Media Growth Trends

Issues and Opportunities

January 2011

Econsultancy
Digital Marketers United™

The Jordan, Edmiston Group, Inc.

JEGI Capital

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Foreword for Econsultancy Report

The Media Growth Survey was created to capture senior media industry executives' outlook on growth opportunities and key challenges that face the industry in the months and years ahead. The survey is also meant to be a tool for senior executives to improve business performance by identifying and ranking a number of industry trends.

The Jordan, Edmiston Group, Inc. and Econsultancy are pleased to share with you the results of the first-ever Media Growth Survey, which received responses from nearly 500 c-level executives across the media, information, marketing services and technology sectors.

Media executives are generally optimistic about the health of their markets coming out of the economic downturn, as 82% identified "organic growth" as the primary growth driver in the next 12 to 24 months. This outlook is consistent with the Interactive Advertising Bureau's Q3-2010 report that showed U.S. Internet advertising revenue hit $6.4 billion in the third quarter of 2010, the highest quarterly result ever and a 17% increase over the same period of 2009.

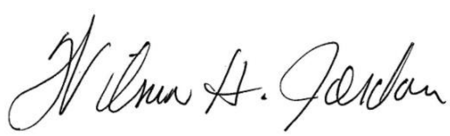
A 10.5% increase in U.S. online ad spending in 2011 is predicted by eMarketer, followed by double-digit growth through 2014, when spending is expected to reach more than $40 billion. As well, the Wells Fargo/Gallup Small Business Index, a measure of small-business owner perceptions of their operating environments, surged 24 points in November 2010, a sharp improvement from the previous report in July 2010 and the most positive level since April 2009.

Nearly half of all respondents to the Survey expect to make an acquisition in the next 12 to 24 months, with 81% of executives at the largest corporations (those with over $250 million in revenue) expecting to make an acquisition in that time period. The S&P 1500 has unprecedented levels of liquidity, with more than $1.5 trillion of liquid assets on their balance sheets. Private equity firms also have historically high levels of uninvested capital – more than $400 billion and growing. Both corporations and PE firms will look to deploy this liquidity in 2011 via acquisitions.

Of course, there is always some uncertainty surrounding survey outlooks and expectations. Corporations are concerned about free/low-cost providers of content and innovations from traditional competitors. In regards to the M&A market, banks are still hesitant to lend, especially on smaller transactions (those involving companies with less than $15-20 million in EBITDA). Still, a recovering economy and improved confidence and growth projections contribute to the improving outlook for M&A in 2011.

We hope that you find the results of this survey informative, and thanks again to those who took the time to participate. We look forward to your participation in the future.

Sincerely,



Wilma H. Jordan
Founder & CEO
The Jordan, Edmiston Group, Inc.

About JEGI

The Jordan, Edmiston Group, Inc. (JEGI) of New York, NY is the leading independent investment bank for media, information, marketing services and technology. Since 1987, JEGI has completed more than 500 high-profile M&A transactions for global corporations, middle-market and emerging companies, entrepreneurial owners, and private equity and venture capital firms. Recent transactions include:

- The sale of Blue State Digital, a full-service digital agency, to WPP;
- The sale of I-Behavior, a market leader in consumer and business transaction data, to KBM Group (WPP);
- The sale of All Island Media, a leading shopper publication group serving the Long Island local media market, to Wafra Partners;
- The sale of Highline Financial, a financial information and analytics provider focused on the US banking sector, to Thomson Reuters;
- The sale of Deep Focus, a full-service interactive marketing agency, to Engine Group;
- The sale of mSnap, the largest broadcast-based mobile advertising network in the U.S., to Marketron;
- The sale of Accela Communications, a leading marketing technology company providing interactive video communications, to KIT Digital;
- The sale of Rigzone, a leading information provider to the oil and gas industry, to Dice;
- The sale of Forbes' Investopedia, a leading financial information and investing education web site, to ValueClick;
- Hearst's acquisition of iCrossing, a global interactive marketing services company;
- The sale of dmg world media's (Daily Mail & General Trust) Alberta Gift Show and Montreal Gift Show to the Canadian Gift & Tableware Association;
- The divestiture of Reed Business Information-US assets; among many others.

For more information, please visit www.jegi.com or contact Adam Gross, JEGI's Chief Marketing Officer, at 212-754-0710 or adamg@jegi.com.

About Econsultancy

Econsultancy is a digital publishing and training group that is used by more than 200,000 internet professionals every month.

The company publishes practical and timesaving research to help marketers make better decisions about the digital environment, build business cases, find the best suppliers, look smart in meetings and accelerate their careers.

Econsultancy has offices in New York and London, and hosts more than 100 events every year in the US and UK. Many of the world's most famous brands use Econsultancy to educate and train their staff.

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Executive Summary

Following seismic shifts over the past few years, the media and information industry is focused on growth. The data in this report tells us that companies across the spectrum of media and information see opportunities today and in the years ahead.

As the North American economy rebounds, media executives predict growth in their current lines of business, but their focus is on adapting for the future. From the smallest digital start-ups to the largest global corporations, companies are planning to invest in new products, new talent, acquisitions, and new geographies.

This report is built from the results of a survey to a unique audience of senior executives in the media, information, marketing services, and technology markets. Over half of the respondents have the title of CEO, with the remainder comprising presidents, chairmen, and other C-level leaders. Their collective responses offer a view of the industry from the highest level possible.

The primary focus of this study is **growth**: where it is coming from and how companies are organizing to take advantage of it. In the short term, companies of all sizes see organic growth as primary, largely through the expansion of share in existing markets. That is to be expected in a recovering economy, but organic growth takes a back seat to new product development, when viewed with a three to five year outlook. This is especially true for larger organizations, where the percentage of executives expecting organic growth to be a primary growth driver drops more than 20 points, from 85% to 63%, when providing a short-term versus long-term outlook for their companies.

Media executives are highly aware of the shifting **trends** that affect the industry today and are also looking ahead at emerging factors that are gaining in importance. Their top concern of the moment is with the challenges and opportunities presented by data. The wealth of data in the digital arena offers companies new options in improving strategic analysis, targeting customers, and developing new products. However, for many organizations, taking advantage of such opportunities means evolving their business models, adopting a new set of technologies, and/or acquiring talent that is often difficult to find.

Publishers are paying close attention to the proliferation of devices and platforms that their audiences use to access content. This evolution in content delivery ranks as the second hottest trend in the short term and takes the top spot when publishers look out three to five years. For many, devising an effective approach to delivering content via mobile phones and tablets is a key to sustained growth.

The other trend that confounds media executives is the massive expansion of social media. The social phenomenon is notably absent from the growth plans of our respondents, yet they identify it as the third ranked trend today and one that is only expected to become more important in the coming years. It appears that, thus far, social media is a disruptor without a clear path to a significant revenue stream.

