MOORE Kingston Smith

CORONAVIRUS MEDIA BUSINESS OUTLOOK SURVEY MARK 2

INTRODUCTION

Earlier this year, shortly after the Coronavirus pandemic began to affect the economic fortunes of businesses, we surveyed the media and marketing services industry to gather views on the likely effect on their financial performance. We also asked to what extent the wide range of government supports available were being taken advantage of by the industry.

As was expected the Coronavirus pandemic had an immediate wide reaching impact on the media industry. For most, revenue levels were hit dramatically and quick measures were taken to cut costs and preserve cash. People is one of the key areas where media businesses have taken swift action and back in April some 85% were already were planning to take advantage of the government furlough scheme. Many had implemented pay cuts and shorter working weeks.

In our second Coronavirus survey we give an update on sentiment on financial performance as well as some additional views on how agencies are thinking about getting people back to work, remote working and strategies for longer term success.

Agencies' revenue forecasts have become slightly less pessimistic since our survey in April and anticipated reductions in revenue levels have slightly softened. However, overall there appears to be greater realism with regards the impact this crisis will have on agency profitability. This seems to be reflected in the number of agencies that either have or are planning to make redundancies.

> "People is one of the key areas where media businesses have taken swift action and some 85% had taken advantage of the government furlough scheme."

In both surveys respondents were generally independent agencies with a good mix between all the different media sectors such as advertising, design, digital, PR, media buying and TV and film etc. In terms of size, respondents were roughly a third each between 0-20, 20-50 and over 50 employees.

Respondents were UK based agencies or holding companies and most businesses derived at least half their business from the UK.

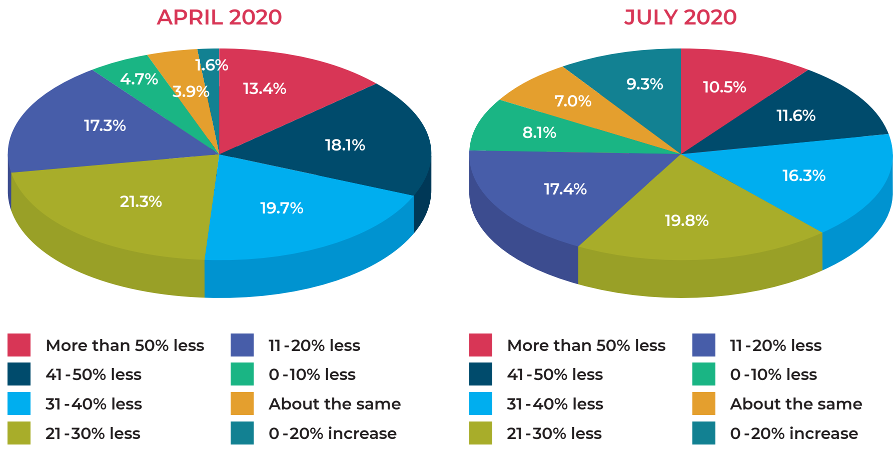
BUSINESS SENTIMENT

REVENUE LEVELS

Predictions for revenue levels have improved since early April when only 2% thought revenue levels might improve in 2020 compared to 2019. Our more recent survey sees 9% of respondents predicting an increase.

Those predicting a decline in revenues have also dampened their forecast severity of the fall. Earlier in the year over 70% indicated the fall would likely be more than 20%, with nearly a third indicating the fall would be more than 40%. More recently just 22% thought the reduction would be more than 40%. Some 58% were predicting the fall to be more than 20%, and a third thought it would be the same or less than 20%. While the majority of agencies are still being hit hard this improvement is good news. As we discuss later, visibility

In view of Coronavirus, how much better or worse do you think revenue levels will be in the calendar year 2020 compared to 2019?



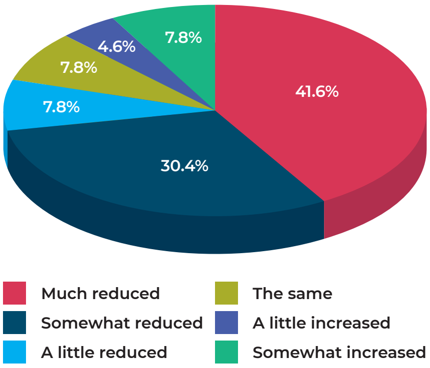
on income is still very low, making accurate forecasting very challenging.

However, despite the predictions around income reductions having softened, a higher percentage of agencies have come to the conclusion that redundancies will be required in order to right size the business to ensure its survival and success for the longer term, which we discuss in more detail later.

