MOORE Kingston Smith

COVID-19 MEDIA BUSINESS OUTLOOK SURVEY

INTRODUCTION

The Covid-19 pandemic has had a wide reaching impact on the media industry. For most, revenue levels have been hit dramatically and quick measures have been taken to preserve the longevity of the business. People is one of the key areas where media businesses have taken swift action and some 85% have taken advantage of the government furlough scheme. Others have implemented pay cuts and short working weeks - all of which we go into detail on in our survey.

There is a wide range of government support available and we review to what extent these are being taken advantage of by the industry.

In this Covid-19 survey we have included four questions around revenue, profits and staff levels that are identical to those we asked in our Media Business Outlook Survey carried out in January, before the effects of the pandemic were widely felt.

As would be expected, the data set is not identical for both surveys. However, there was a significant proportion that completed both surveys and we saw very similar responses between these and the full data set for each survey. Therefore, we can be confident that our pre and post Covid-19 comparisons are representative of the economic effects of the pandemic as opposed to a shift in respondents.

"For most, revenue levels have been hit dramatically and quick measures have been taken to preserve the longevity of the business."

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 over 80% derived at least half their business from the UK. Around half had a small amount of income derived from US and similar levels had a small amount of income from Europe.

PRE AND POST COVID-19 BUSINESS SENTIMENT

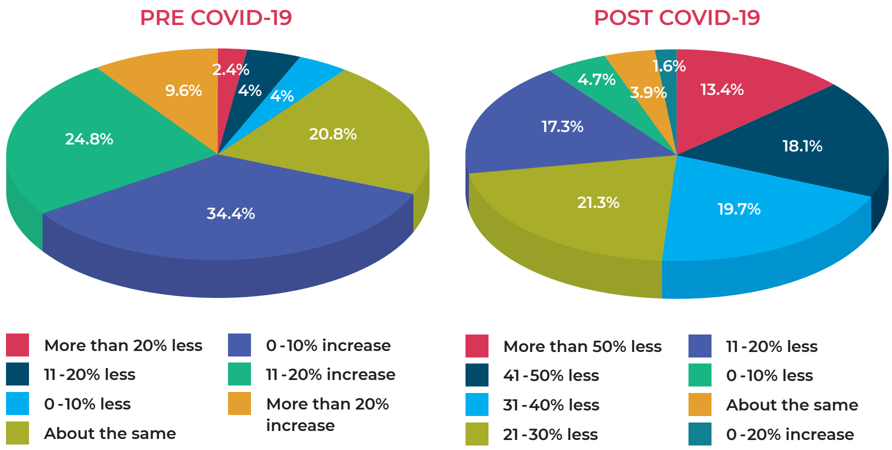
REVENUE LEVELS

In our January outlook survey, nearly 70% of respondents were expecting to see growth in fee income in 2020 compared to 2019. Over a third were expecting income to grow by over 10%. None were forecasting a drop.

However, the Covid-19 pandemic has affected this significantly with the answers changing dramatically. Less than 2% of respondents now expect to enjoy any increased revenue in 2020, when comparing with 2019, and 4% indicated they would have about the same revenue levels.

This means a huge 94% of respondents are predicting that revenue will be less in 2020 compared to 2019. Over 70% indicated the fall in revenue would likely be more than 20%, with nearly a third indicating the fall would be more than 40%.

How much better or worse do you think revenue levels will be in the calendar year 2020 compared to 2019?