To achieve growth, the industry has to overcome **challenges**, and our survey explored both the systemic roadblocks and the internal issues confronting our respondents. Nowhere is the difference between large and small companies as evident as in how they view their competitive environments.

Large organizations are having the hardest time adjusting to the digital shift, and they are highly concerned with the continued emergence of small, digitally-focused companies with less expensive business models. Smaller companies embrace new technologies and methods as their advantage, but expect vigorous, well-funded competition from traditional players.

Internal issues also vary significantly by revenue and size. Small companies complain of the lack of capital and credit for expansion. Their larger rivals point to a lack of talent in emerging areas as their primary concern. They also mention how difficult it is to overcome the conflicting internal agendas and inflexible structures inherent in large organizations, especially in times of dramatic change.

Planned **investment** may well tell the truest story of what media executives see in their organizations' futures. Companies at every revenue level expect to be spending on new product development. It is the top capex line item for all but the largest companies, where it shares top billing with funding for acquisitions. Attracting new talent and talent development are also important areas of investment.

An industry in flux is fertile territory for **mergers and acquisitions**, another area of focus for the study. M&A activity is seen as a vital growth driver for larger companies: 81% of respondents at organizations with more than $250 million in revenue foresee making an acquisition in the next 12 to 24 months. But large companies don't have a monopoly on M&A; more than half of the mid-sized organizations we sampled also plan to make an acquisition in the near-term.

By comparison, divestures are an important but secondary consideration. In total, only 27% of companies see a divestiture in their near-term future, while 42% expect to make an acquisition.

Taken as a whole, the results of the Media Growth Study point to an industry that is in the throes of ongoing change, but has turned a corner in understanding how to confront and take advantage of it. Respondents in similar-sized companies are fairly consistent in the opportunities and obstacles they identify, as well as their views on growth and areas of investment.

There are still pockets of uncertainty, such as how to take advantage of social media and how best to develop products for the digital age, but the industry anticipates growth coming from a variety of sources and is investing to maximize those revenue streams.

Methodology & Respondent Demographics

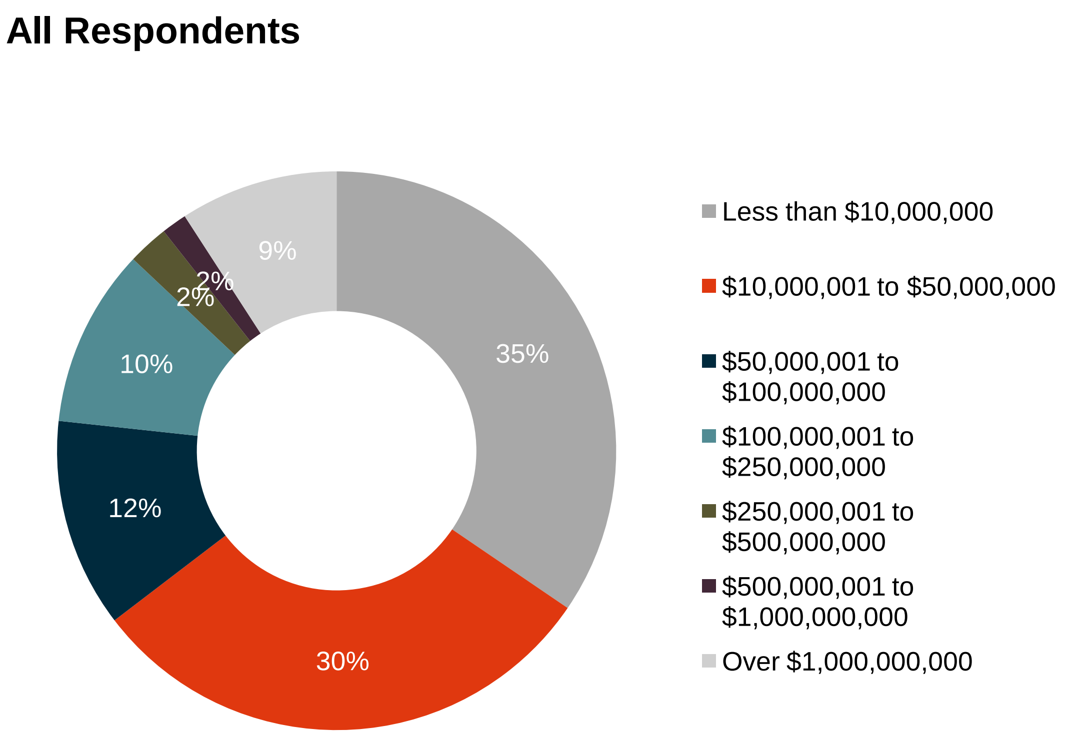
The Media Growth Report, which is based on two surveys conducted in the fourth quarter of 2010, received a total of nearly 500 qualified responses from top executives at a diverse array of businesses of all sizes across the media, information, marketing services and technology sectors.

Initial invitations to the survey were sent on October 28th, and these responses were used to validate the questionnaire, as well as to identify areas for further study. The updated questionnaire was shared with a broader list on December 9th. The survey was officially closed on December 28th, 2010.

Respondent organizations are primarily based in North America, although Western Europe and specifically the United Kingdom are also significantly represented.

As you can see from the chart below, 65% of respondents were from companies with less than $50 million in revenue; 26% were from companies with revenue between $50 million and $1 billion; and 9% were from companies with more than $1 billion in revenue.

