

MATHER ECONOMICS

Forecasting the Revenue Impacts of
Reduced Print Delivery Days

mather:

mathereconomics.com

AMERICA'S NEWSPAPERS

PRINT DELIVERY WEBINAR

AUGUST 27TH, 2020

mather:

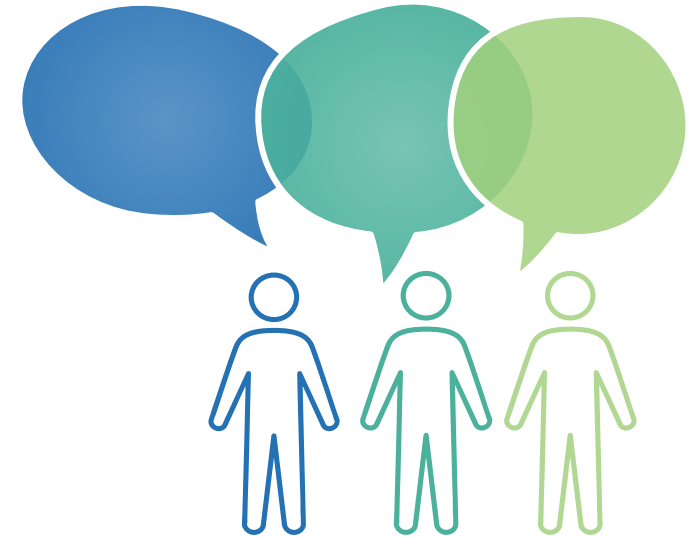
SUBSCRIPTION OBSERVATIONS

The COVID-19 pandemic has created disruption across global business, including publishing.

Our partners have experienced several impacts to their operations, including:

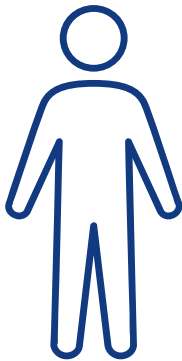
- a sharp increase in news consumption, particularly via digital channels
- a significant decline in demand for advertising, both online and in print
- a significant decline in single copy draw as quarantine procedures impact traffic

As a result of these impacts, more publishers are evaluating the number of print delivery days in order to maintain profitable operating expenses.

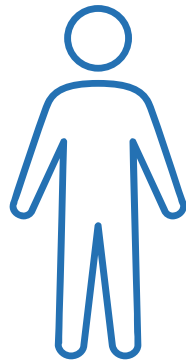


FREQUENTLY ASKED QUESTIONS

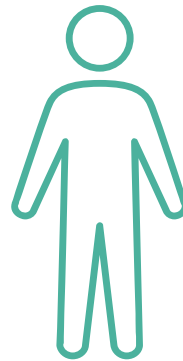
How have other publishers fared when reducing print days?



How much print subscription revenue will be lost?



How much subscriber volume loss should we anticipate?



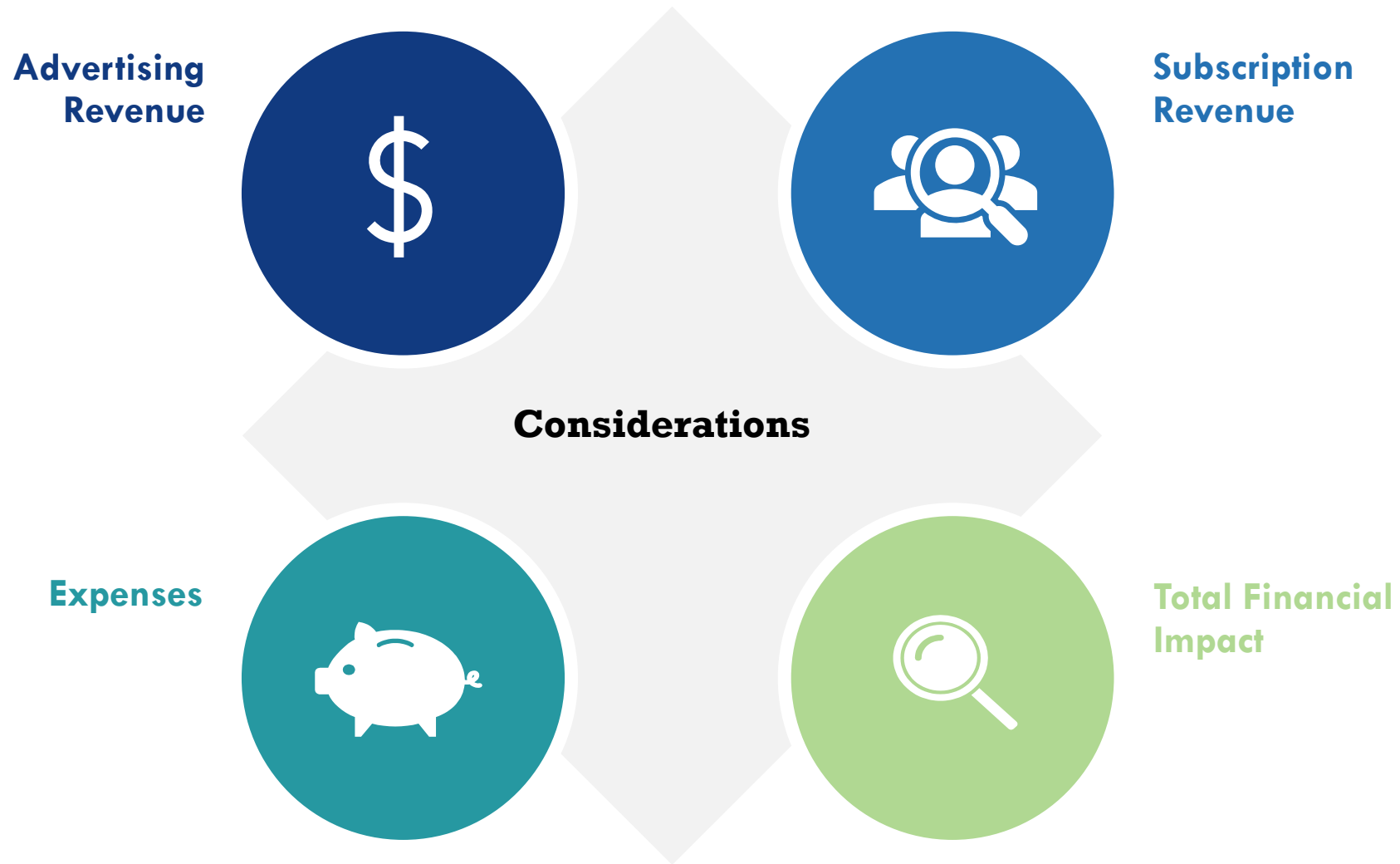
How will our advertising revenue be impacted?