STAFF REQUIREMENTS

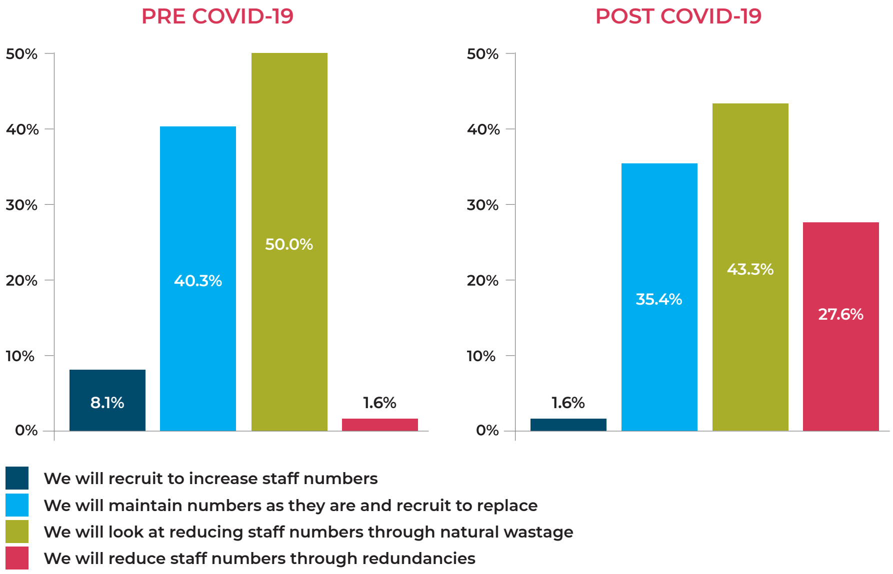
Before the pandemic, the outlook for staffing was generally positive with roughly half looking to maintain numbers or recruit, and the other half looking to make reductions through natural wastage. Only a tiny number were considering redundancies.

Staff are the largest cost for most media businesses, and therefore it is no surprise that responses around staff levels have changed dramatically given the anticipated reduction in revenues post Covid-19.

The percentage of respondents looking to make redundancies has shot up to nearly 28%. Overall, nearly three quarters of respondents are looking for staff numbers to reduce whether through natural wastage or redundancy.

This does not bode well for employment within the sector. 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 terms resource and skill requirements of the business as well as looking to cut cost 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.

How do you think your staffing requirements will change in 2020 compared to 2019?



PROFIT LEVELS

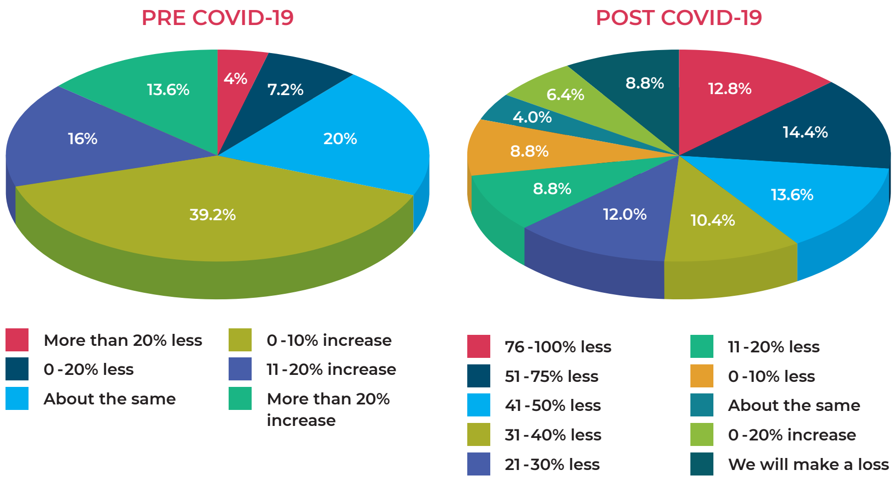
Profit level projections on the whole were strong pre Covid-19, with nearly 90% responding they would make about the same or increase their profit levels from 2019 to 2020.

As expected these projections have dramatically been reversed. Post Covid-19, only 11% expect to deliver the same or better profit levels in 2020 when compared with 2019.

Roughly half of respondents think profits will be down 30% or more, and just over a quarter of respondents think profits will be down more than 50%.

While this is no surprise it doesn't make for very good reading and will certainly pose huge challenges for media agencies' future plans, particularly those that were planning on going to market in the near future.

How much better or worse do you think your profit levels will be in the calendar year 2020 compared to 2019?