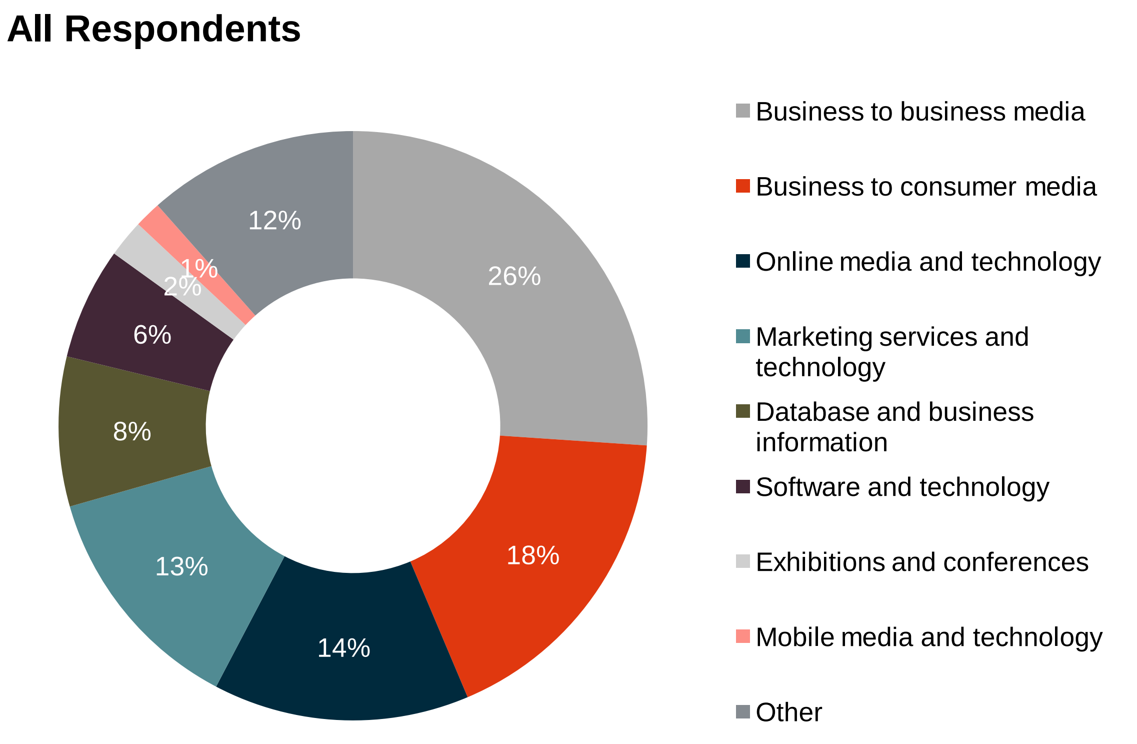
Figure 1: Company Revenue



Number of respondents: 483

Figure 2 shows that 44% of respondents were from companies in the B2B and B2C media sectors; 14% classified their companies as online media and technology; 13% as marketing services and technology companies; 8% as database and business information companies; and 6% as software and technology companies.

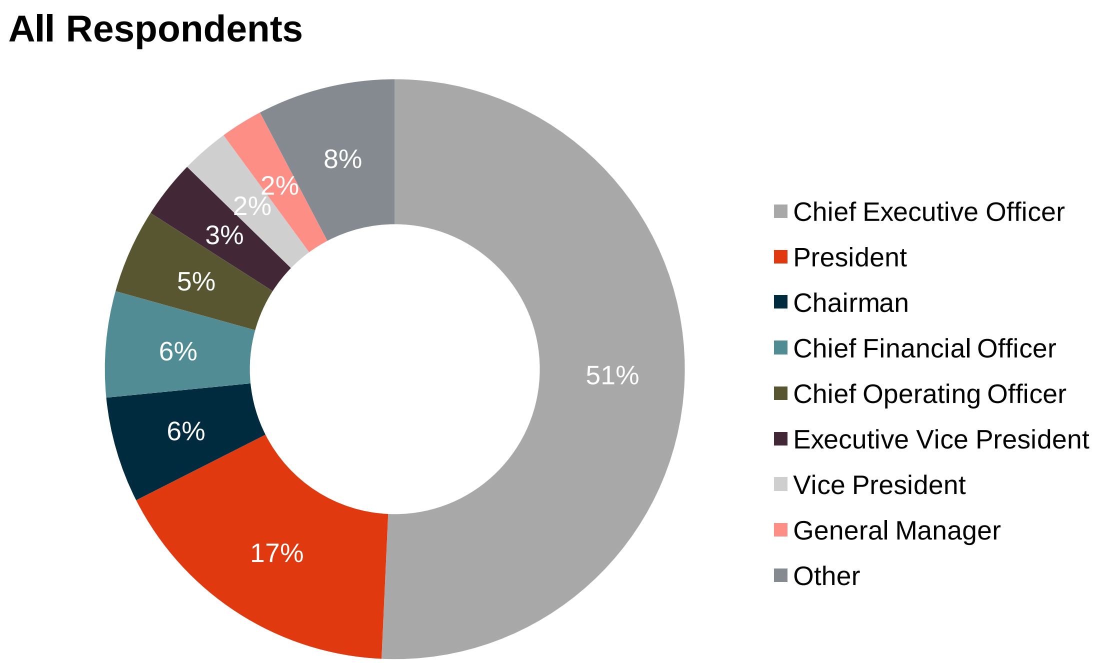
Figure 2: Type of Company by Sector



Number of respondents:483

The following chart shows that 85% of respondents are c-level executives – 74% of respondents are Chairman, CEO or President of their organizations; and 11% are CFOs or COOs.

Figure 3: Respondent Titles

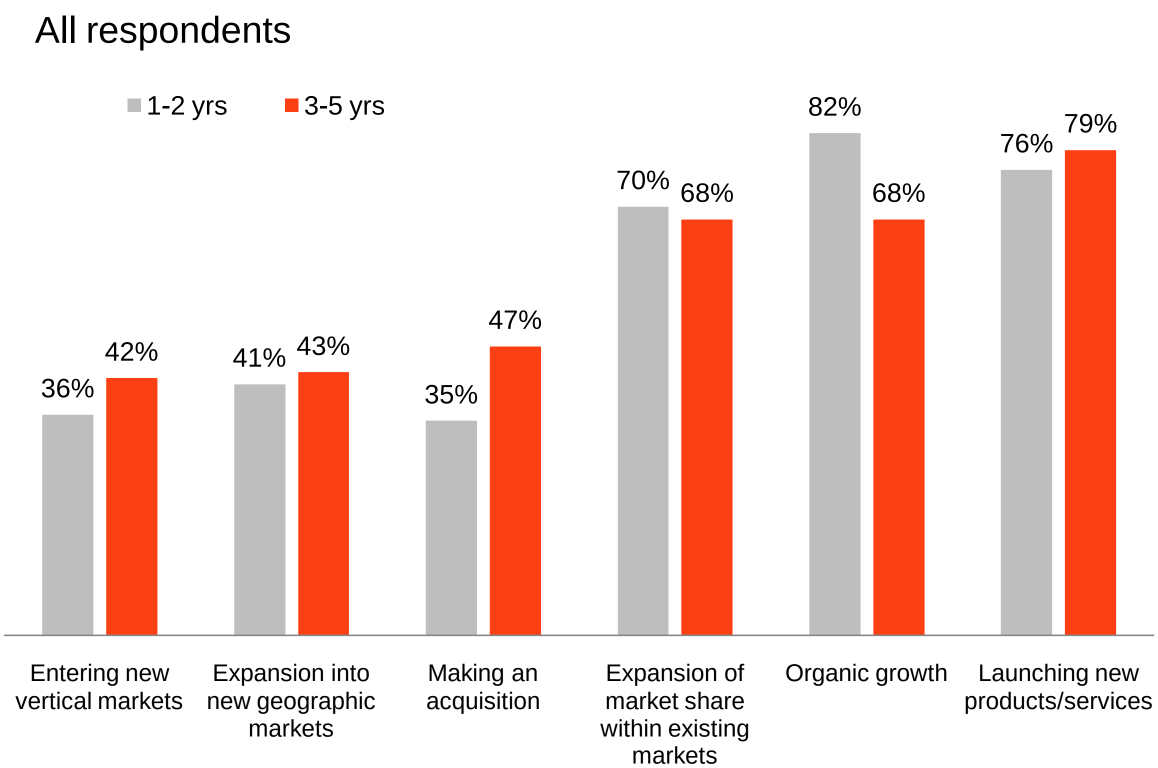


Number of respondents: 483

Growth Drivers

Media executives are generally optimistic about the health of their markets in the near term, as 82% identified "organic growth" as the primary growth driver in the next 12-24 months. Along the same lines, "Expansion of market share within existing markets" was a top-tier choice among senior executives, with a 70% response rate. Taken together, a majority of senior executives across the media industry have positive expectations for growth.