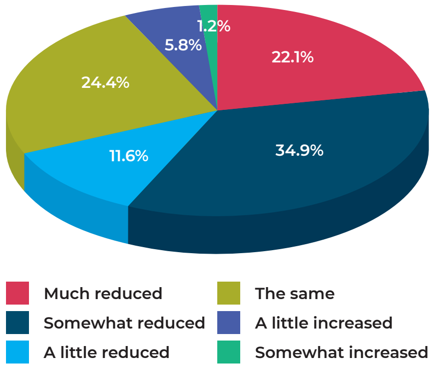
Revenue levels have been affected by both the number and size of new briefs coming through. Some 42% of respondents said numbers were much reduced, with only 20% saying they were the same or had increased.

Just over half respondents said the size of the briefs they were seeing were either much reduced or somewhat reduced. Although a quarter cited they were the same.

How does the number of new business opportunities compare to what you would usually expect this time of year?



How does the average size of new briefs you are seeing compare to those you would usually see?



REVENUE VISIBILITY

Having visibility on future income streams is vital to enable media businesses to forecast and manage resource. However, as clients press the pause button on marketing spend, projects are delayed and most production grinds to a halt, revenue visibility has never been worse.

Our most recent Coronavirus survey shows a little softening on visibility, but it's still very low with nearly 40% having only one month's visibility (pre Coronavirus this was just 8%). A further 40% have only two month's visibility. Those with visibility of between six months and a year remains at around 5%.

It may take some time for agencies to get back to a place where they are able to do reliable longer term forecasting. For now agencies need to ensure they are doing regular reforecasts with sensitivity analysis and reconsidering impact on resource requirements.

"as clients press the pause button on marketing spend, projects are delayed and most production grinds to a halt, revenue visibility has never been worse."

PROFIT LEVELS

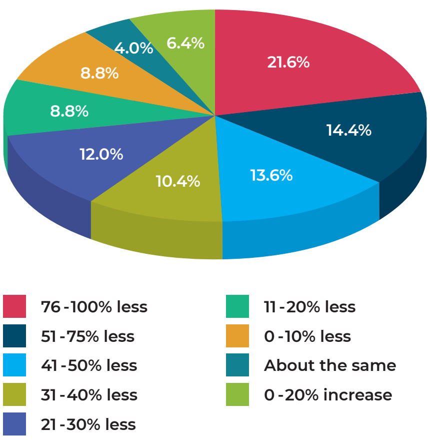
Profit level projections dramatically reduced in our earlier Coronavirus survey with only 11% expecting to deliver the same or better profit levels in 2020 when compared with 2019.

Forecast profits for 2020 versus 2019 are slightly more polarised in this recent survey when compared to our earlier Coronavirus survey. Nearly a quarter of agencies are predicting 2020 profit levels will be the same or higher than 2019 – compared to just 11% in our earlier survey. However as we see in the next question many more are predicting a loss.

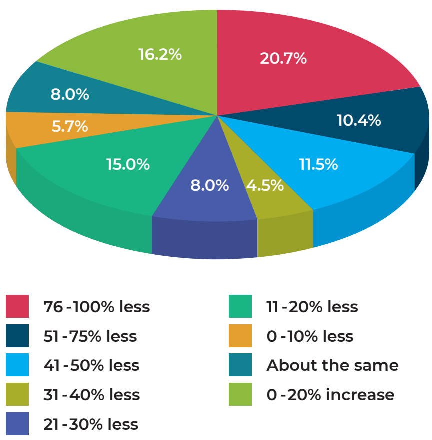
Continued price pressure from clients will not help agencies fortunes here – for some years now many clients have been demanding more for less. This crisis will only amplify that pressure, with around three quarters of respondents citing increased price pressure from clients as a result of Coronavirus.

In view of Coronavirus, how much better or worse do you think profit levels will be in the calendar year 2020 compared to 2019?

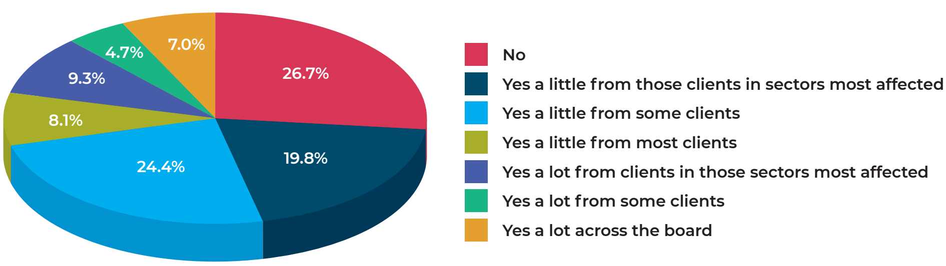
APRIL 2020



JULY 2020



Are you seeing increased price pressure from clients as a result of Coronavirus?



