on meaningful direct-sold campaigns and <b>move the rest to programmatic</b>. Focus on branded content and affiliate opportunities.</p>
 <b>Print Subscriptions</b>	<p>Recognize print is a <b>premium product with high rates</b>. Stop high-churn, low ARPU sales, premium days, etc. Simplify delivery options. Get print subs <b>digitally engaged</b>.</p>
 <b>Digital Subscriptions</b>	<p><b>Aggressively pursue</b> digital-only subscriber volume and ARPU growth focusing on <b>content that converts</b> [or drives digital advertising].</p>
 <b>Print-to-Digital</b>	<p><b>Determine the end-game</b> so you understand likely timing and what it looks like now and track the pace of transition and progress to become digitally ready.</p>
 <b>Expense Base</b>	<p>Zero-base the business, harvest print, adjust to <b>whatever the new normal business is</b>.</p>

# Print Subscription Pricing Continues to be the Most Important Revenue Driver for Publishers

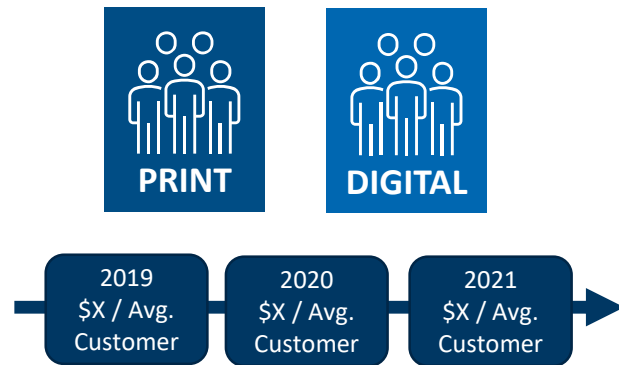
PUBLISHERS NEED TO MAXIMIZE SUBSCRIBER YIELD BOTH IN TERMS OF REVENUE AND PROFITABILITY, AND MOVE AWAY FROM LOW ARPU AND HIGH CHURN SUBS



# Publishers Need to Understand and Manage to Subscriber Profitability Across Print | Digital and by FOD, to Maximize Profitability

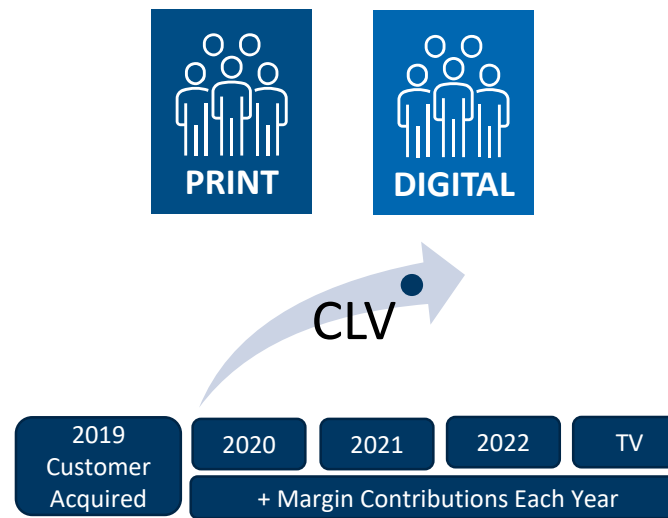
## Print vs. Digital Profitability

- Indicates profitability **across the total customer set at any given point in time.** Informs pricing decisions.



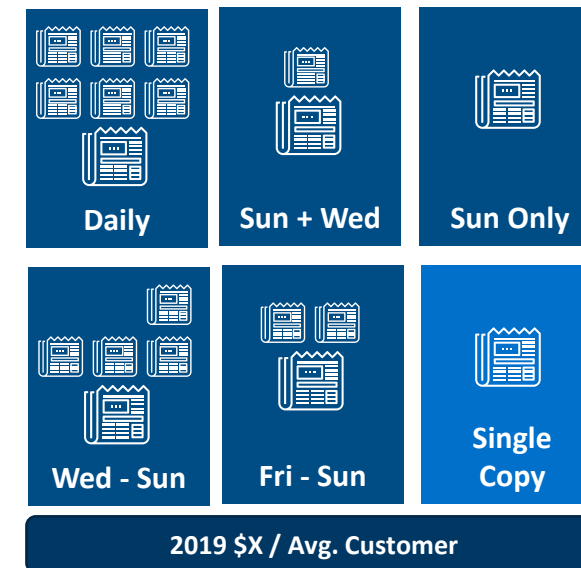
## Customer Lifetime Value

- Indicates profitability for an **incremental** print or digital customer **at the time of customer acquisition.** Informs customer acquisition efforts.