Figure 4: Growth Drivers



Number of respondents:483

Industry executives are also open to investing in their businesses, especially to launch new products and services. Looking out three to five years, the launching of new products and services moves into the top position, as 79% of senior media industry executives foresee investing in this area of their business. There is also an increased expectation of making an acquisition (up from 35% in the next one to two years to 47% in three to five years). Entering new vertical markets and expanding into new geographic markets are lower on the priority scale for growth in both the short and long-term for industry executives.

The dichotomy between near and longer-term views is sharpest at large organizations. 85% of companies with revenue over $250 million cite "organic growth" as their primary driver in the next one to two years, but that percentage drops to 63% in the three to five year range. These companies appear to be taking a more balanced approach to the future growth of their companies than their smaller rivals, with increases expected to come from entering new verticals and new geographies, as well as launching new products and services.

Figure 5 shows a “word cloud” formed from the answers provided by industry executives to an open question on growth opportunities. By looking at the frequency of answers as shown by their relative size, it’s possible to get a glimpse into the zeitgeist of the industry.

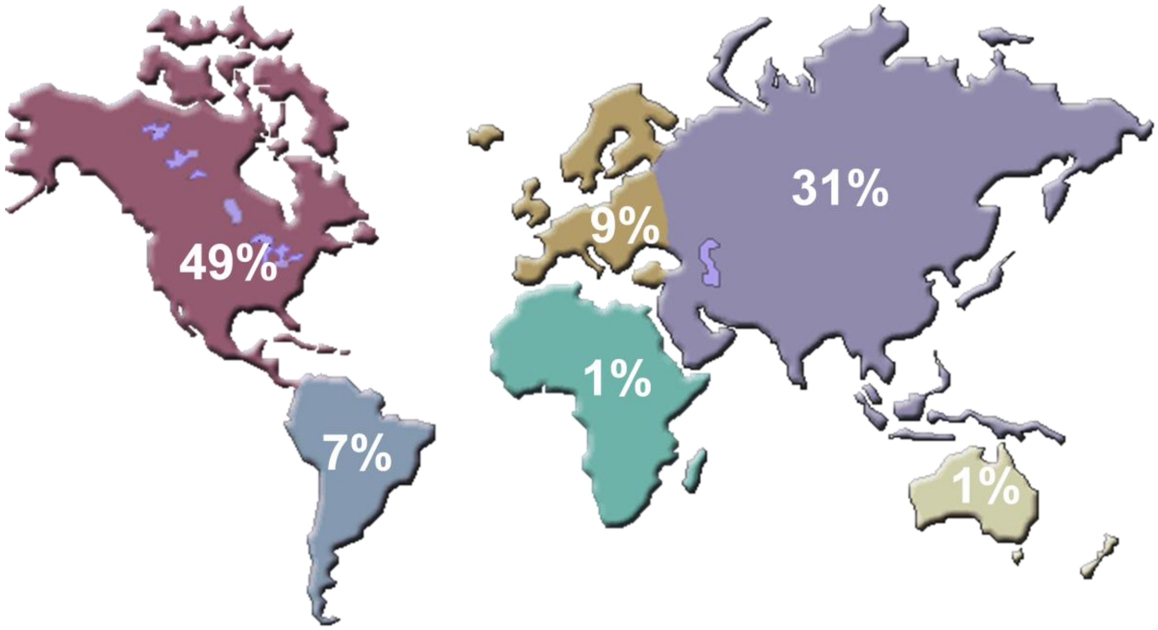
Figure 5: Cloud – Growth Drivers

Not surprisingly, “digital”, “advertising”, “mobile”, and “online” are among the dominant ideas for growth by top industry executives. More interesting are those words that define the types of digital opportunities respondents hope to exploit – “video”, “advertising” and “content” are on the minds of many, with “sales data” and “technology” underlying the specific implementations.

Notably absent are opportunities involving social media. The social phenomenon is among the top trends identified by media executives (see **Trends and Investments in the Future**), but does not figure prominently in plans for revenue growth.

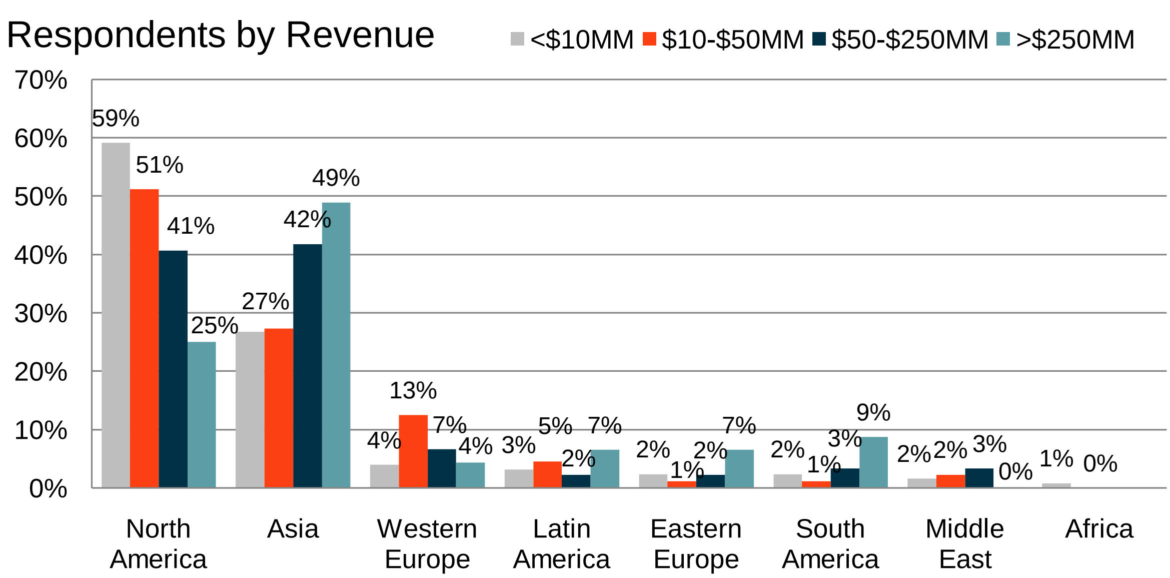
In the next 12 to 24 months, 49% of industry executives project that North America presents the largest opportunity for growth across their core markets.