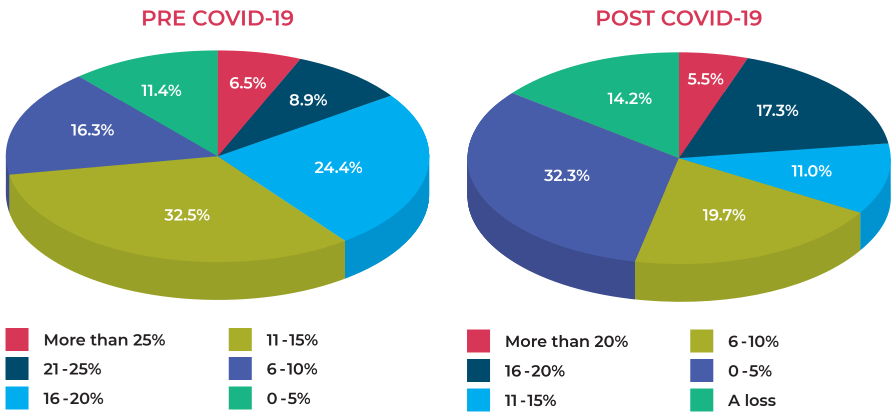
PROFIT MARGIN

Pre Covid-19 profit margin projections were fairly positive with roughly 40% forecasting to make more than 15% net profit margin – the Moore Kingston Smith target minimum. A further third were forecasting a respectable 11-15% net profit margin. None were forecasting a loss.

In light of Covid-19, these projections have changed dramatically. Some 14% of businesses are now forecasting a loss. Less than a quarter now expect to deliver a margin of more than 15%.

In total, two thirds of respondents are now expecting to deliver margins of 10% or less compared to just 28% pre Covid-19.

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



While this doesn't paint a rosy picture, it would not be surprising if the outcome turns out to be even worse, and not just because survey respondents generally tend to be on the optimistic side! Recovery will likely be slow, as the economy takes time to recover and consumer behaviours take time to find a new normal. Different sub sectors are likely to recover quicker than others. As ever it will be those agile media businesses that are quick to respond to the new normal that will thrive.

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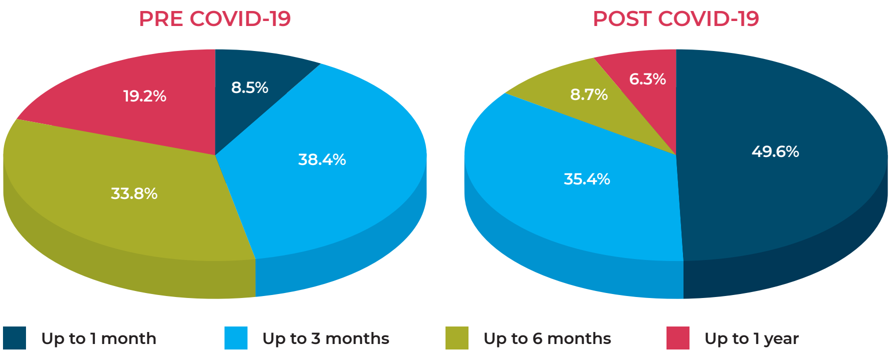
REVENUE VISIBILITY

Having visibility on future income steams 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.

Currently, approximately half of respondents have only one month's visibility on income streams whereas pre Covid-19 this was just 8%. Conversely, those with visibility of between six months and a year on income steams has reduced from 20% to 6%.

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 and reconsidering impact on resource requirements.

How much visibility did you have on revenue streams?

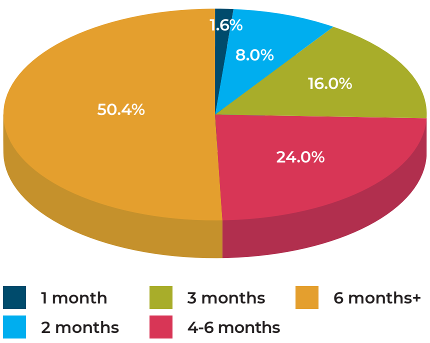


CASH FLOW

Encouragingly, approximately half of respondents have enough cash in the bank to last more than six months. More worryingly, around a quarter have enough to last three months or less. This will take into account the reduced cost base post Covid-19 as media businesses slash all non-essential and discretionary spend.

Businesses need to ensure they are regularly reviewing their cash flow forecasts to enable them to identify where the crunch points are. They should be having proactive conversations with clients and suppliers alike to enable them to ensure their cash flow forecasting is as accurate as possible.

With the anticipated levels of activity following COVID-19, how long do you anticipate your cash will last?



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PEOPLE

Not unexpectedly, some 85% of respondents were planning to use the government approved furlough scheme which has now been extended to the 30th June. The portal opened for furlough claims on Monday 20th April and hopefully many of you will have received grant money by now.