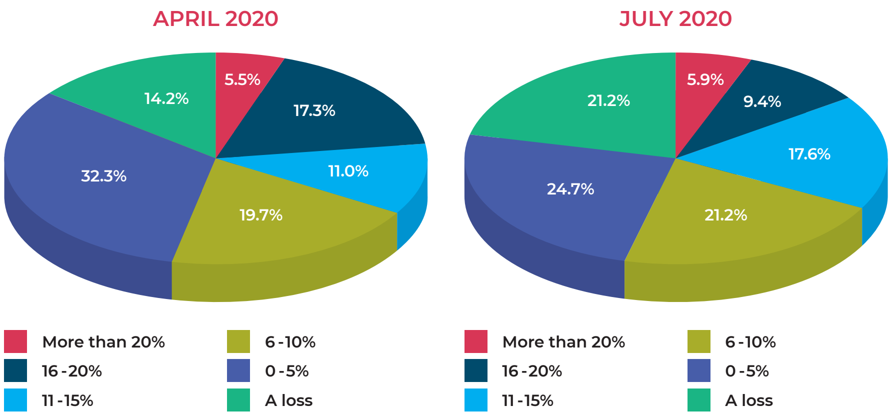
PROFIT MARGINS

In light of Coronavirus, the projections around profit margins plummeted with some 14% of businesses forecasting a loss and less than a quarter forecasting to make more than 15% net profit margin – the Moore Kingston Smith target minimum.

However, in our more recent survey the number forecasting a loss has risen to 21%, with a further quarter predicting margins of 0-5%.

As we commented in our previous survey, recovery was always going to be slow as the economy takes time to recover. Therefore it's no surprise that the number of agencies predicting a loss has increased.

What do you think your net profit margin (i.e. profit before tax as a proportion of fee income/revenues) will be for 2020 in light of Coronavirus?



STAFF REQUIREMENTS

People are the largest cost for most media businesses and at Moore Kingston Smith we recommend that people costs comprise no more than 60% of your fee income; our annual survey shows that agencies who contain people costs to within this level generally deliver healthy profit margins.

It therefore came as no surprise that people was the area where agencies were making most changes to generate the majority of cost savings.

In our last survey some 85% of respondents were planning to use the government approved furlough scheme which has now been extended to the 31st October. Many of our clients have successfully received furlough grants and continue to have staff on furlough with some now returning back part time.

Of course, this is on top of a dramatic reduction in the use of freelancers, who have generally been the first people costs to be cut as agencies make full use of the flexibility of this resource. However, agencies need to ensure they consider the future longer term resource and skill requirements of the business as well as looking to cut costs short term. Clearly there is a balance, but the furlough scheme combined with asking staff to take pay cuts are some of the ways that businesses are managing to retain talent.

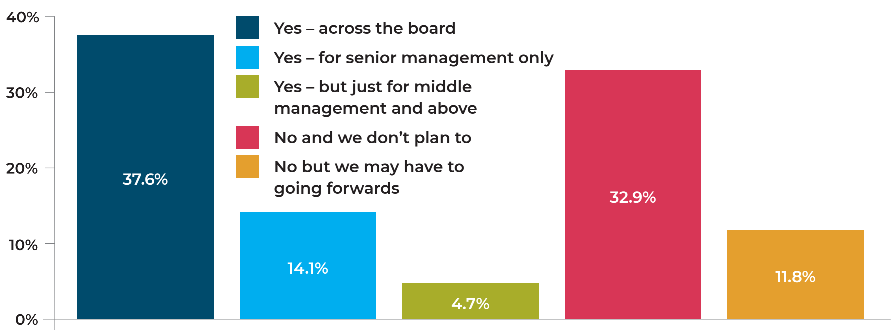
PAY CUTS

Salary cuts have been used widely across the industry as a way of preserving more jobs and avoiding large scale redundancies. An increased percentage of respondents (68% – up from 55%) reported they had used salary cuts compared to our first Coronavirus survey earlier this year. A very similar level – around 40% – were planning to implement cuts across the board with 14% confining cuts to senior management.