Figure 6: Growth by Region



However, Figure 7 below shows that this is highly correlated to organizational size. Companies with greater than $250 million in revenue foresee significantly more growth coming from Asia than from North America, over the next 12 to 24 months. Little to no growth is expected to be driven from Latin America, Eastern Europe, South America, the Middle East and Africa in the next one to two years.

Figure 7: Growth by Region by Company Revenue Size

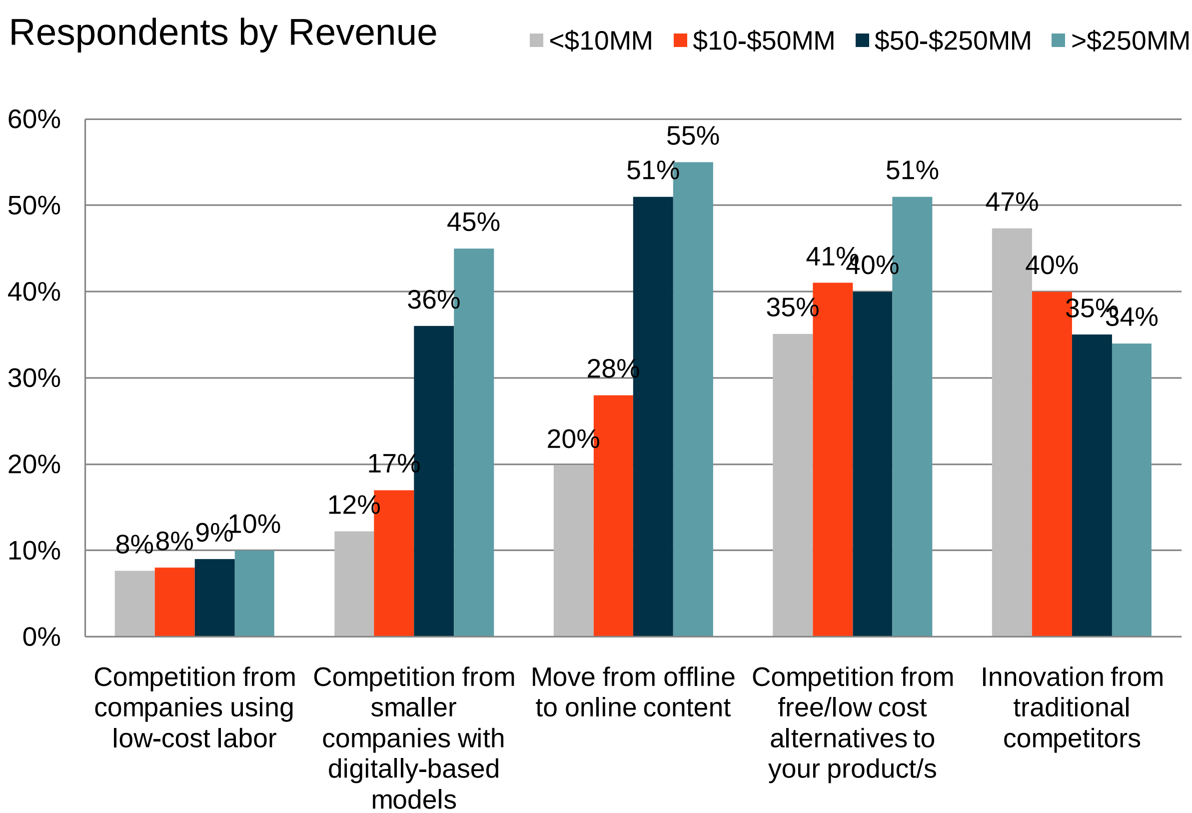


Number of respondents: 483

Challenges to Growth

Figure 8 shows that senior industry executives across all company sizes are struggling with competition from free/low-cost alternatives to their products/services, as well as innovations from traditional competitors. Larger revenue businesses, which are having a more difficult time than smaller, more nimble companies with the move from offline to online content, are also competing for business against such smaller companies with digitally based models. Few companies, regardless of size, are battling for growth with companies that are using low-cost labor.

Figure 8: Systemic Barriers to Growth by Revenue Size

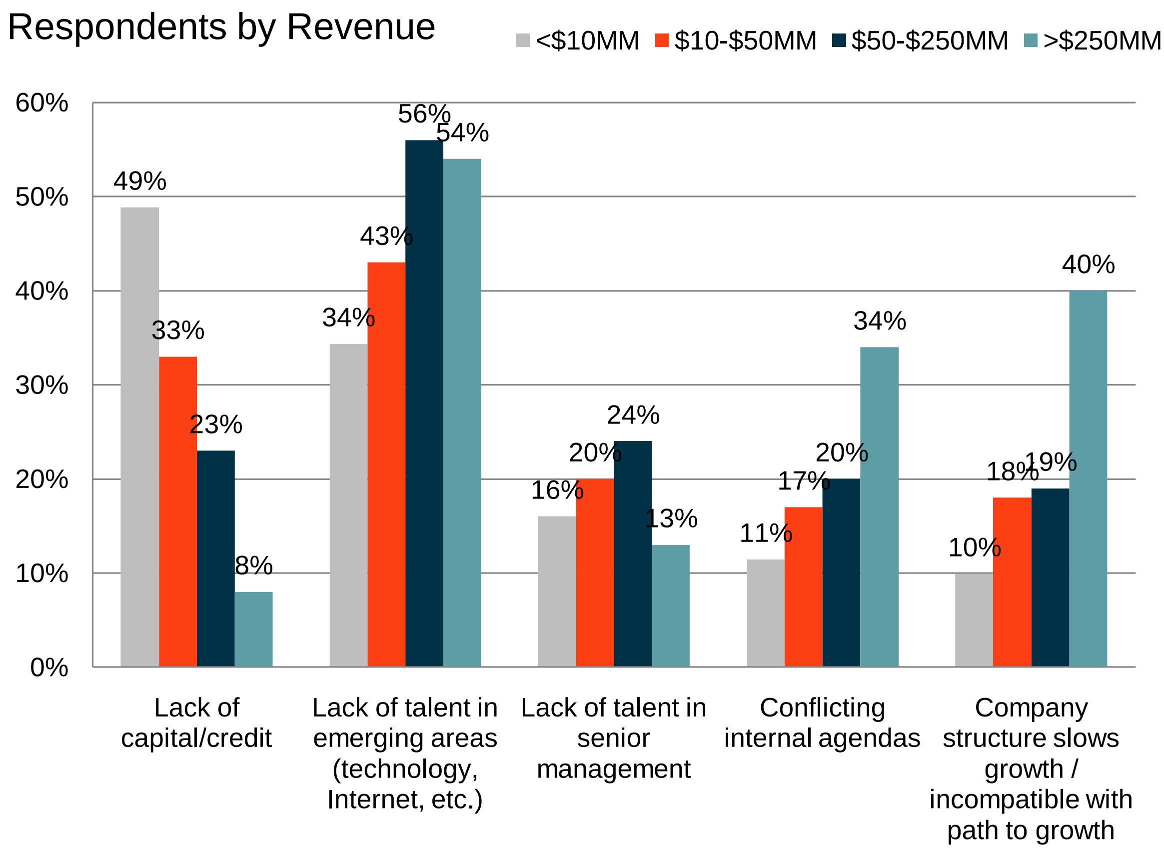


Number of respondents: 483

The benefits and challenges of size are evident in Figure 9 below. The largest organizations enjoy ample capital and access to credit, but suffer from internal resistance to change and a lack of talent in emerging areas that provide innovation and the ability to change.