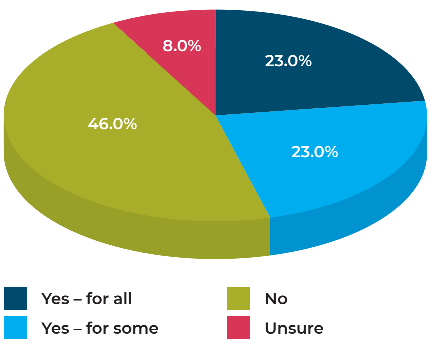
Businesses have a choice as to whether they simply pay the employee the amount they can reclaim under the furlough scheme – i.e. 80% of salary capped at £2,500 a month or whether they top the employee up to their usual salary.

Respondents were roughly equally split between those who were not planning any top up and those who were planning to top some or all up to their salary.

The key thing to remember with staff on furlough is that they CANNOT provide any services to the business, not even voluntarily. They can however undertake training and you can still communicate to keep them informed of what is happening within the business e.g. include them in firm wide socials and quizzes etc. to help with their mental wellbeing.

One other point to mention is that if staff who have EMI options are furloughed, then this technically invalidates the tax advantaged EMI status of their options. We are hoping HMRC will make a concession on this point, but as yet it is not certain and so if you have employees with EMI options that have been furloughed please seek advice.

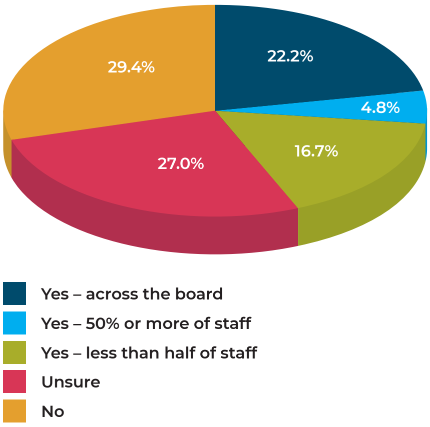
If you are planning on furlough, will you top up to full salary level?



In terms of reducing staff working time, 22% said that they would be doing this across the board, and 17% were planning on implementing this for up to half of the staff. Nearly 30% thought such measures would not be required.

Of those planning to reduce working hours, as expected, most were looking to do this within the next month.

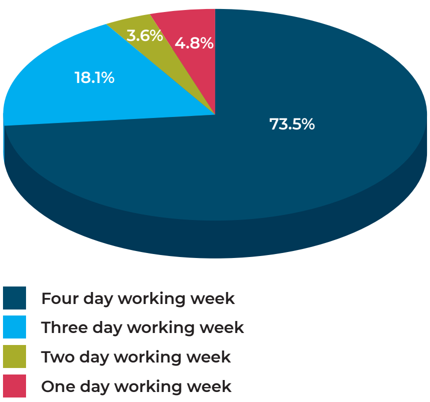
Are you contemplating reducing working time for staff members?



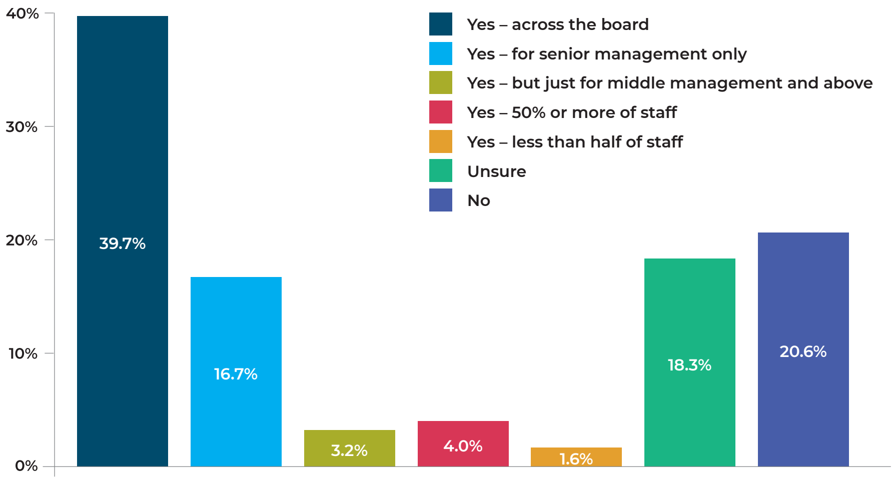
Of those considering reducing hours, the most popular option would be reducing it down to a four day working week with around three quarters expecting this to be necessary. However, this means over a quarter of those reducing working hours are considering a three day week or less for their staff.