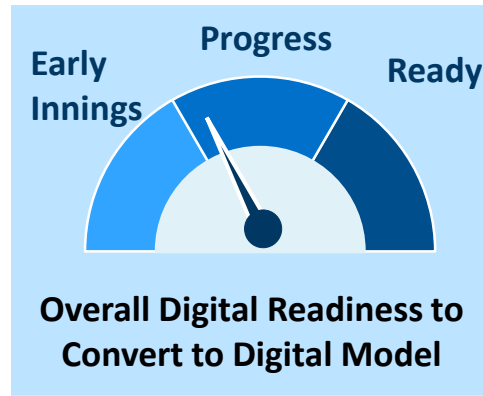


## Profitability by Product

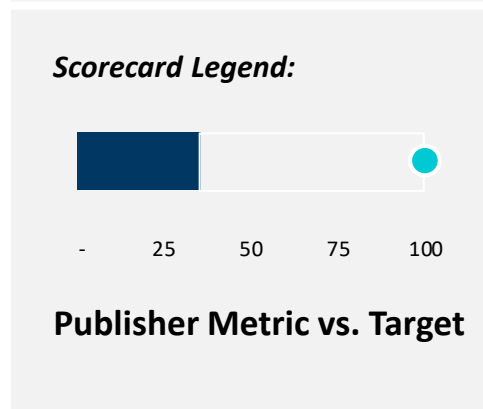
- Indicates profitability for a **specific product** at any given point in time. Informs pricing decisions.



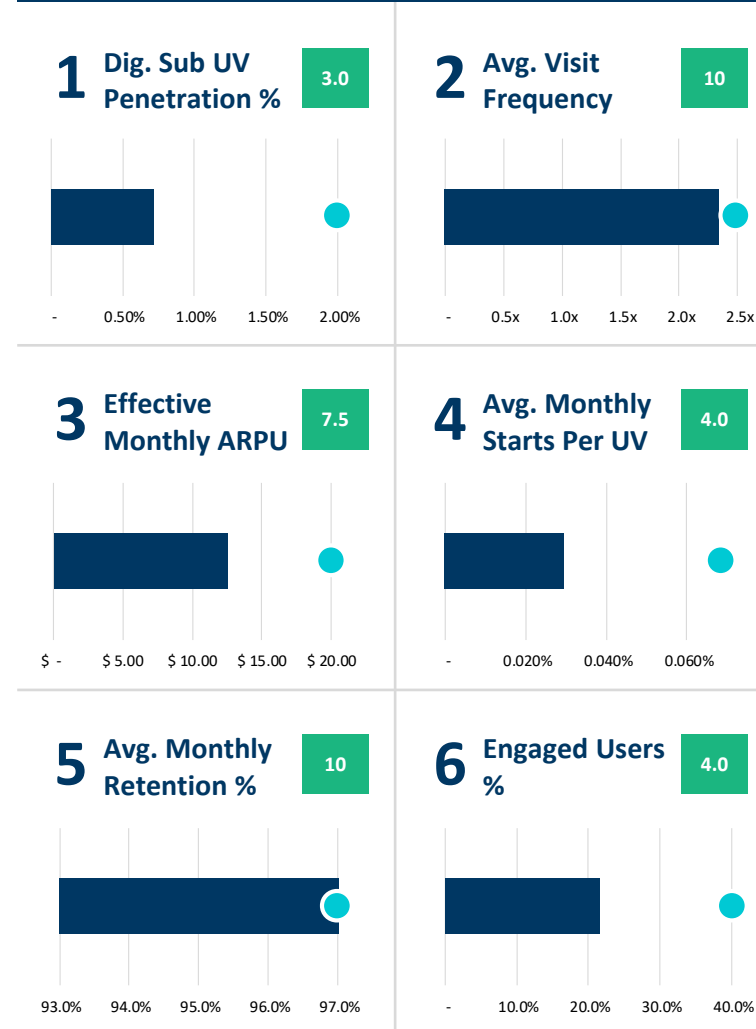
# Improving Digital Readiness Should be A Top Priority in the Transition Stage. Almost All Local Publishers are Not Ready Yet.