How will this impact our other pricing actions taken through market-based pricing?



FINDING THE RIGHT DELIVERY DAYS



FINDING THE RIGHT DELIVERY DAYS

01



Leveraging an internal database of weekly subscriber data from hundreds of publishers, we examined impacts from markets that have eliminated print days and used these benchmarks to build a subscription revenue tool.

02



Industry research was consulted to estimate impacts of pandemic and delivery day reduction on advertising revenue. A forecasting tool for advertising revenue based on these findings was then built.

03



With our subscription and advertising revenue tools built, we were able to overlay projected expenses provided by the publisher to determine the number of print days that maximized operating profit.

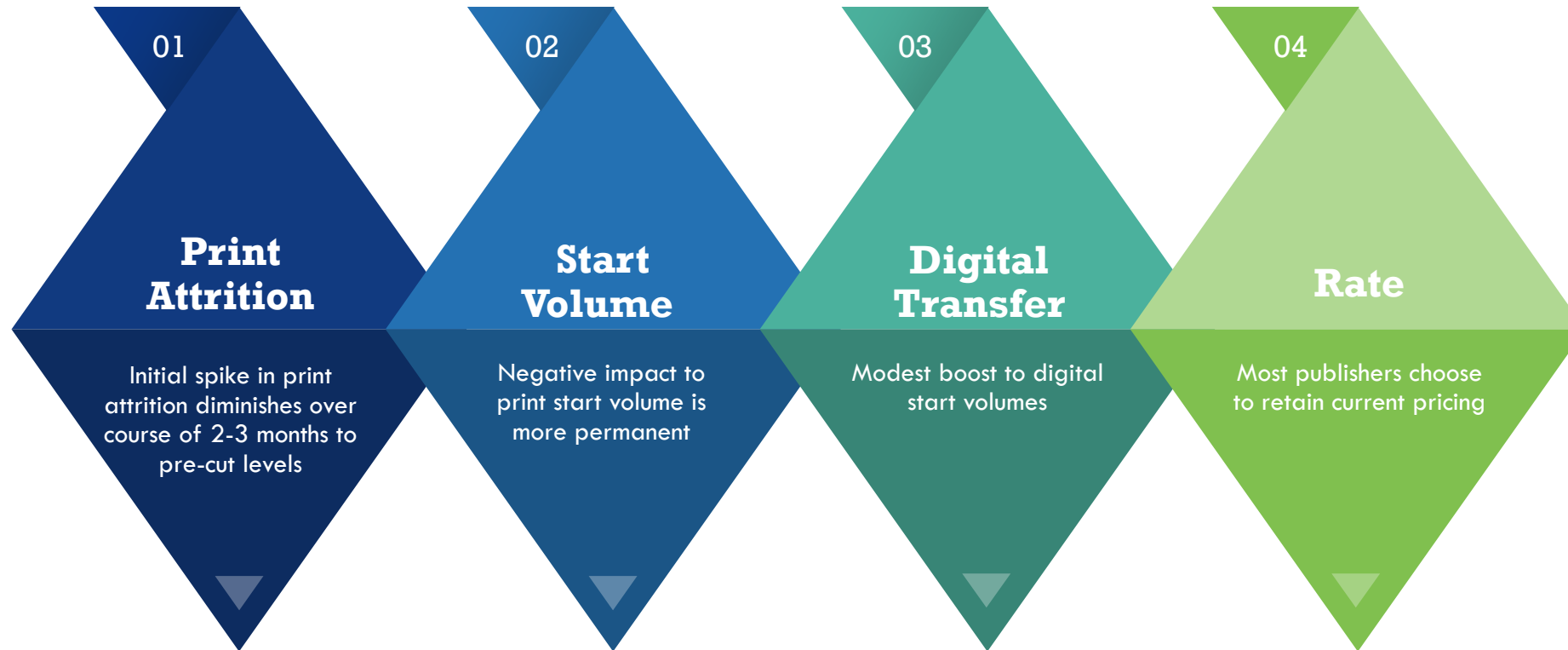
04



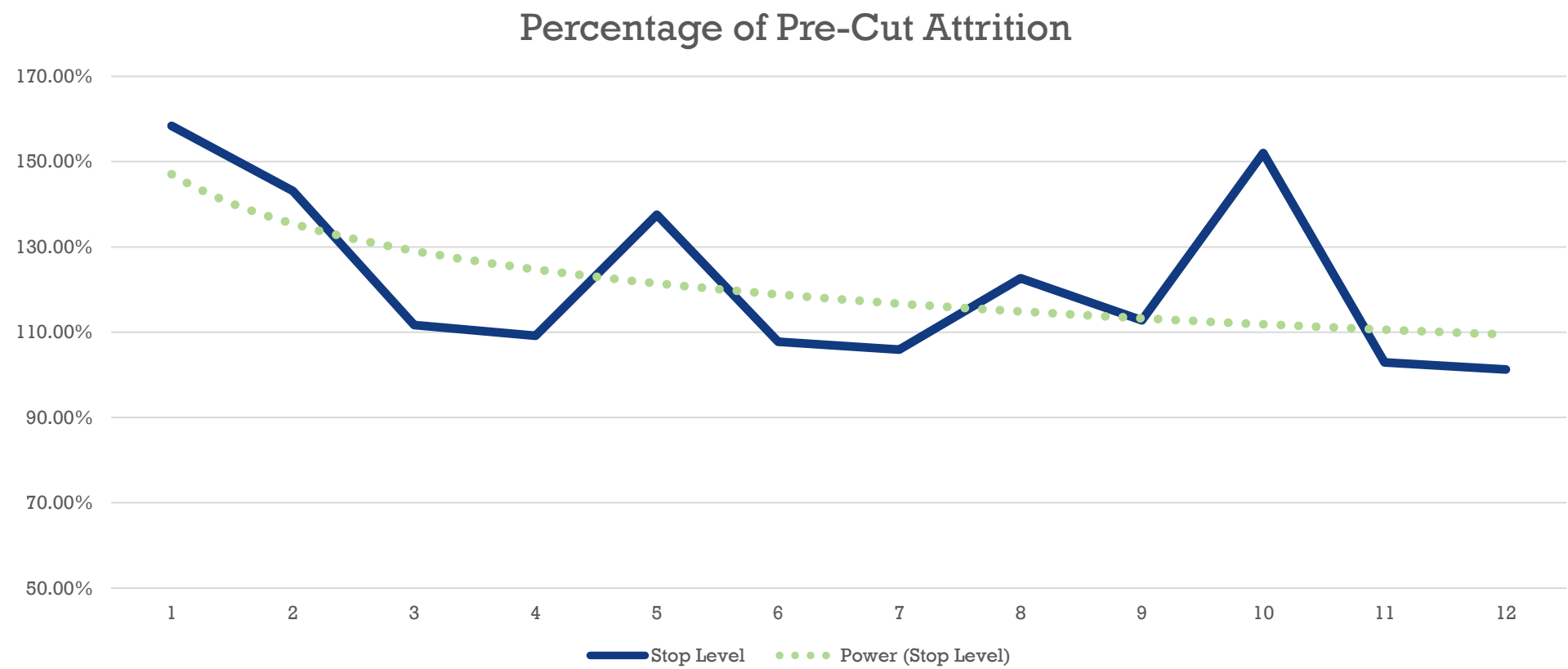
As a final deliverable, Mather provided estimates of pricing sensitivity and incremental pricing revenue corresponding with scenarios of print delivery.