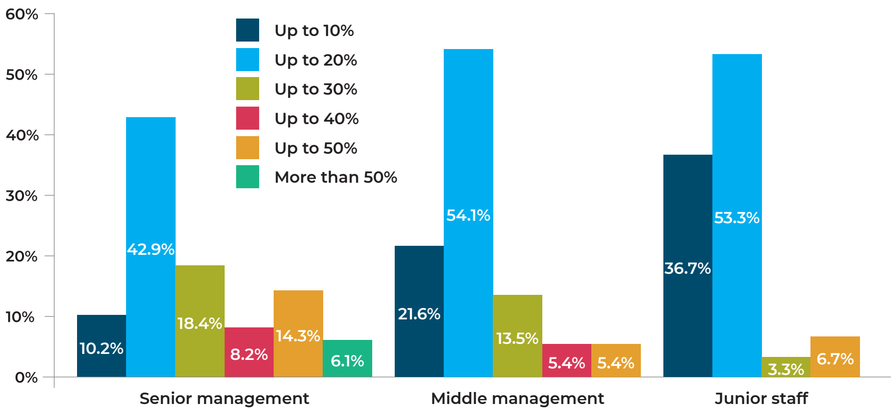
As would be expected, pay cuts for junior staff are less severe than those for middle and senior management. Over half of the pay cuts for junior and middle management were 20% or less. However, nearly a quarter of middle management who suffered pay cuts saw reductions of over 20% whereas very few slashed the pay packets of junior staff to this extent.

It's no surprise that senior management have taken the brunt of the cost savings with nearly half of those suffering pay cuts having had their pay packets reduced by over 20%.

Have you implemented salary cuts within your business?



If you have implemented salary cuts within your business, what % are these primarily?



WORKING HOURS

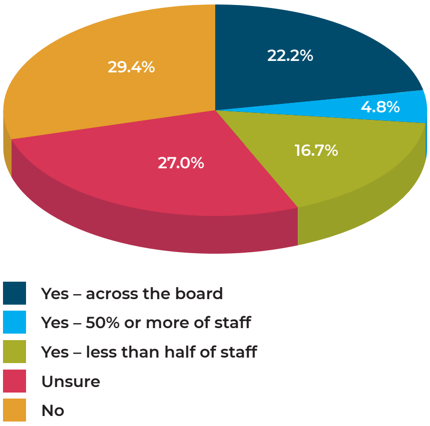
A great number of agencies have used a reduction in working hours to reduce costs – and this should help reduce the number of redundancies required. Some 10% have implemented reductions across the board and a further third for just some of their staff. Around half of those that have reduced working hours have implemented a four day working week, and around a further quarter have reduced some staff down to a three day week. Of course, for many employees this is not ideal as it comes with a reduction in pay. However, talking to clients, some staff have welcomed the reduction and others have willingly volunteered, valuing the wellbeing effects that a shorter week brings.

Of those that had not reduced the working week some 20% were still considering their options in this regard – perhaps to coincide with when furlough ends. Just over 40% thought short working weeks would not be required at all.

One theme that has resonated loud and clear from talking to clients is that the workforce of the media industry have been incredibly supportive of their employer agencies. Most have completely embraced the idea of all being ‘in it together’ and fully understand the need for such measures in order to guarantee the longer term survival of their agency. Many agency owners have been blown away by the support.

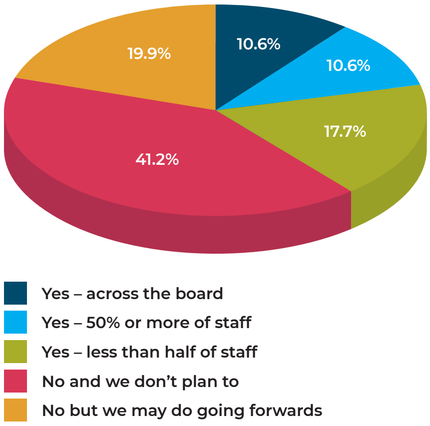
Are you contemplating reducing working time for staff members?

APRIL 2020



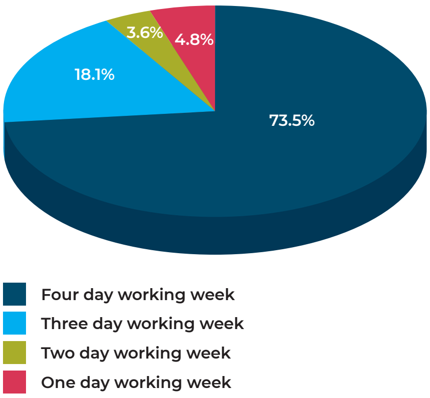
Have you reduced working time for staff members?

