IMPACT OF THE COVID-19 CRISIS:

Lessons From Prior Downturns For the TV, Radio & Newspaper Industries

Bond & Pecaro, Inc.
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Over the past eight weeks, the novel coronavirus pandemic has triggered a number of sudden shocks and decimated large portions of the U.S. economy. The NASDAQ and S&P 500 closed 15.9% and 19.9% lower, respectively, on March 31 than they had at the end of January.[1] A record 36 million Americans filed for unemployment benefits over the past eight weeks, dwarfing the numbers from even the peak of the Great Recession in 2008.[2] The unemployment rate at the end of April was 14.7%, and some forecasters anticipate that unemployment levels could eventually reach 30%. Important employers such as restaurants and bars, theaters, sports leagues, malls, schools, and other non-essential businesses have ceased operations to comply with shelter-in-place guidelines. Some small businesses have shuttered due to the sudden loss of revenue. All of these changes hold significant implications for the economy going forward, and the TV, radio, and newspaper industries specifically, which are suffering from unprecedented near-term declines in advertising revenues.

In Bond & Pecaro's opinion, it is still too early to reliably measure the impact of these events on the long-term values of media companies and their assets. Clearly, major advertisers like restaurant chains, retailers, and automobile manufacturers have been hard hit. On the other hand, certain aspects of the media ecosystem are actually benefitting, including increased television viewing time and use of traditional news sources rather than digital media.

The strongest determinants of the impact of the COVID-19 pandemic will be its duration and the characteristics of the recovery. If media companies experience a poor second quarter followed by a robust recovery in the third and fourth quarters and a return to normalcy thereafter, the true impact on Fair Value[3] will be minimal. If the downturn is protracted and businesses are permanently wounded, the

[1] Capital IQ, index of U.S. stock markets and publicly traded TV, radio, and newspaper companies.

[2] Department of Labor, Bureau of Labor Statistics.

[3] Fair Value is a commonly employed accounting concept that, in most basic terms, reflects what an asset could be sold for at a given point in time.

impact could be profound. We are not yet two months into the crisis and the direction of the television, radio, and print sectors will become clearer in the weeks ahead.

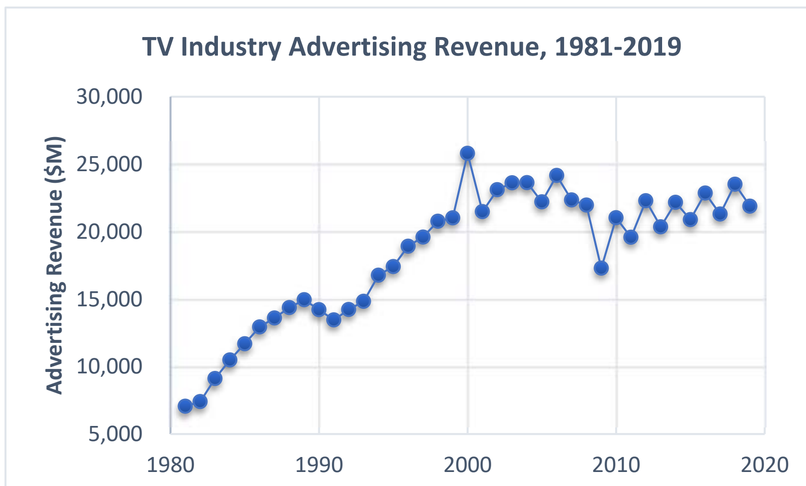
We believe that important perspective can be gained by looking at the impact of prior economic downturns on broadcasting and publishing companies. What follows is an analysis of how the last two U.S. economic crises — the 2008 stock-market crash and the bursting of the 2000 "dot-com bubble" — affected media companies, and how quickly the industries were able to recover.

THE 2008-2009 GREAT RECESSION

TV Industry

The stock market crash and ensuing "Great Recession" that began in 2008 caused ripple effects that TV station owners needed months (by some metrics) or years (by others) to erase.