SUBSCRIPTION REVENUE

SUBSCRIPTION REVENUE OBSERVATIONS



PRINT ATTRITION IMPACT

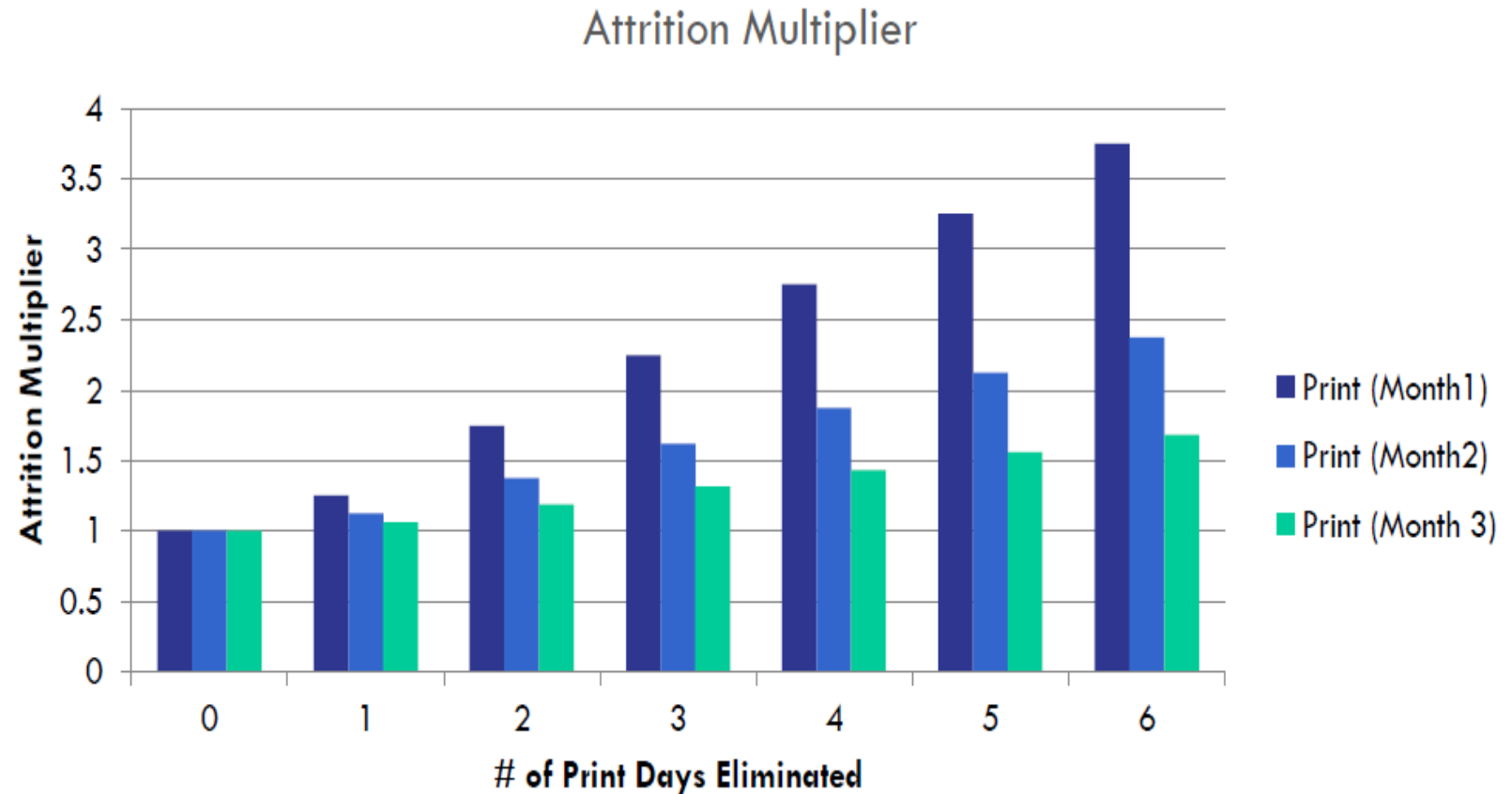


The chart above shows the glide path of attrition in the weeks following the cut of one delivery day for a sample market. An initial spike in attrition is followed with a slow leveling off to pre-cut levels.