Smaller organizations enjoy the flexibility of limited management layers and slimmer headcounts, built around innovative leaders, but aren't always able to access the capital needed to increase their scale.

Figure 9: Internal Barriers to Growth by Company Revenue



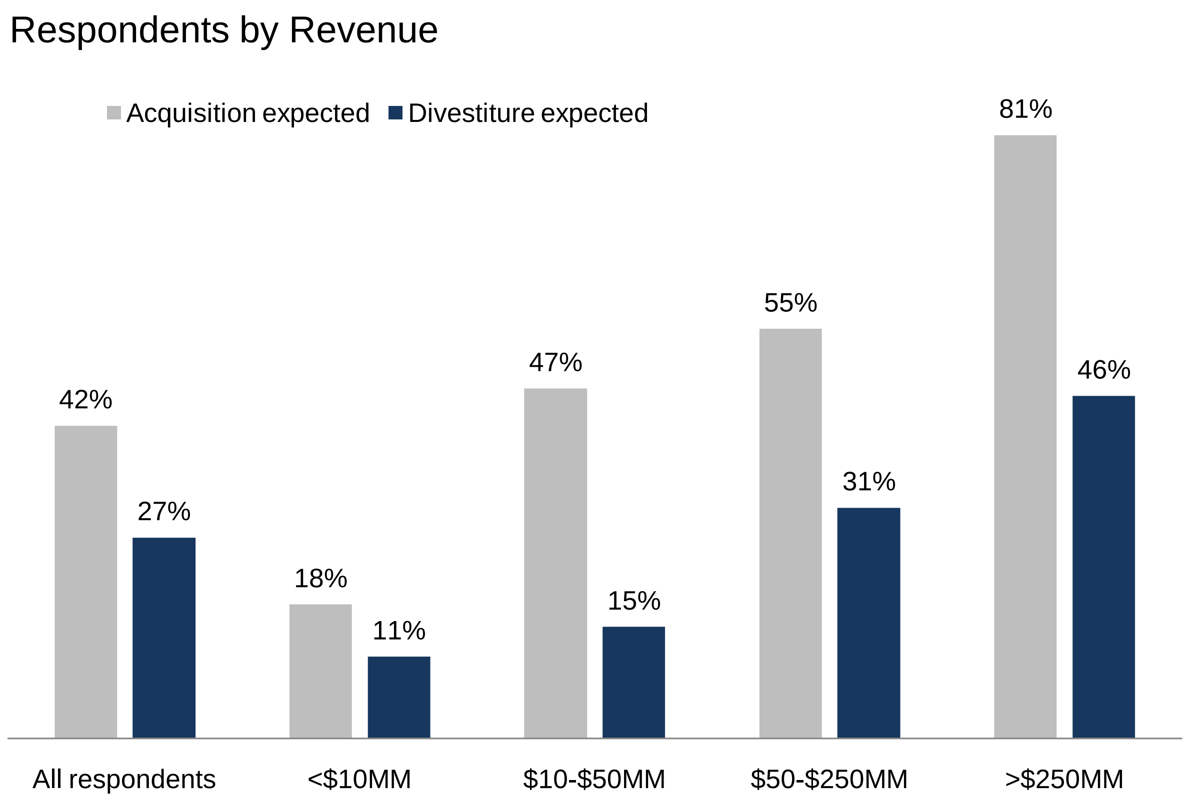
Number of respondents: 483

Mergers and Acquisitions

Figure 10 shows a continued trend of acquisitions and consolidation across the media, information, marketing services and technology sectors. As the level of company revenue grows, the expectation of completing at least one near-term acquisition rises. Overall, 42% of senior executives expect their companies to make an acquisition in the next 12 to 24 months.

In regard to divestitures, the scale once again increases with company size, with 46% of senior executives at companies with more than $250 million in revenue expecting a divestiture in the next one to two years. In total, only 27% of respondents expect to complete a sale in the next one to two years.

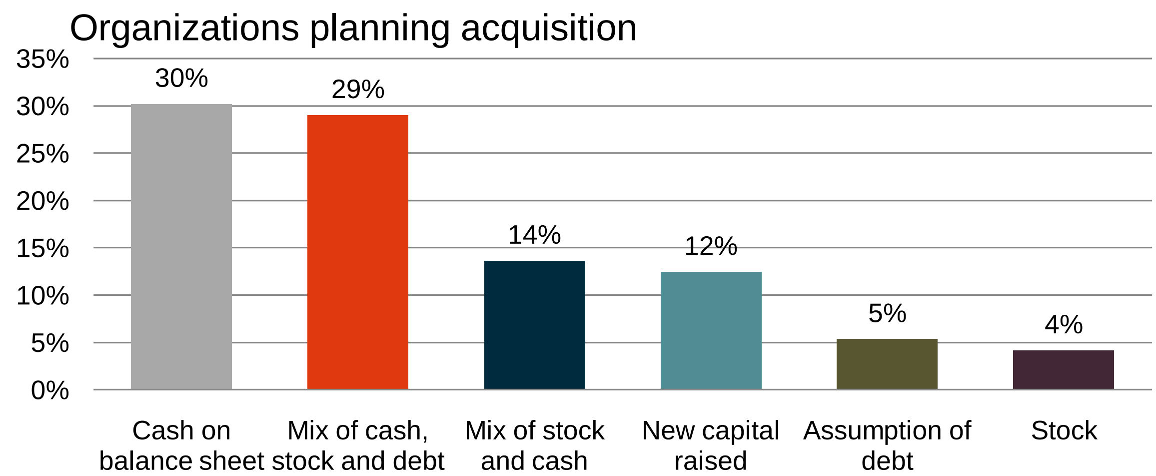
Figure 10: Expectation of Acquisitions/Divestitures in Next 12 to 24 Months



Number of respondents: 483

In terms of financing, Figure 11 shows that 30% of senior executives expect to finance acquisitions via cash on balance sheets, and 29% of respondents foresee using a mix of cash, stock and debt.