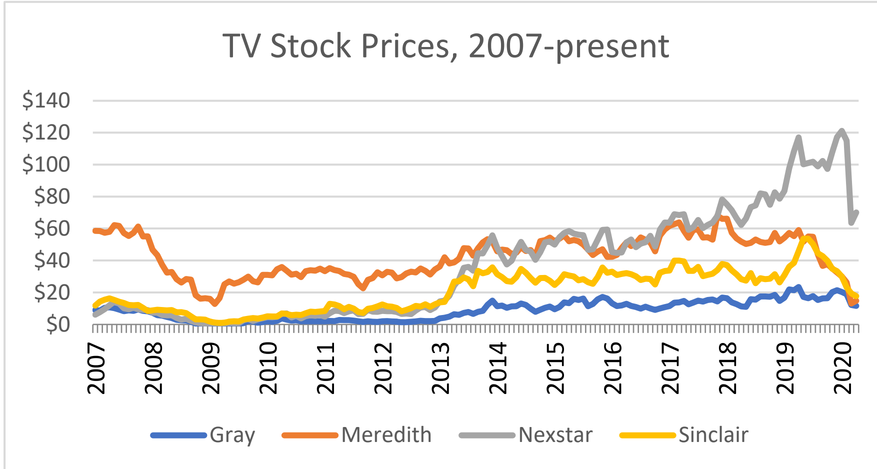
In fact, hardship in the TV industry in some ways began a couple of years before the stock market crash following the bankruptcy filing of Lehman Brothers on September 15, 2008. Total advertising revenue across the industry began decreasing in 2007, consistent with history in non-election years, down 7.5% to $22.4 billion.[4] In 2008, despite a presidential election and the Beijing Summer Olympics, television industry advertising revenue decreased 1.7% to $22.0 billion. As the crisis continued into its first full calendar year in 2009, advertising revenue plummeted by 21.3% to $17.3 billion.



Television advertising revenue levels have still not returned to their 2006 pre-recession level of $24.2 billion. 2020 projections from S&P Global/Market Intelligence, based on record-high forecasts of both political advertising revenue and online advertising revenue, had previously estimated that local TV industry advertising would improve to $24.3 billion in 2020. However, the impact of the coronavirus on the economy makes it highly unlikely that revenues at that level will be achieved.

[4] S&P Global Market Intelligence, "1981-2011 Historical TV Market Ad Revenues"; S&P Global Market Intelligence, "U.S. TV station industry total revenue projections, 2009-2024."

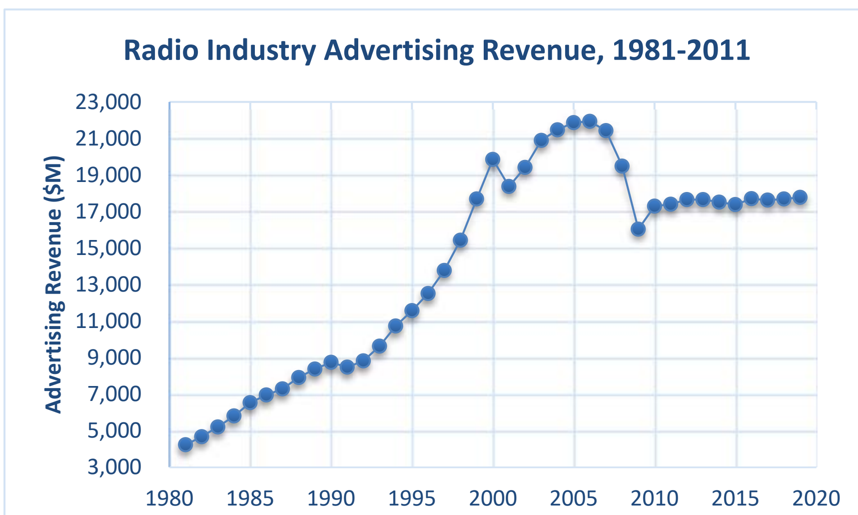
When the stock market crashed in the Great Recession, publicly-traded TV station owners, for the most part, endured a stock hit even more severe than the overall averages, and more severe than the revenue decline would have indicated. An index of publicly traded pure-play TV station owners closed 58.1% lower on Sept. 30, 2008 than one year earlier, compared with a 22.9% decline in the NASDAQ and a 23.6% drop in the S&P 500. At the TV index's low point, at the end of February 2009, it closed 85.3% lower than its apex in May 2007. After an economic stimulus package was passed in early 2009, TV stocks began to rebound, but not until June 2013 did the index return to its pre-crash level.