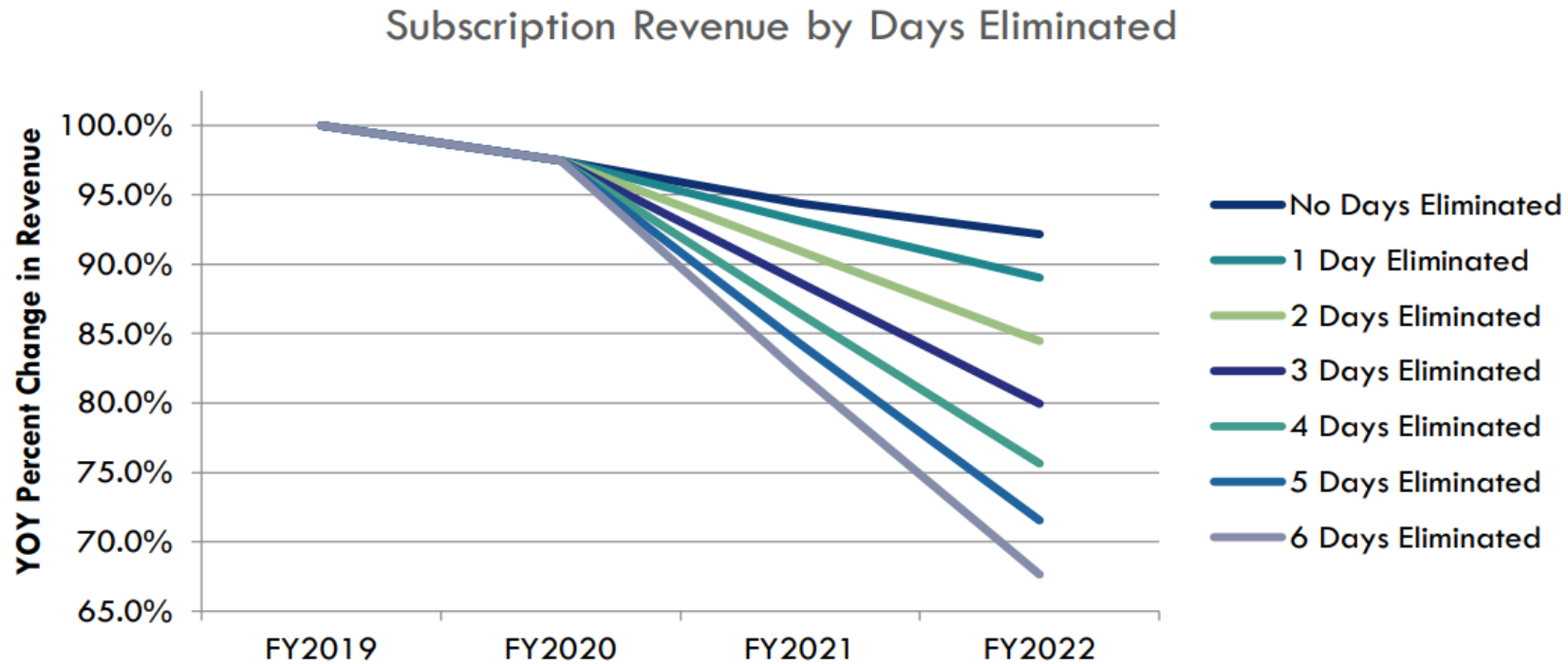
SUBSCRIPTION REVENUE FORECASTING

Mather built a forecast tool that applied multipliers to the market's existing revenue trend based on data observed across the industry as other sites removed print delivery days.

The print attrition multiplier assumes a glide path of an initial spike in attrition in the first month while staying elevated for the 2 months following.