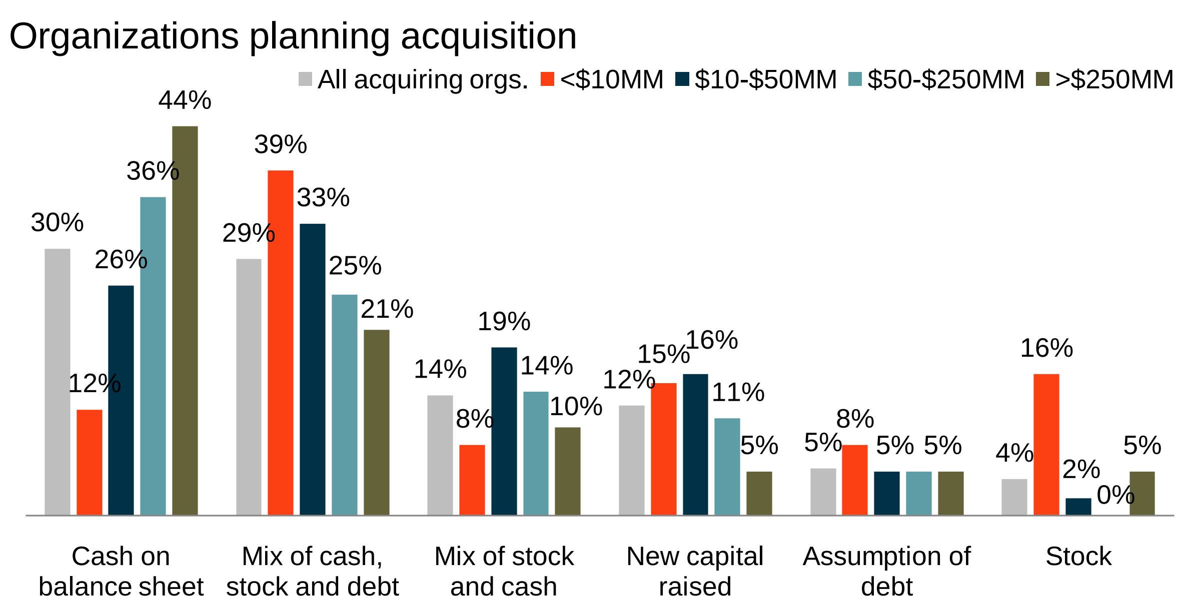
Figure 11: Financing Acquisitions in the Next 12 to 24 Months



Number of respondents: 203

Larger organizations are more likely to make outright purchases, as cash deals are more than twice as likely as hybrids (deals using a mix of cash, stock and debt) for companies with more than $250 million in revenues. This relationship is reversed for companies with less than $10 million of revenue, of which 16% anticipate using only stock to make an acquisition.

Figure 12: Acquisition Financing by Company Revenue

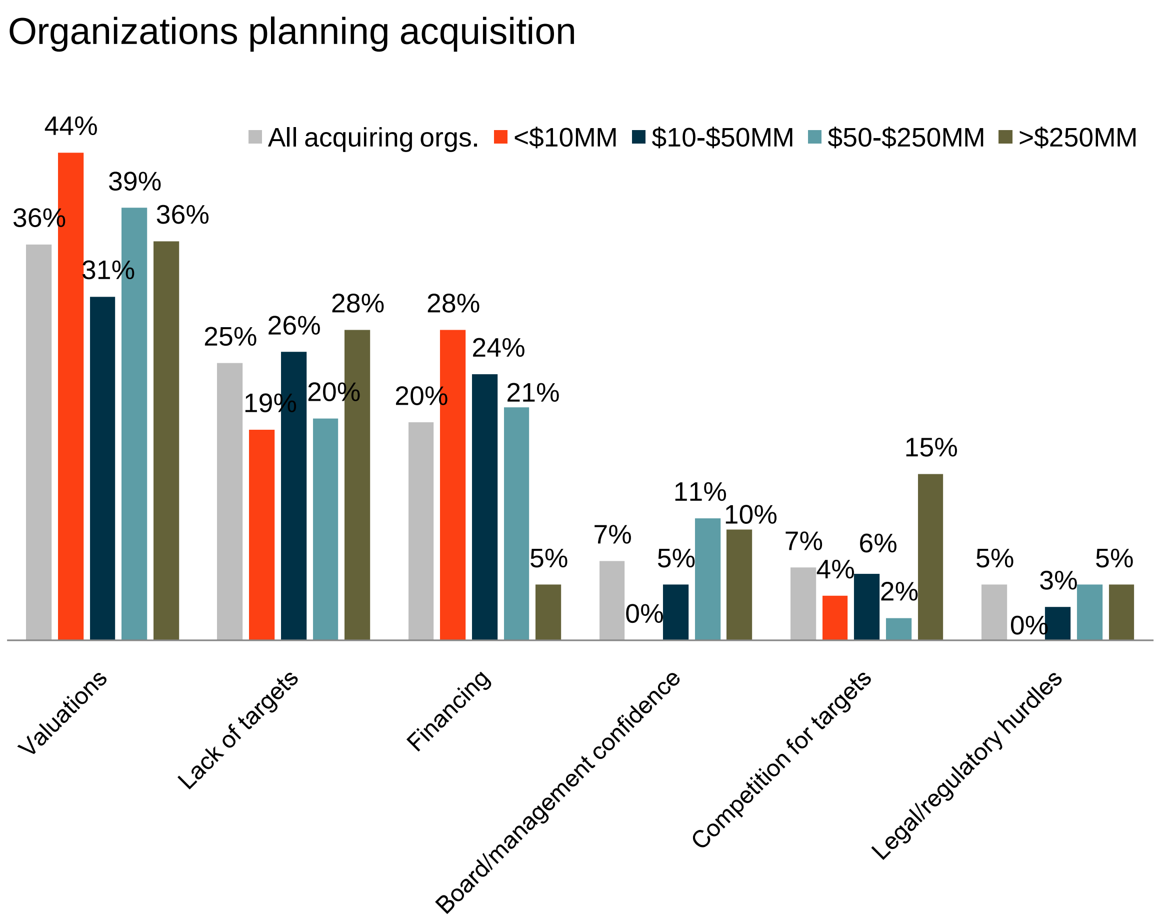


Number of respondents:203

According to senior executives, the primary obstacle to completing acquisitions is the valuation expectations of targets, followed by a lack of targets. This holds true across all organizations, regardless of size.

For larger organizations (those with more than $250 million in revenue), competition for targets is also a major concern. Financing is a key area of concern for smaller companies – those with less than $250 million in revenue.