TV station owners also took on unusual amounts of debt in the wake of the 2008 financial crisis. At the nadir of the stock market decline, in February 2009, a selection of comparable TV station owners — in this case Entravision, E.W. Scripps, Gray, Meredith, Nexstar, and Sinclair — averaged an equity to total capitalization ratio of just 22.4%, compared to 57.9% on September 1, 2007.

Radio Industry

With expanding audio competition from Sirius and XM, iPods, and smartphones, as well as new local advertising competition from the Internet, the radio industry in the mid-2000s was already reaching an ad revenue plateau prior to the 2008 recession. The fallout from that crisis only accelerated the declines. The high point of radio advertising came in 2006, when industry-wide revenue reached $21.9 billion. In 2007, advertising fell 2.3% to $21.4 billion. That figure decreased again by 9.1% in 2008 to $19.5 billion, and then by 17.7% in 2009 to a low point of $16.0 billion.[5]

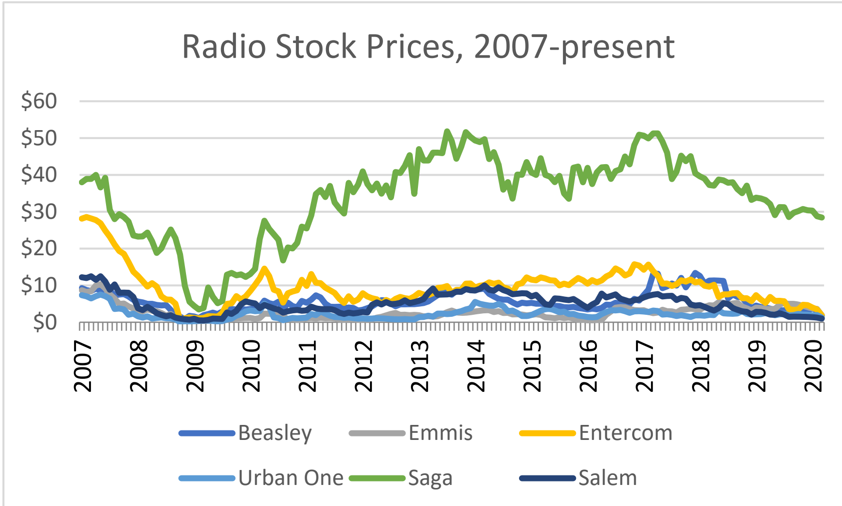


Local retail spending comprises the largest segment of radio advertising by far, and in the past, when the economy has gone into recession, depressed local retail sales have translated into reduced advertising

[5] S&P Global Market Intelligence "1981-2011 Historical Radio Market Ad Revenues Sorted Alphabetically."

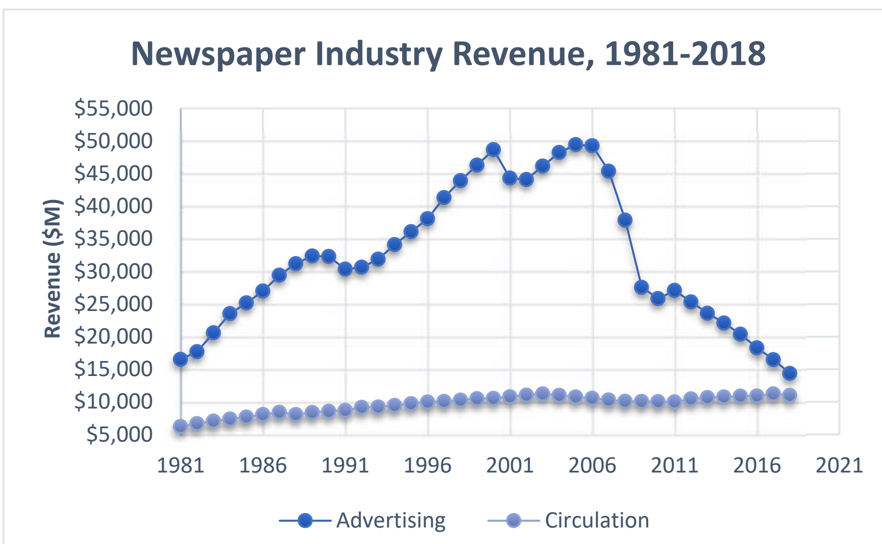
spending for radio station operators. Radio revenue has bounced back from the low point of $16.0 billion in 2009 but at a very slow pace, with revenues of $17.8 billion estimated for 2019. Small revenue increases of less than 1% annually were projected over the next 10 years prior to the coronavirus impact. Most of the increases were from digital advertising ($1.3 billion in 2019) and off-air marketing activities ($2.7 billion in 2019). Local spot ad revenue is unlikely to ever recover to prior levels.[6]