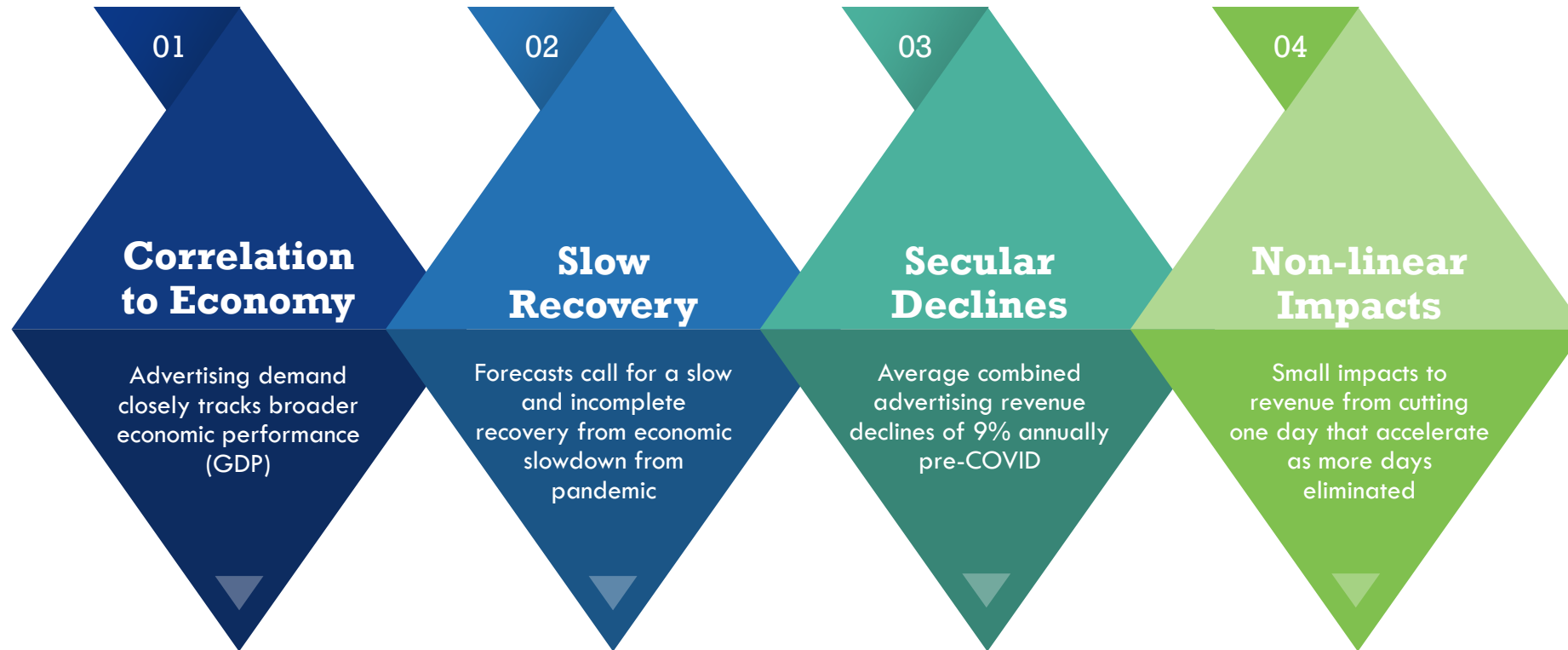
SUBSCRIPTION REVENUE FORECASTING



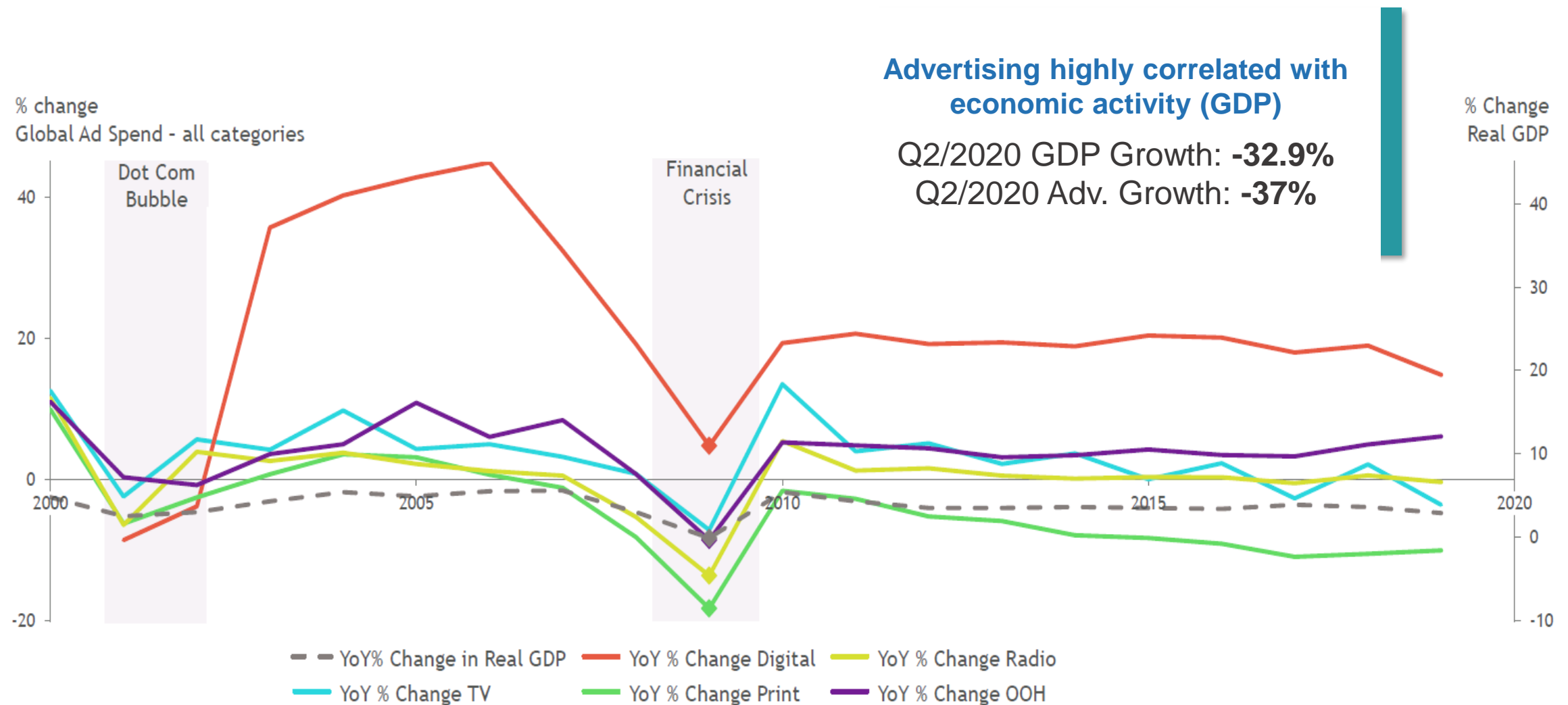
Combining baseline subscription revenue forecasts with estimated impacts from delivery day cuts, a scenario planning tool is built to plan for alternative print delivery schedules. The chart above shows the combined print and digital subscription revenue for the next two fiscal years under various delivery scenarios.

ADVERTISING REVENUE

ADVERTISING REVENUE OBSERVATIONS



ADVERTISING REVENUE TRENDS/FORECASTS

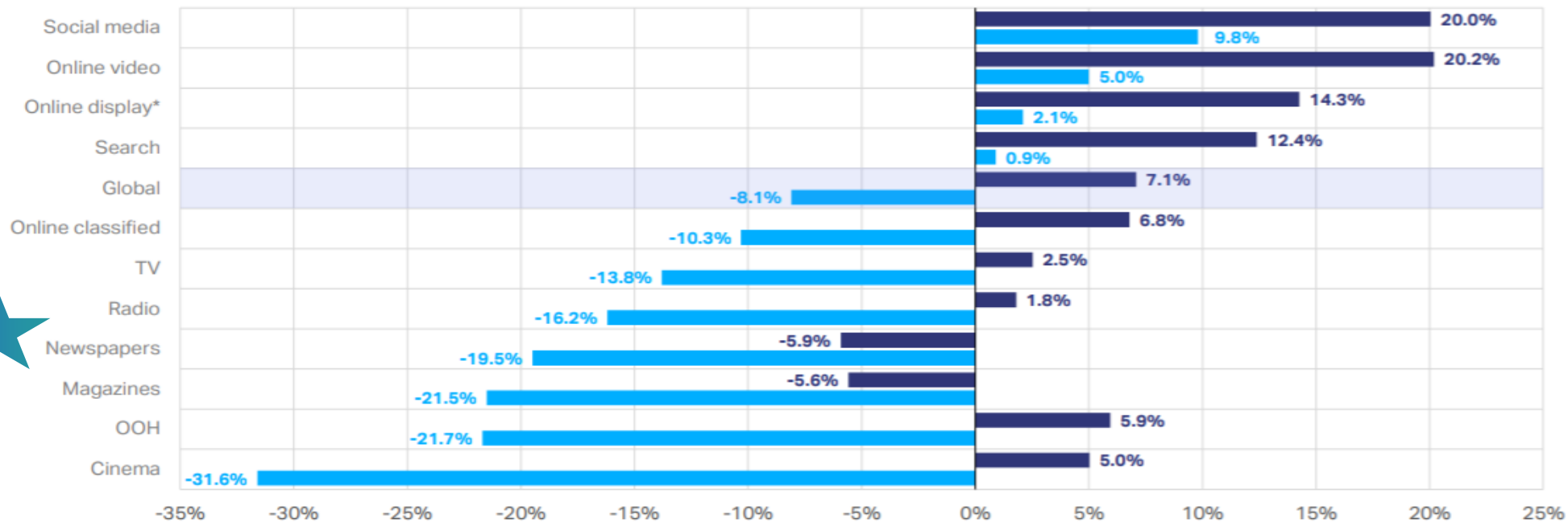


Source: BCG, *Where Does Advertising Go Next?* (INMA), Magna Global's Media Forecast, December 2019