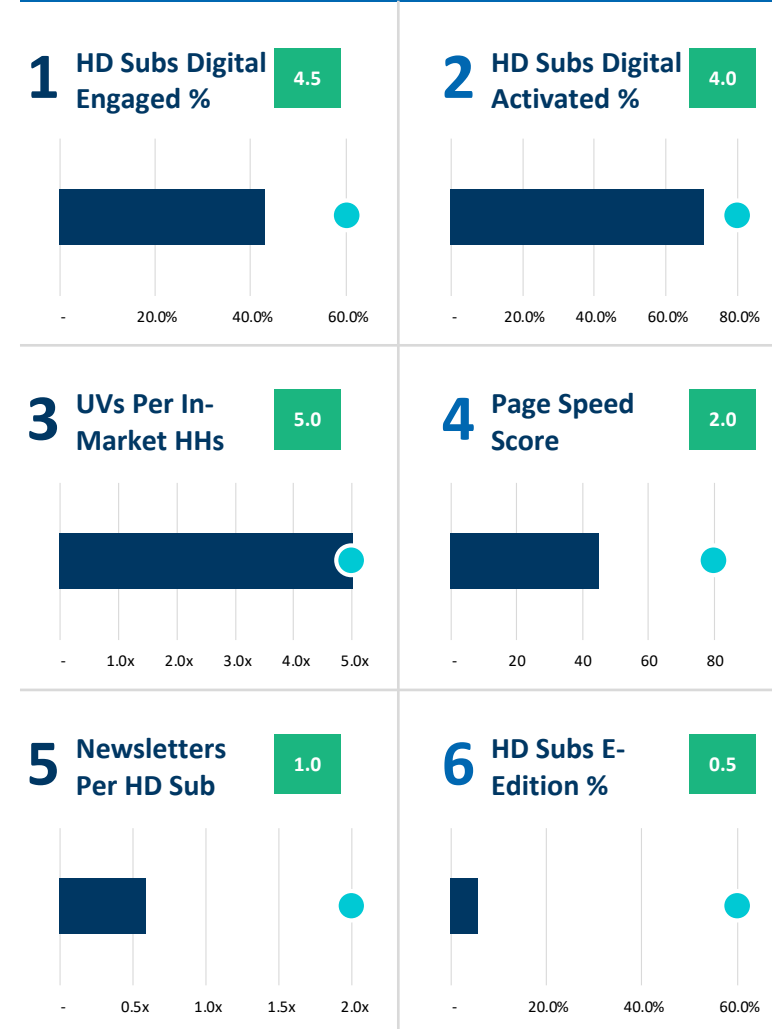
**55.5**  
Readiness Score [Out of 100]



## Organic Digital Readiness



## Print | Market Readiness



NOTE: Avg. Monthly Retention % = 1- Avg. Monthly Churn %

# Aggressively Pursuing both Digital Subscriber Volume AND ARPU is the Key to Scaling Digital Subscription Revenue Quickly