The Great Recession of 2008 decimated radio stock prices. An index of several publicly traded station owners closed 68.9% lower at the end of October 2008 than it did one year earlier. At the lowest point, in February 2009, stock prices were, on average, 85.6% lower than one year earlier. Radio stock prices also recovered, but never again reached the levels where they were in 2007. In contrast to television, the radio industry is an example where the 2008 economic downturn was compounded by enduring competitive challenges.



Newspaper Industry

Analysts place the beginning of the decline of the newspaper industry in the early 2000s, typically between 2003 and 2005. For decades, newspapers faced little competition for classified ads for used cars, homes, apartments, jobs, and local merchandise. In the early 2000s, major online competitors began to emerge. Sites such as Craigslist, eBay, Monster, AutoTrader, Zillow, Indeed, Cars.com, and Realtor.com have became the main alternatives for such local and postings. Additionally, Internet giants such as Google and Facebook began to consume much of the local advertising revenue that had previously gone to traditional advertising. Print advertising could no longer compete with such reach, and local newspapers' websites lagged well behind overall digital revenue growth.



[6] S&P Global Market Intelligence "US radio station ad revenues, 2015-2029," June 2019.

The decline of local newspapers began before the 2008 recession, but the suffering economy exacerbated the competitive challenges facing newspapers. Industry-wide newspaper advertising revenue reached its pinnacle in 2005, at $49.4 billion. After a flat year in 2006, newspaper revenues declined by a combined 23.5% during 2007 and 2008, to $37.8 billion. In 2009, the first full year of the Great Recession, revenue dropped by an additional 27.2% to $27.6 billion, its lowest level since 1987.[7] Newspaper advertising was already hurting prior to the recession, but when advertising budgets contracted, the effects on the newspaper industry were far worse than for other media. Newspaper revenues have continued to drop and hundreds of local newspapers have shuttered operations. National and local advertising figures continue to fall, and while newspapers have shifted focus to their online product, digital advertising and subscription revenue growth has been unable to keep pace with the losses in print sales.

The dramatic losses in revenue have caused the reorganizations, rebrandings, bankruptcies, and mergers that characterize today's newspaper landscape. An index of several publicly traded newspaper owners closed 61.0% lower at the end of February 2009 than it did one year earlier. Today, about 1 in 5 U.S. newspapers are owned by one company, after Gannett and GateHouse merged in late 2019.[8] That consolidation process began with the significant downturn in 2008.

THE DOT-COM BUBBLE AND 9/11

The last major American economic contraction prior to the 2008 Great Recession came in 2000 and 2001 when the "dot-com tech bubble" burst and then the September 11, 2001 terrorist attacks shook the nation. The massive speculation in the stock market for mostly unprofitable tech companies such as Palm, Pets.com, AltaVista, Blucora, Broadcast.com, LookSmart, Prodigy, VerticalNet, and theglobe.com created an unsustainable peak that came crashing down in March through November of 2000. Then, the terrorist attacks of 9/11 halted American life to varying degrees for days or weeks. Those two stimuli caused significant, temporary fissures in the U.S. economy. After exactly 10 years of economic expansion, the U.S. weathered eight months of contraction, with a real GDP decrease of 0.62% and an unemployment rate increase of 2.10%.[9]

But in this case, the recovery was far quicker, and the media industries were not hit as hard as the overall economy. The NASDAQ, for example, closed 54.2% lower at the end of February 2001 than at the end of February 2000, whereas indices of publicly traded TV stocks and radio stocks fell only 14.7% and 32.4%, respectively.

An index of publicly traded radio stocks did close 25% lower at the end of September 2001 than at the end of August 2001, but those stocks recovered by the end of the year to their pre-September levels. The decrease in television stocks was a bit more delayed and lasted until the end of 2001, but by March of 2002, TV stocks were at their highest levels since before the bubble burst.