ADVERTISING REVENUE TRENDS/FORECASTS

Global, Year-on-year % change, US dollars, 2020

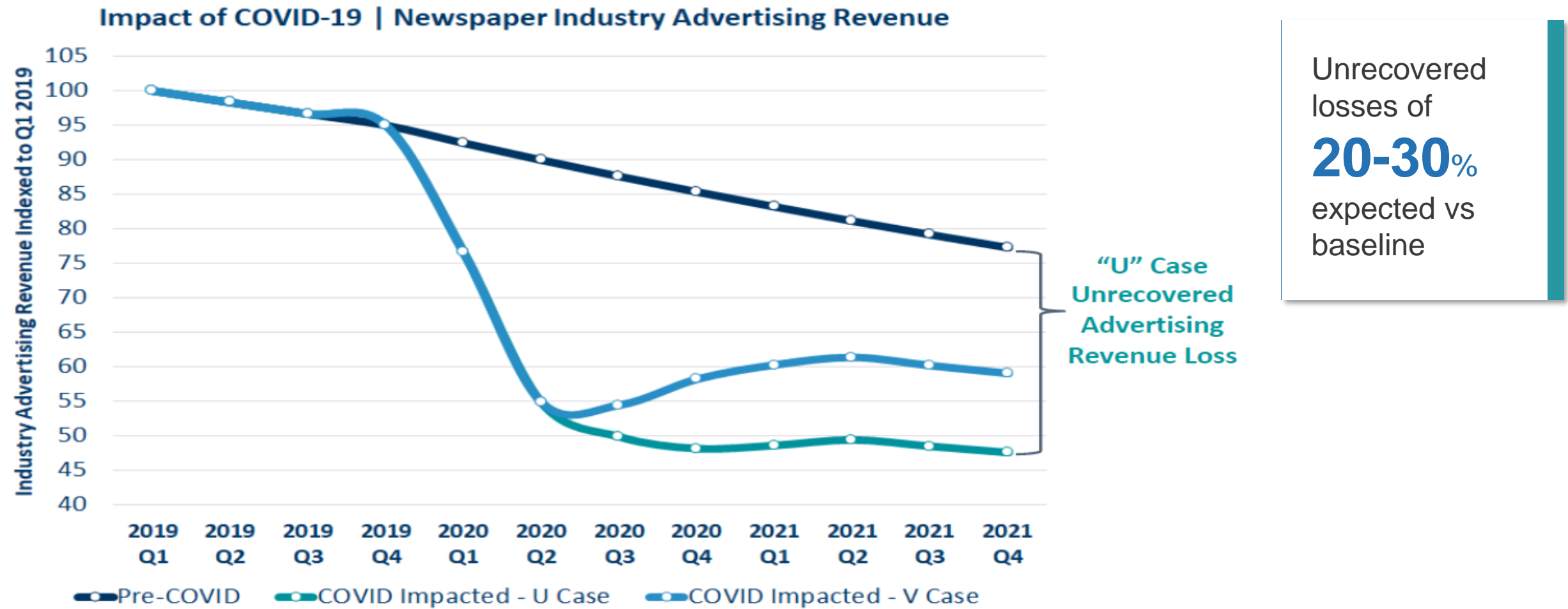
■ Pre-outbreak ■ Post-outbreak



YOY industry growth of
-20%
vs.
pre-COVID forecast of
-6%

Source: WARC, The Impact of COVID-19 on Ad Investment, May 2020

ADVERTISING REVENUE TRENDS/FORECASTS

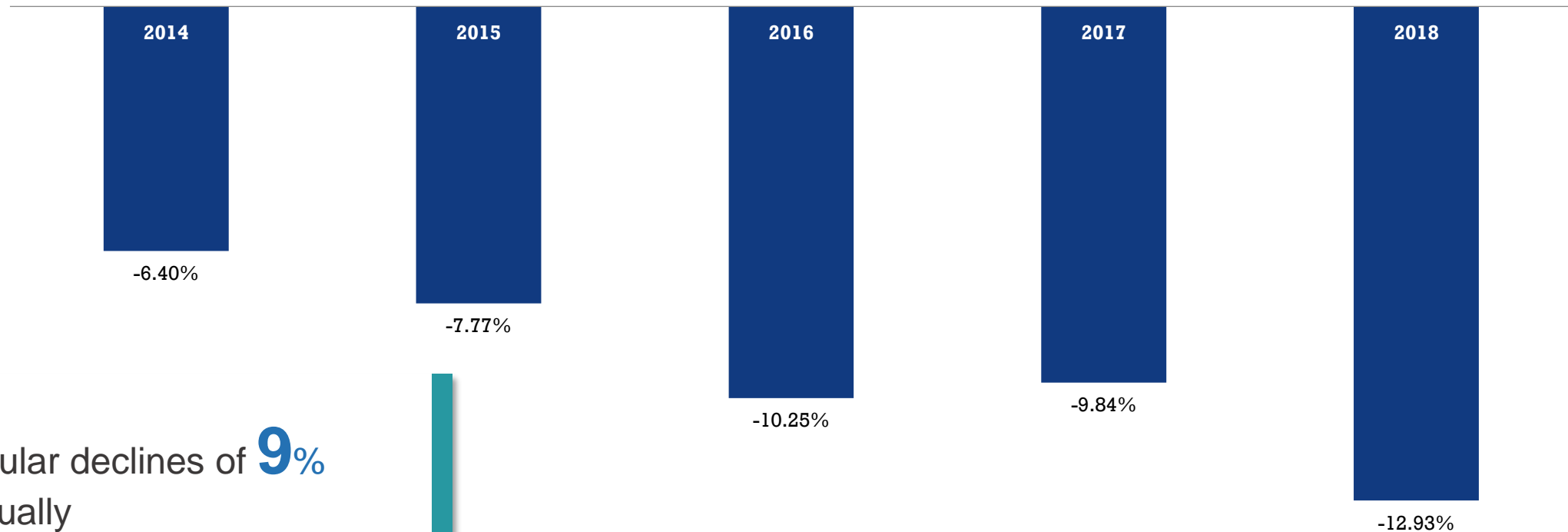


Source: FTI, Cost Takeout Measures Publishers Can Implement Now (INMA), April 2020