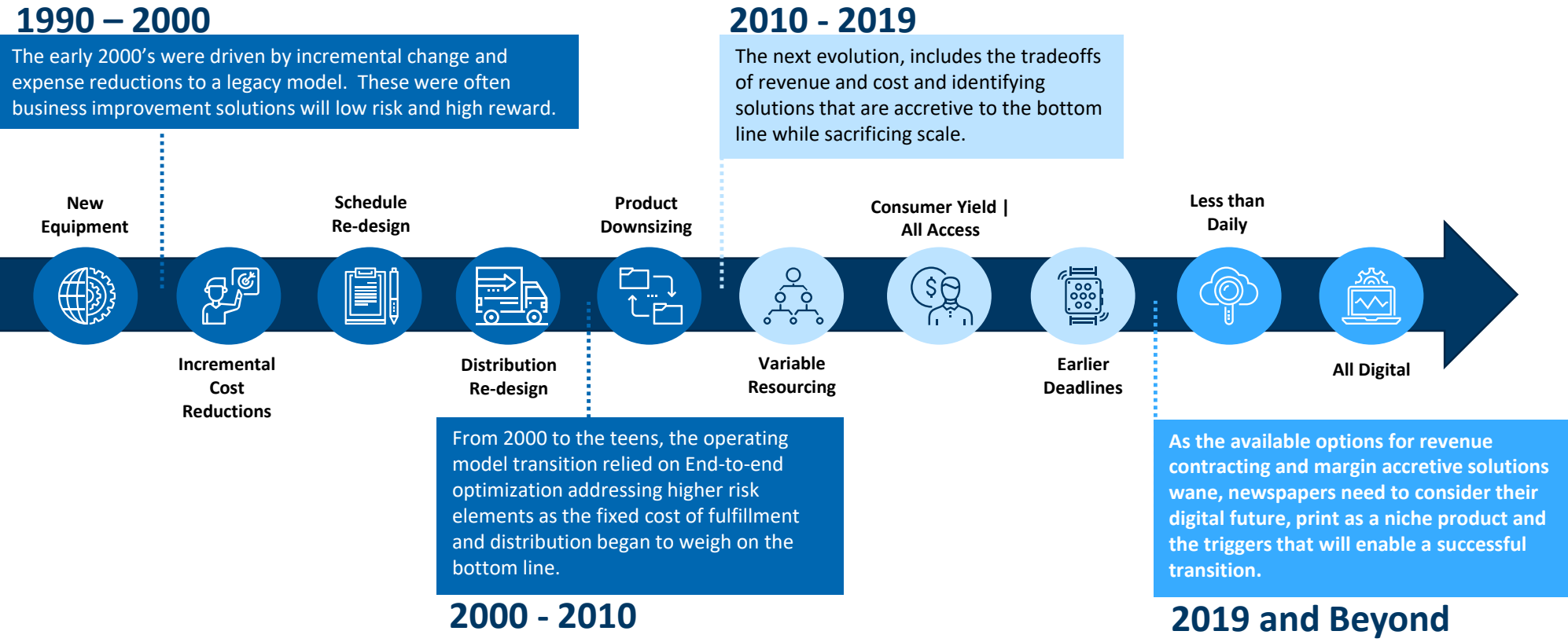
## Business Model to Get to Benchmark Revenue of \$10 million+ by end of 2022

Model Build	2018	2019	2020	2021	2022
<b>Subscription Long-term Forecast</b>					
<b>Subscriber Roll-over</b>					
Beginning Subscribers	0	1,842	5,867	16,380	27,515
Starts	8,539	8,779	16,800	20,400	24,000
Stops	(5,910)	(3,849)	(6,287)	(9,264)	(12,061)
Plug	(787)	(905)	0	0	0
<b>Ending Subscribers</b>	<b>1,842</b>	<b>5,867</b>	<b>16,380</b>	<b>27,515</b>	<b>39,454</b>
<b>Average Monthly UVs</b>	<b>1,704,250</b>	<b>1,558,833</b>	<b>1,558,833</b>	<b>1,558,833</b>	<b>1,558,833</b>
<b>Penetration</b>	<b>0.11%</b>	<b>0.38%</b>	<b>1.05%</b>	<b>1.77%</b>	<b>2.53%</b>
<b>ARPU</b>	\$ 9.85	\$ 11.30	\$ 14.00	\$ 17.00	\$ 20.00
<b>Revenue</b>	\$ 564,907	\$ 997,275	\$ 2,588,558	\$ 5,344,312	\$ 9,053,492
<b>Annualized December</b>	\$ 661,308	\$ 1,101,276	\$ 3,349,282	\$ 6,331,999	\$ 10,306,178
Starts per Month	646	656	1400	1700	2000
Monthly Churn	10.2%	4.3%	3.5%	3.0%	2.7%
Net Starts per Month	154	335	876	928	995

- Publishers need to set both long-term volume and ARPU goals in order to maximize the revenue opportunity
- Lack of long-term ARPU goals is a big gap for local publishers

# We Are Now at the Less Than Daily Stage, Before Ultimately Arriving at Mostly or All Digital Operating Model

THE LOCAL PRINT OPERATING MODEL HAS GONE THROUGH A NUMBER OF EVOLUTIONS SINCE THE 1990'S THAT FOCUSED ALMOST ENTIRELY ON COST WITH INSUFFICIENT REGARD FOR PRODUCT AND CONSUMERS.