JULY 2020



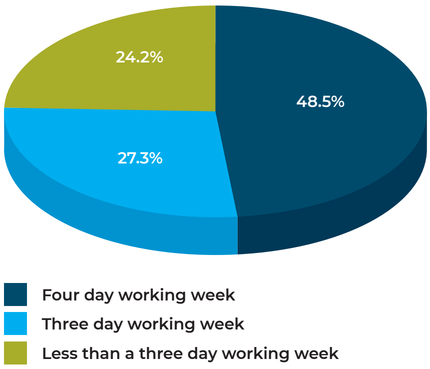
If you are planning to reduce working hours, to what level will this be?

APRIL 2020



If you have reduced working hours, to what level is this primarily?

JULY 2020



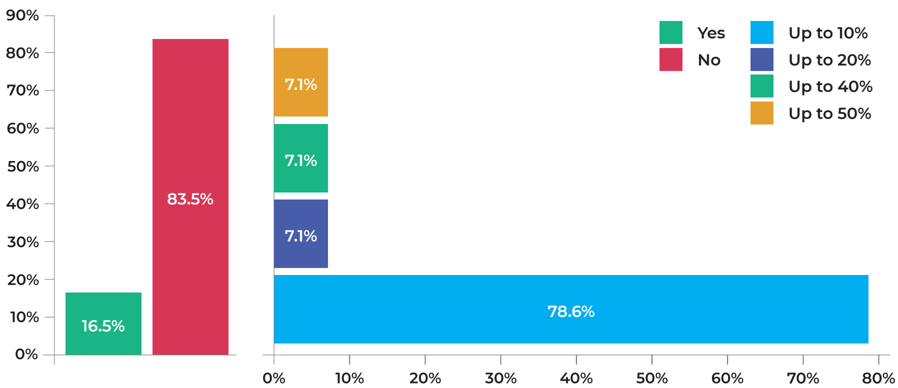
REDUNDANCIES

As the furlough scheme begins to wind down, with its end in October, agencies need to give serious thought to their likely staff requirements in the new normal: getting the ratio of people costs to fee income right is critical to driving healthy profit margins.

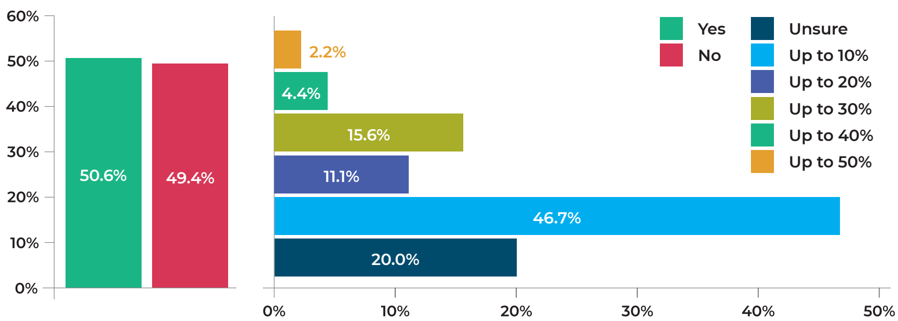
Some 16% of respondents have already made redundancies, however for the majority of those the percentage of staff made redundant was low at 10%. For those respondents who have not yet made redundancies around half anticipate they will be necessary going forwards. However, for those delaying the decision, the predicted cuts appear to be deeper, with over half predicting reductions of up to 20% of the workforce, and just under a quarter predicting redundancies for more than 20% of the workforce.

The majority were planning to implement the redundancies within the next two or three months which ensures the costs are taken out of the business before the furlough scheme comes to an end in October.

Have you made redundancies within your business, if so what percentage?



Do you anticipate making future redundancies within your business this year?, if so what percentage?



CBILS LOANS

Around a third of respondents (up from 23% in our earlier Coronavirus survey) have either borrowed or are planning to borrow funds under government loan arrangement schemes. Of this third over half were planning to ask for up to £250k, and over a quarter up to £1million. With no interest for the first year, repayment periods of up to six years and up to 12 month capital repayment holidays, these loans are a great way to boost your cash to deal with the immediate short term cash flow problems this pandemic poses.