ADVERTISING REVENUE TRENDS/FORECASTS

YOY Change in Advertising Revenue

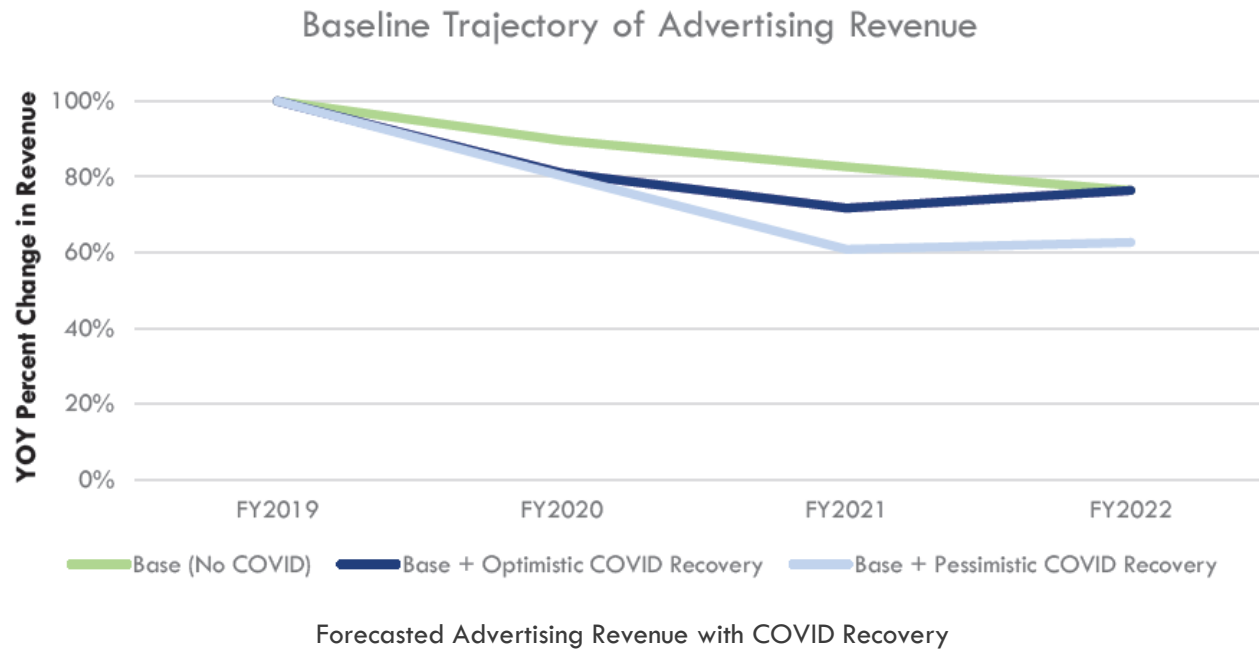
■ YOY Change in Advertising Revenue



Secular declines of **9%**
annually

Source: Pew Research Center, State of the News Media 2018, June 2019

ADVERTISING REVENUE METHODOLOGY



In building out a model to forecast advertising revenue for future years, it was crucial to not only account for delivery day reductions, but also the lasting impact of COVID-19.

To help inform our assumptions, we reviewed data on previous recessionary periods, namely the 2008 financial crisis, which revealed that recoveries tend to be protracted and may never reach pre-recession trends.

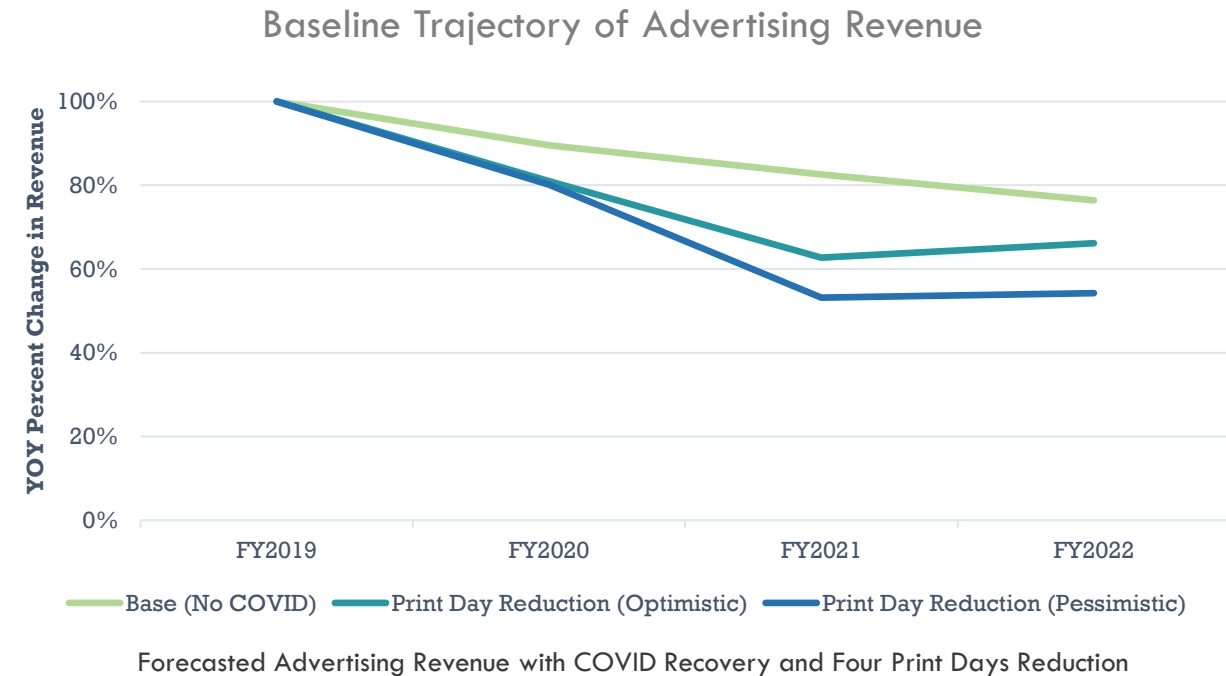
Mather started by forecasting a baseline revenue using 2019 actuals to show trends in the absence of COVID-19. From there, optimistic and pessimistic scenarios were built by estimating the speed of the post-COVID recovery and delivery reduction scenarios were fed in from there.