# Example Less-Than-Daily Model Scenarios

LESS-THAN DAILY HAS BECOME A SERIOUS CONSIDERATION FOR THE INDUSTRY AND REPRESENTS AN INTERMEDIATE STEP BETWEEN THE STATUS QUO AND DIGITAL-ONLY.

<b>Status Quo   7-Day</b> Current trends	<b>6-Day Print</b> Eliminate weakest day	<b>2-Day Print</b> Retain Sunday and best daily	<b>Sunday Only</b> One day print / deliver
<ul style="list-style-type: none"> <li>– Maintain current 7-day print production &amp; delivery schedule</li> <li>– Revenue projections based on historical advertising and subscriber volume   rate trends</li> <li>– Expenses are assigned fixed vs. variable distributions by functions</li> <li>– Cost drivers are selected to change the variable portion of each expense</li> <li>– Scenario does not benefit from one-time cost takeout during transformation year</li> </ul>	<ul style="list-style-type: none"> <li>– Most newspapers have negative contribution on Monday, Tuesday and/or Saturday</li> <li>– This model offers the ability to reduce risk in a larger frequency change but performance lags due to the high legacy cost base retained</li> <li>– <b>Typically see small, immediate EBITDA lift in transformation year, but decline resumes as business retains significant portion of legacy cost structure</b></li> </ul>	<ul style="list-style-type: none"> <li>– The two day print model is similar as the cost reductions are proportional to the level of revenue retention</li> <li>– Higher costs are retained vs. revenue retained compared to the Sunday-only model</li> <li>– Likely a transition model to reduce risk prior to more aggressive FOD reductions</li> <li>– <b>Typically see cross-over in outer years, but EBITDA falls below Sunday model</b></li> </ul>	<ul style="list-style-type: none"> <li>– Moving to a weekend model or Sunday only model results in a large portion of the fulfillment cost structure being eliminated</li> <li>– This reduction tends to exceed revenue loss proportionally as such a high percentage of revenue is concentrated within one or two days</li> <li>– <b>Typically see earlier cross-over year, but EBITDA continues to erode over time as remnants of legacy cost structure persist</b></li> </ul>

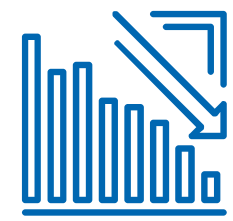


Print to Digital Modeling is the Key to Understanding Less Than Daily Financial Impact.  
Increasing Digital Readiness is Expected to Improve Results.

	6-Day (Mon – Fri, Sun)	2-Day (Thu, Sun)	1-Day (Sun Only)	Digital-Only (No Print)
<b>Results</b>				
<b>EBITDA Change from Reduction in Frequency 2024</b>	\$2M	(\$10 M)	(\$13M)	(\$31M)
<b>Assumptions Summary</b>				
<b>Print Ad Revenue Reduction</b>	(1%)	(5%)	(39%)	(100%)
<b>Digital Ad Revenue Growth</b>	No Change	10%	10%	20%
<b>Print Subscriber Revenue Retention</b>	99.5%	66%	59%	24%
<b>Expenses Reduction From Reduction in Frequency</b>	(2%)	(12%)	(17%)	(29%)
<b>Sensitivities</b>				
<b>Print Sub Revenue Retention To Get to Positive Impact</b>	96%	80%	78%	72%
<b>Print Sub Revenue Retention To Get to Breakeven EBITDA</b>	NM	96%	93%	86%

# The options we have...path a or b...

We can continue our previous path towards a digital business or smartly harvest the print business first, prepare and then move to a digital future with a higher, more aggressive focus on the objective.