Businesses do need to carefully consider how to manage the return of staff to work once things start to get back to normal. Phased returns or more flexible working arrangements might be required to ease people in gently.

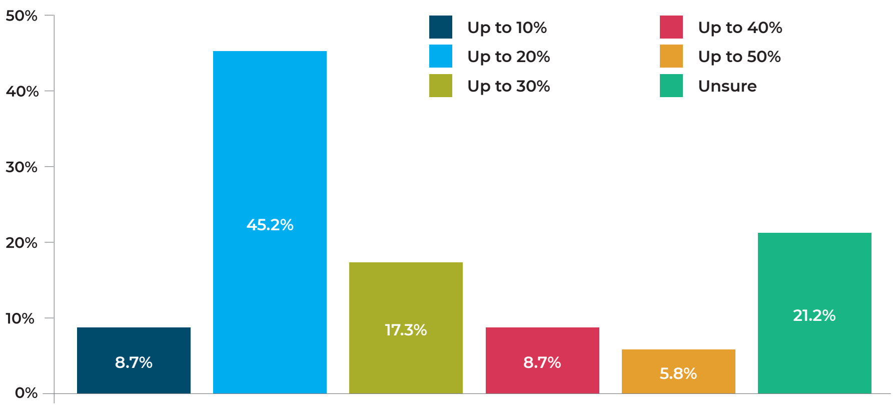
If you are planning to reduce working hours, to what level will this be?



Are you contemplating salary cuts within your business?



If you are contemplating salary cuts within your business, what % are you anticipating at the moment?



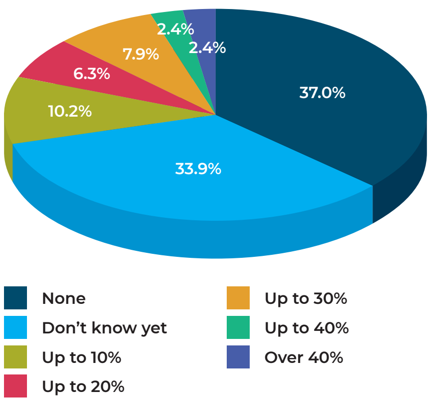
Salary cuts have been used widely across the industry as a way of preserving more jobs and avoiding large scale redundancies. Some 60% of respondents had either already implemented this or were anticipating salary cuts and a further 18% were as yet unsure. Roughly 17% were planning to confine salary cuts to senior management only, although 40% were planning to implement across the board.

Of those considering pay cuts some 45% said they would consider up to a 20% salary reduction. Some were considering much larger cuts, but these tended to be the respondents who were planning on cuts for senior management only.

Redundancies are of course the last resort if the above measures cannot deliver enough cost savings. This survey was completed over the second and third weeks of April, and at the time, 37% of respondents thought no redundancies would be necessary, with a further 34% stating they were unsure.

Some 13% said they anticipate making over 20% of their staff redundant. Those planning redundancies were anticipating making them over the course of the next three months.

If you are contemplating redundancies within your business, what% are you anticipating at the moment?



OTHER GOVERNMENT SUPPORT

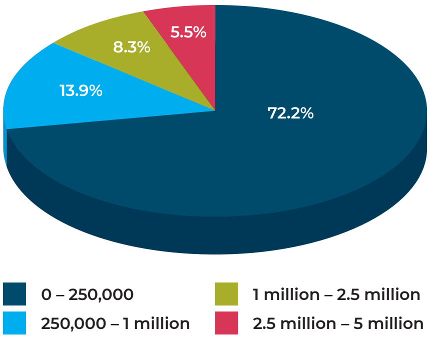
PAYE HOLIDAYS

Some 43% have agreed a postponement of PAYE/NIC payments with HMRC with a three month deferral being most commonly agreed. Agencies do need to give some thought as to how well placed they will be to pay these amounts over in due course, It is hoped that HMRC will allow businesses to settle these via payment by instalments.