ADVERTISING REVENUE METHODOLOGY

Mather predicts a modest drop in advertising revenue when dropping just one day, but impacts accelerate as more days are cut as fewer print days become substitutable. The confidence interval also grows with more days dropped.

The overall advertising revenue also depends on the stickiness of ads at various line items. Some items like obits or classifieds aren't forecasted to diminish because you can replace it on another day.

Days that are sensitive to certain advertisers and retailers will have a larger impact on lost advertising revenue.





OVERLAYING REVENUE AND EXPENSE

CTMX	0.45	▲	+0.45%
FTR	-0.23	▼	-2.34%
CSCO	-1.01	▼	-1.89%
CHK	0.02	▲	+0.21%
AAPL	+2.59	▲	+0.51%
PRTG	-0.10	▼	-0.10%
AMZN	-0.10	▼	-0.10%
TSLA	-0.10	▼	-0.10%
AVGO	-0.10	▼	-0.10%
SIRI	-0.65	▼	-0.65%

KEY FINDINGS

After building out subscription and advertising revenue forecasting tools, we were able to combine projected expenses put together by the publisher to determine the optimal number of print delivery days.

Overlaying the expenses into our projected figures indicated retaining 3-5 print days would result net positive operation profit with an optimal case of retaining 4 print days for this publisher.

<div>2.83%</div> <div>Operating profit as percentage of revenue</div>	YEAR	SCENARIO	TOTAL OPERATING PROFIT %
	FY 2020	Print 7 Days	-1.14%
	FY 2021	Print 7 Days	-5.45%
		Print 5 Days	1.85%
		Print 4 Days	2.83%
		Print 3 Days	1.33%
		Print 2 Days	-2.38%
		Print Saturdays	-10.39%

9%

decrease in subscription revenue

18%

decrease in advertising revenue

17%

decrease in operating expenses

PRICING IMPACT



CTMX	0.45	▲ +0.45%
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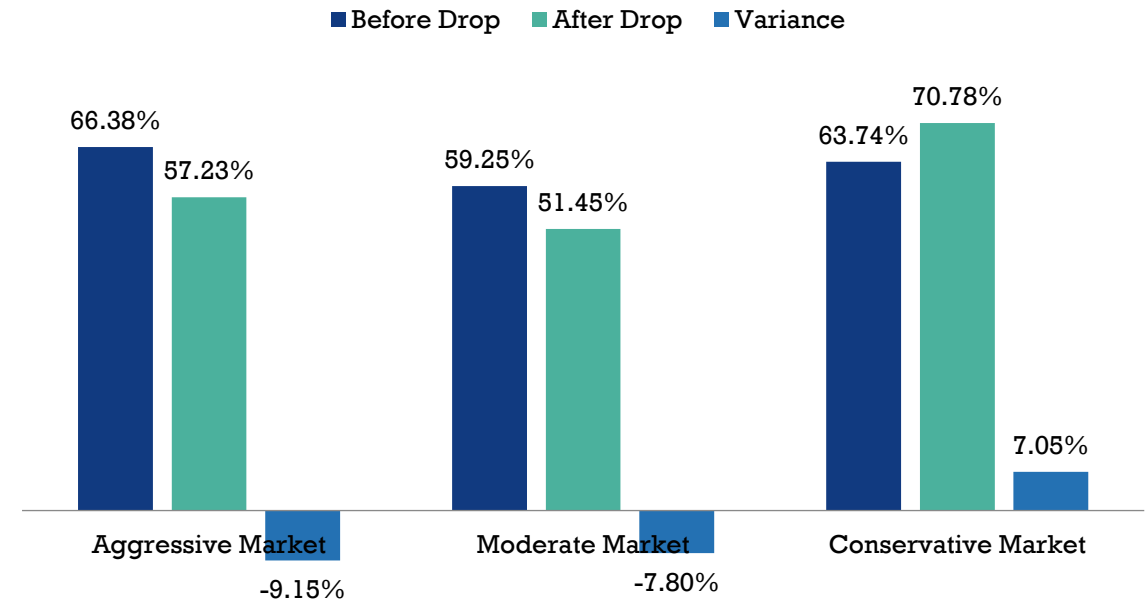
EXPECTED PRICING IMPACT

We found that the overall pricing sensitivity and responsiveness of subscribers remained largely unchanged given moderate business rules with one print day reduction. This margin grows with each delivery day dropped.

In the markets we examined, the target and control groups both experienced an increase in the percentage of stops, resulting in the incremental stop rate remaining about the same.

We estimate that a market with more aggressive increases (amount and times per year) will yield a lower net to gross ratio and high incremental stops.

Net to Gross Increase Ratio



The aggressive market in this scenario does two high increases per year. The moderate market does one moderate increase per year while the conservative market does one very small increase per year.

IMPLEMENTATION CONSIDERATIONS

IMPLEMENTATION CONSIDERATIONS



Notification timelines (early and often as a best practice)



Notification channels (email, in paper)



Value adds to e-paper and remaining print days to reduce impact



Expect to see significant increase in engagement with e-paper



Prepare the customer service team with a list of curated responses for expected frequency questions from subscribers



Ensure amortization schedules and rates are updated to reflect frequency adjustments



Upon initial notification, consider selling reduced frequency to avoid confusion around go-live date

QUESTIONS?



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MEET THE EXPERTS



Matt Lindsay

President

matt@mathereconomics.com



Bob Terzotis

Executive Vice President

bob@mathereconomics.com



Matthew Lulay

Managing Director

matthew@mathereconomics.com



Madelin Zwingelberg

Senior Manager

madelin@mathereconomics.com

mather:

USA

1215 Hightower Trail
Building A, Suite 100
Atlanta, GA 30350

EUROPE

Basisweg 30
1043 AP
Amsterdam, Netherlands

770.993.4111
mathereconomics.com