If you have applied for a loan and have not yet been successful, please speak to your advisers who can help you prepare the forecasts that will be required to be submitted and generally support you with your application.

PROPERTY

Property costs are usually the second largest overhead for media businesses. Therefore, not surprisingly since most offices lay empty, three quarters of respondents have asked their landlord to vary terms for rent. The majority of the remainder are in a position to pay their rent in full.

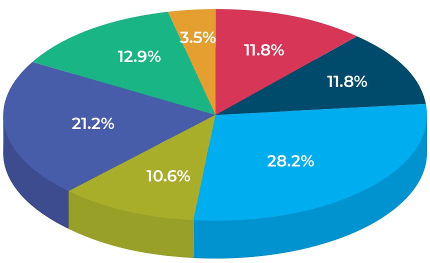
There has been varied success from such discussions, which appear to have moved on more successfully since our survey back in April. A fifth have managed to successfully agree a one-three month rent deferral. Around a quarter have agreed monthly, rather than quarterly in advance, payments. Just over 10% have managed to agree an actual reduction for one-three months and a further 14% have agreed to such a reduction but with a catch up at a later date.

Other solutions include early exits and variations on break clauses. Some have said they 'will not renew due to the landlords attitude!'

REMOTE WORKING

We asked respondents when they were planning to reopen their offices. The answers were quite varied from 'we already have' to January and beyond. However the most popular month was July followed by September. A cautious few were not planning to reopen until next year.

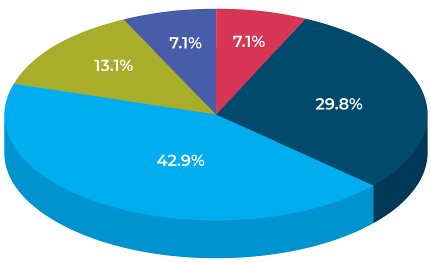
When do you plan to reopen your offices?



Remote working has brought its challenges – but for the majority of agencies these have been few with over half of agencies citing that it has gone very well and they have been able to operate productively with little or no disruption to client service. Just under half said it had gone well but they had faced challenges along the way which they had to overcome. Only a handful said it had not gone very well.

When it came to pitching remotely, agencies have generally taken this in their stride with only 7% indicating it has been very challenging and at the other end of the scale 7% said it has been easier. A few of our clients have admitted the process has been more organised with less late night pizzas due to the need to rehearse in advance.

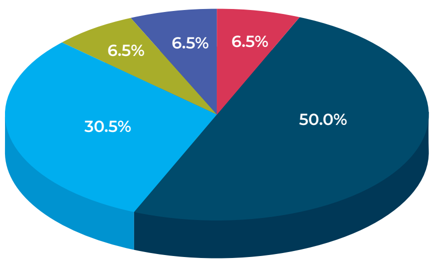
To the extent that you have been doing pitches during lockdown, how have you found this?



It has been widely documented that working life will likely never return to how it was pre Coronavirus. More flexibility, agile working and days spent working from home being the anticipated 'new normal'. Many agencies look forward to the savings this will ultimately bring in property costs, especially those in central London – where they have spiralled.

When asked about future remote working practices, around half said they would be allowing more remote working going forward with 13% saying they would be insisting on it.

Longer term (i.e. once the Coronavirus crisis is over), are you likely to allow/ encourage more remote working than you do currently?



Businesses do need to carefully consider how to manage the return of staff to the 'new normal' working environment work over time. Phased returns or more flexible working arrangements might be required to ease people in gently.

We have written some articles to help agencies navigate this which can be found on our Coronavirus hub here.

STRATEGIES FOR SUCCESS

In times of economic pressure, business development opportunities are going to be thinner on the ground, with many of these also likely to be of lower value and perhaps even lower quality. Therefore, getting business development right is critical to returning your business back to its growth journey as the world starts to return to some sort of normality.

A few years ago, we carried out research looking at what the most successful media and marketing businesses (i.e. those that were thriving with high growth and above average profit margins) were doing differently to those that were just surviving. Of the top 10 common features we identified, no less than six were related to business development, reinforcing just how vital it is to get this right.

Having a great value proposition is key to success – and that includes media agencies not just your clients. Some 55% have reviewed their value proposition and most of those will be making changes as a result. However, some 45% either have not reviewed it yet or do not plan to.

In these current circumstances, there is a strong chance that the dynamics of your usual target markets will have shifted significantly. Nearly 70% of respondents have reviewed the sectors in which they operate and most of those indicated they will be making some changes.