CBILS LOANS

Only 23% of media businesses said they were planning to borrow funds under the government loan agreement CBILS. Of this 23% nearly three quarters were planning to ask for up to £250k. The banks have generally been slow to approve CBILS loans applications, and there has been much push back on personal guarantees and eligibility. However, with no interest for the first year, repayment periods up to six years and up to 12 month capital repayment holidays they are a great way to boost your cash to deal with the immediate

How much are you planning to borrow?



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 with your application, as banks are under a lot of pressure to deliver these loans to businesses and applications can be escalated.

LOAN PAYMENT HOLIDAYS

Of the few that have approached the banks for payment holidays on existing loans 70% have been successful, and most of those have received between one-three months repayment holiday. For any that have not yet been successful it is certainly worth trying again as banks and other lenders are being strongly encouraged to offer repayment holidays where appropriate.

INSURANCE

It is no surprise most insurance claims do not cover this pandemic, however, over half respondents have not yet contacted their insurers to check this point. Given that a handful have been able to make successful claims it is certainly worth double checking. Businesses would also be encouraged to check property related insurances given that many offices lay unoccupied.

PROPERTY

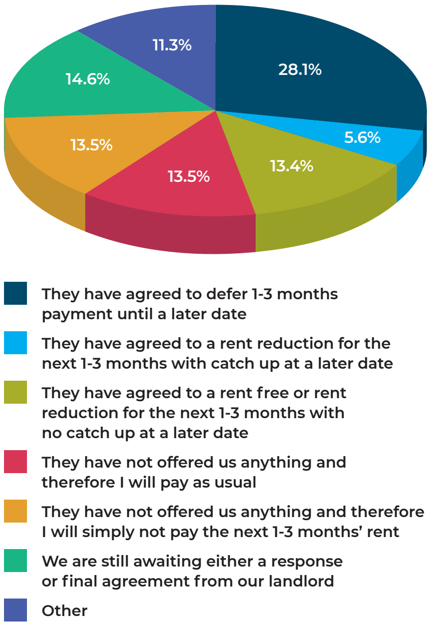
Property costs are usually the second largest overhead for media businesses. Therefore, not surprisingly since most offices lay empty, 65% of respondents have asked their landlord to vary terms for rent, with a further 18% planning to do this. The remainder were in a position to pay their rent in full.

There has been varied success from such discussions. Some 28% have managed to successfully agree a one-three month rent deferral. 9% have managed to agree an actual reduction for one-three months.

However, some 27% had not been offered anything by their landlord and of these half were planning on simply withholding payment. As yet, 15% have either not yet heard back from their landlord or are awaiting agreement.

Other solutions offered include early exit from the lease, paying on a monthly rather than quarterly basis, deferment of 50% rent for the next six months, rent free for two/three months.

What varied terms has your landlord agreed?

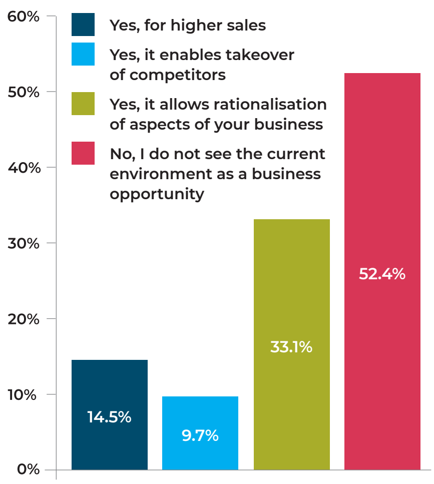


WHAT LIES AHEAD?

In terms of the Covid-19 offering opportunities for our clients, it seems more positive than perhaps one may have thought. Nearly half thought it presented some sort of opportunity for them. Nearly 15% thought they could generate higher sales, with 10% saying it might enable them opportunities in terms of takeovers. Some 30% said it offers opportunities to rationalise aspects of the business.

Despite this, the effects of the pandemic on business are still very concerning. However, very few (just 2%) thought the effects on their business would be fatal. Nearly half of respondents cited that while they were very concerned they

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



thought their business would make it through. Others were less concerned.

Therefore, a slightly cheerier note to end on as while there is clearly cause for great concern with revenue cuts and anticipated job losses, all but a handful of respondents think their business will make it out the other side. 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 whether recovery is bath shaped, corrugated bath shaped, V shaped, U shaped or inverted rainbow shaped (we like this one!) we look forward to seeing pretty much all 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 Covid-19 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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