**Current Business**



**Riding Down Print**  
Fast in Crisis | Slow if Not

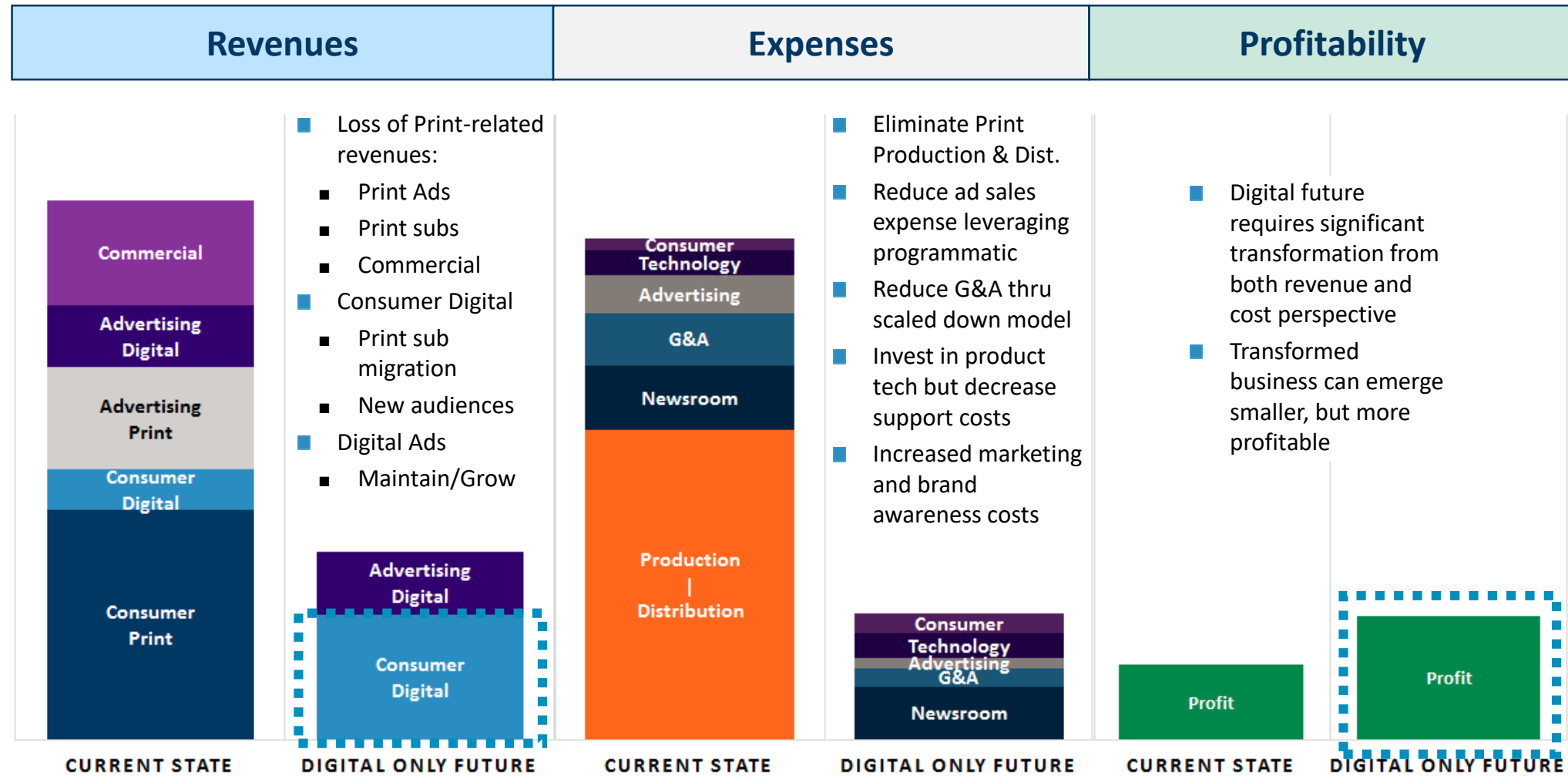


**Mostly Digital Business**



**Harvest Print Ad Business**  
Smartly Manage Print Subs to Maximize Total Revenue  
Simplify Rest of Legacy Business | Design the New Model  
Get Digitally Ready

# Is There A Smaller, More Profitable, News Publishing Business in the Future?



Source: GNI Subs Lab Playbook



## Experts with Impact <sup>TM</sup>



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