Encouragingly therefore, many agencies are using this time to review their value proposition and the sectors in which they operate, but we would strongly advise those that haven't to do so.

"getting business development right is critical to returning your business back to its growth journey as the world starts to return to some sort of normality."

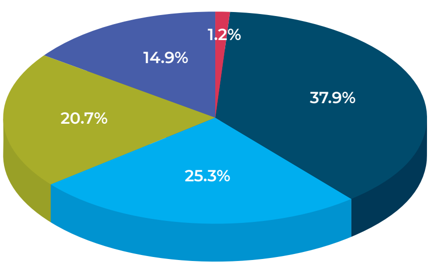
Many agencies are also sensibly using this time to review strategy and 93% have already done so or plan to. Of these, 70% identified that their strategy requires some changes.

Take a look at our Strategic Growth Services hub **here** to see how Moore Kingston Smith can help you to improve your business development performance.

WHAT LIES AHEAD?

While of course the economic effects on businesses remain concerning, that concern has softened a little amongst media agencies from the survey we carried out in April. Some 40% of respondents cited that while they were 'very concerned' they thought their business would make it through. A resilient 15% were 'not very concerned at all' – this correlates with the 15% that are predicting an increase in profits in 2020 compared to 2019.

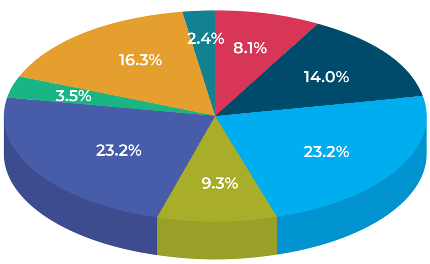
How concerned are you about the impact of Coronavirus on the long term viability of your business?



- Very concerned – we probably won't make it through
- Very concerned – but I think we will make it through
- Somewhat concerned
- A little concerned
- Not very concerned

But the big question is when will this all end – when will client activity return to pre Coronavirus levels. Respondents were fairly mixed in their opinions on this – which is no surprise given no one really knows and it's dependant on factors such as how well the government stimulus package works, whether there is a second wave and how quickly a readily available vaccine can be produced.

How long do you think it will be before client activity returns to pre-Coronavirus levels?



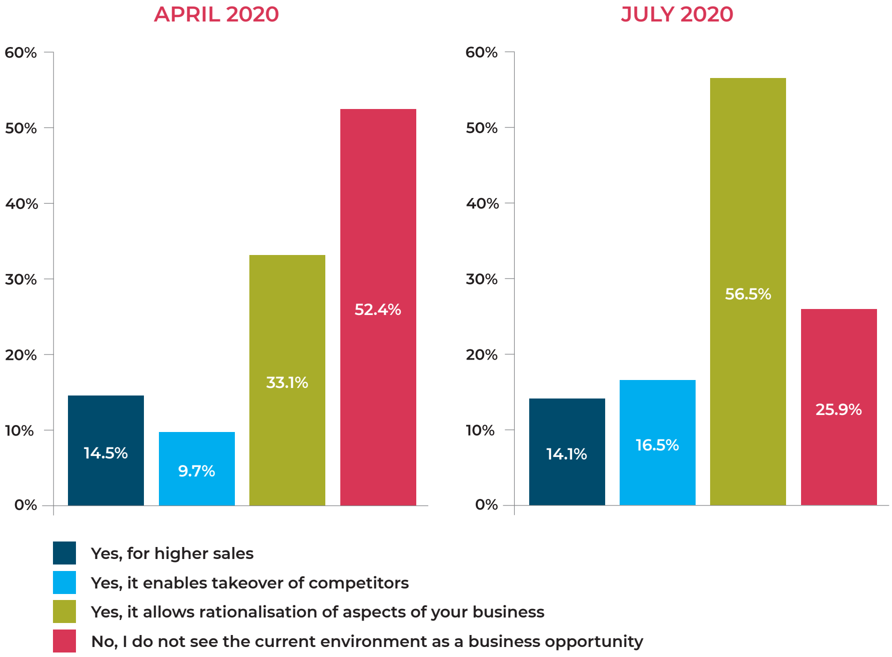
- By end of Q3 2020
- By end of Q4 2020
- Not until Q1 2021
- Not until Q2 2021
- Not until the second half of 2021
- Not until 2022
- No idea!
- Not until lockdown lifts

The joint most popular answers for recovery were the first quarter of 2021 and the second half of 2021. Some 16% were candid enough to admit they didn't have a clue – which is probably the most accurate answer of all! However, joking aside, there is a high chance things will get a little worse before they get better. We are heading towards the end of furlough which will be preceded by a wave of redundancies – not just in the media sector of course. We are poised for a potential second wave which could lead to a tightening of lockdown and further damage to the economy. Many businesses have accumulated debt during this survival period and at some point need to start repaying that debt – likely well before the economy has fully recovered.