The decrease in television advertising revenue from the 2000-2001 recession proved more consistent. This trend is manifested in revisions to industry forecasts that were prepared by Bond & Pecaro and other analysts focused on the television industry. The 2000 edition of the NAB/Bond & Pecaro, Inc.,

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[7] Source: News Media Alliance.
[8] The New York Times, "Gannett, Now Largest U.S. Newspaper Chain, Targets 'Inefficiencies.'"
[9] St. Louis Federal Reserve Bank, "The 2001 Recession: How Was It Different and What Developments May Have Caused It?"

Market-by-Market Review estimated net TV advertising revenue across all markets at about $18.8 billion and projected increases in 2001, 2002, and 2003. The 2001 edition, though, estimated 2001 advertising revenue at $17.4 billion, and then the 2002 edition reduced the estimate again to $16.3 billion, a 12% decline reflecting the almost two-year-long slump in the economy. By 2003, the *Market-by-Market Review* documented that slump, projecting 2003 local TV advertising at $17.6 billion, 20.0% below the level projected before the recession.

Of course, not all surprises need to be bad. And a focus on advertising revenues obscures successful efforts by television broadcasters to diversify revenue streams and manage costs. The advertising forecasts do not reflect the massive injection of retransmission revenues from cable, satellite, and virtual MVPD companies that now account for a significant portion of the revenues of many television stations. Also, cyclical revenues from political races and the Olympics have soared since 2000.

OUTLOOK – LOOKING BACK TO LOOK FORWARD

The experience of the two prior downturns justifies a temperate case for optimism. Despite the immediate and significant carnage from past recessions on the media industry, media executives have demonstrated an ability to adapt and recover from financial crises. In the case of the radio and newspaper industries, these past crises accelerated headwinds that already existed. The television industry was, and clearly is again, the best positioned for future growth, with more diversified revenues and greater technological opportunities.

The big question now is how fast can the economy recover and to what level following such a precipitous decline. Much of this uncertainty is difficult to predict because of the nature of the coronavirus. Will it fade away in the summer like other viruses, such as the flu? Will it rebound again in the fall and winter? Can scientists discover either effective treatments for the virus or, hopefully, a vaccine? The economic recovery rests on the rate at which businesses can reopen safely and people can get back to work. Given that there was a labor shortage prior to the virus outbreak, will job levels be recovered quickly or has there been a permanent impact?

The best economic thinking as of right now is that the recovery will take the form of either a “V-shaped” rapid recovery, or a “U-shaped” recovery with a sustained bottom. Looking at the past two recessions affecting the media industry, these are reasonable assumptions. Both occurred when the economy was doing well and, although the tech-bubble/9-11 recession was more prolonged because of two impactful events, the recoveries from the bottom were fairly rapid.

In the past two recessions, the impacts on the radio and publishing industries were more pronounced. That is likely to be the case again for the newspaper industry, which was already struggling, and where revenues were anticpated to decline 10-15% in 2020 without a recession. The impact on the radio industry is more difficult to predict. Since the mid-2000s, radio revenue growth has been slow except for the declines caused by the Great Recession. Prior to the coronavirus, we had predicted that radio revenues would increase between 1% to 3% depending on the impact of political ad revenues. With preliminary estimates that 2nd quarter revenues could decline dramatically, it is likely that annual radio revenues will fall as much as 10% to 15% in 2020.

Television station revenues have been a bright spot in recent years, although exhibiting a highly cyclical pattern for ad revenues. Total revenues are way up due to retransmission consent fees and digital revenues. Prior to the coronavirus impact, we had local television station advertising revenue nationwide increasing by 13% in 2020. Much of that increase is due to the expectation of an unprecedented level of political advertising. Now, that spending may be even more significant than previously expected because traditional practices such as canvassing and large rallies may be curtailed. Our best estimate is that total local television advertising will be flat to up slightly in 2020. However, if the pandemic endures much beyond mid-June, that estimate will likely decline. Unlike our prior forecast, we see a possibility that 2021 may have positive revenue growth, as opposed to the previously anticipated cyclical downturn.

All in all, it's anybody's guess. But based on prior experience, the media industry, particularly television stations, has an opportunity to recover quickly and in a couple of years get back to where it left off before the coronavirus impact began in mid-March.

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