However, as Albert Einstein said, 'in the midst of every crisis lies an opportunity' and it seems agency owners agree! Around three quarters consider the crisis presents them with an opportunity, with over half identifying an opportunity for rationalisation of their business. Others thought they could generate higher sales or that it enabled them opportunities to take over competitors. Our media corporate finance team is speaking with a lot of would be acquirers with cash to invest at the moment to discuss opportunities for them in the media space. Unsurprisingly acquisitions of digital, data and analytics and marketing automation businesses is high up the wish list.

However, unfortunately, there will be mixed fortunes in this story and its how agencies deal with this crisis that will set them apart. Those that react fast, are proactive and decisive and prioritise how they spend their time will be rewarded.

Do you see the current environment as an opportunity for your business?



“This industry is typically resilient in the face of crisis, and many more mature businesses will have been through similar when we faced the last economic down turn.”

This industry is typically resilient in the face of crisis, and many more mature businesses will have been through similar when we faced the last economic down turn. So as we go through the widely anticipated U shaped economic recovery (we predicted an inverted rainbow shaped recovery – so we'll take that!) we look forward to seeing most of you on the other side!

Any help we can be in the meantime do not hesitate to get in touch. Please also visit our Coronavirus Hub on our website **www.mooreks.co.uk/coronavirus**.

ABOUT MOORE KINGSTON SMITH

The only firm of accountants and advisers with a dedicated office of over 100 media specialists that proactively support the extensive range of needs of independent media businesses – covering marketing services, film & TV and entertainment, theatre and mediatech.

We know it's not just about the numbers. As well as providing accountancy, tax and corporate finance services, over the years, by working with some of the industry's most successful companies, we have developed a deep understanding of what drives media businesses. As your trusted advisers we use this experience to work in partnership with you to help maximise your growth and profit potential. We conduct extensive research into industry performance every year with a view to understanding not just the benchmarking data, but also identifying what the best performers do to achieve exceptional results. Our well-developed structured approach to our strategic advisory services helps you effectively manage risks, build revenues, attract and engage people and identify key opportunities to improve performance and enterprise value.

All this means we are well placed to support you throughout the whole of your business lifecycle:

- Start up and small businesses – let our one stop shop approach take care of all your needs, including set up, company secretarial, legal, outsourcing, payroll, accounts and tax including R&D
- Growing and mature businesses – we can support you as your business grows with our award winning technology enabled audit approach, accounts preparation, tax compliance and advisory services such as HR and employee incentives
- International – we can leverage Moore Global's network of accountancy and advisory firms in over 100 countries, to take the pain out of expanding into unfamiliar territories. We can co-ordinate your international audit requirements, and advise on international tax
- Exit planning – our media specialist award winning M&A team, with hundreds of transactions under their belt, will ensure you are well prepared for any transaction and maximise the proceeds from the value you have created within your business

We have hundreds of clients across the media sector who all benefit from our very personal partner led approach, providing the very best guidance, expertise and specialist sector insights.

In short, we're more than just accountants who count your numbers – we're business partners whose ambition is to help you grow your numbers so that you realise your fullest potential.

MOORE KINGSTON SMITH'S 2019 M&A HIGHLIGHTS

Our corporate finance team is proud to have advised on the following media transactions in 2019:

Marketing Agency	Marketing Services	Marketing Services	Social Media	Theatre
Sale of DirectionGroup to Unlimited Group	Acquisition of Showcard Print Ltd	Sale of The Yard Creative to RSBG Infrastructure	Growth Capital Fundraise	Sale of London's Theatre Royal Haymarket to Access Entertainment
DIRECTIONGROUP	Writtle	TYC THE YARD CREATIVE	Influencer	THEATRE ROYAL HAYMARKET
Lead Adviser	Financial & Taxation Due Diligence	Transaction Support	Lead Adviser	Lead Adviser

CONTACT US

If you would like to discuss any of the matters arising in this edition or how we can help you, please contact one of the Moore Kingston Smith team by email or phone.

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