Figure 13: Challenges to Acquisitions by Company Revenue



Number of respondents: 203

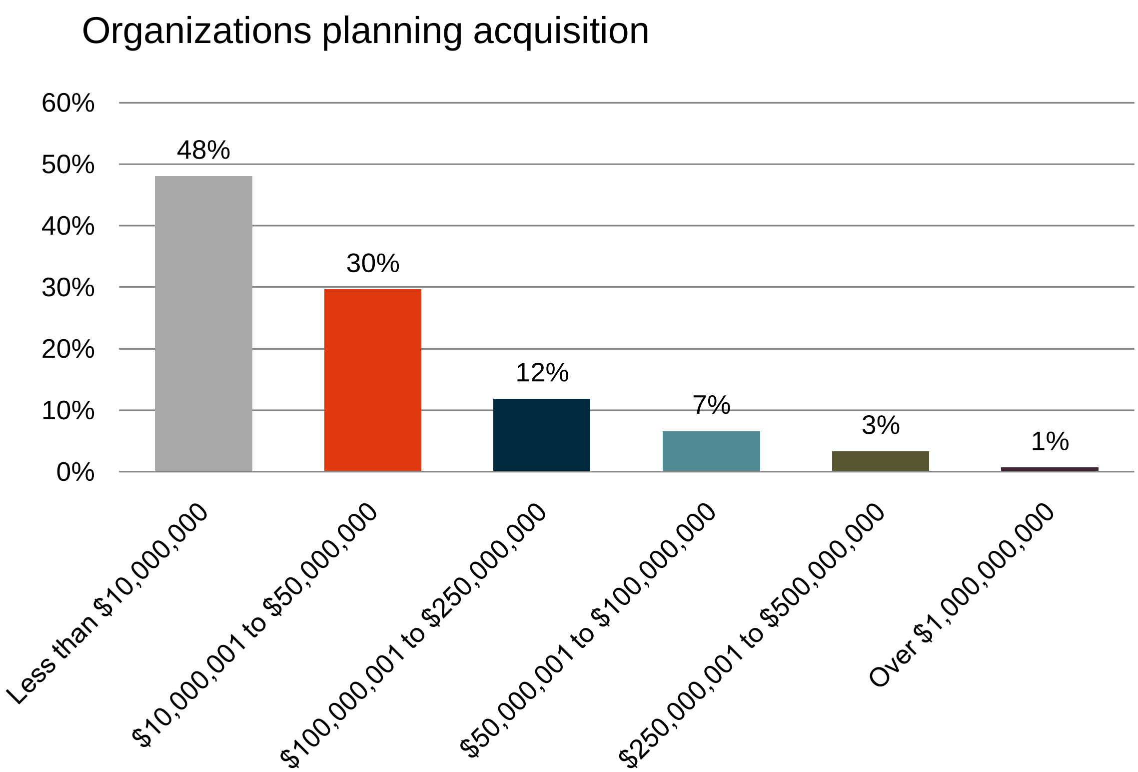
Despite Asia being seen as a top priority for growth, it lags far behind North America as a region for planning acquisitions (74% v. 12%). Western Europe is a distant third at 8.6%, with the other regions not really being considered for acquisition planning.

Figure 14: Regions Companies are Planning to Make Acquisitions

Number of respondents: 203

48% of senior executives plan to spend less than $10 million on an acquisition in the next 12 to 24 months, while 30% plan to spend between $10 million and $50 million. However, nearly a quarter of respondents (22%) are planning to spend upwards of $100 million on an acquisition in the next one to two years.

Figure 15: Amount Companies Plan to Spend on Acquisitions



Number of respondents: 203

Trends and Investments in the Future

Ongoing developments across the media and technology sectors are seen as the most dominant trends in today's marketplace, as well as over the next three to five years.

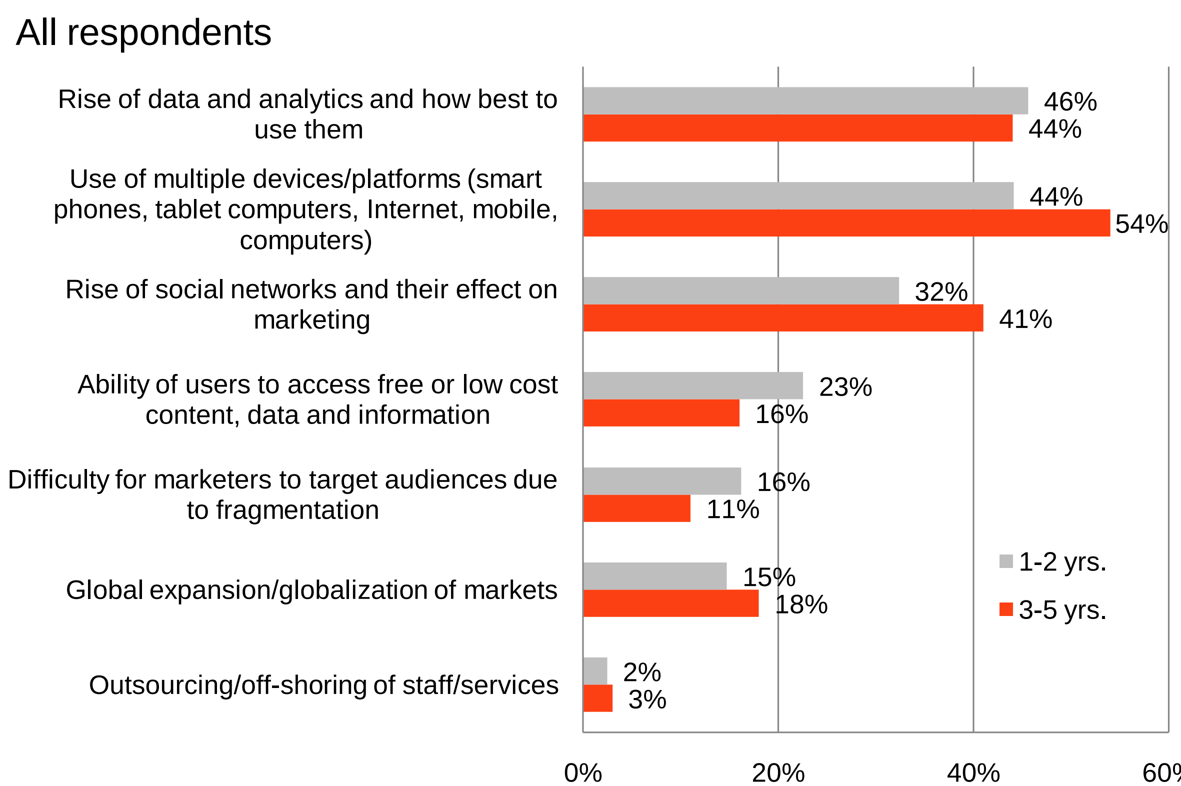
Gathering and analyzing data just edges the **proliferation of devices/platforms** for media consumption as the top trend through 2012. However, executives see the latter trend becoming increasingly important and topping all others by a significant margin, as they look out three to five years.

Respondents see the importance of **social networks** increasing over the next five years. But, given the absence of social in their plans for growth, it is clear that leveraging this trend presents a significant challenge.

Senior executives see competition from **free/low cost content providers** as a significant barrier to growth. They think this will diminish as a threat in the long-run. They are also predicting that they will get better at figuring out **customer targeting** over the next three to five years and will enhance their effectiveness at reaching target audiences.

Lastly, senior executives foresee **global expansion and the globalization of their markets** as a growing trend that will increasingly impact their companies over the next three to five years.

Figure 16: Trends Having the Most Impact on Companies Today



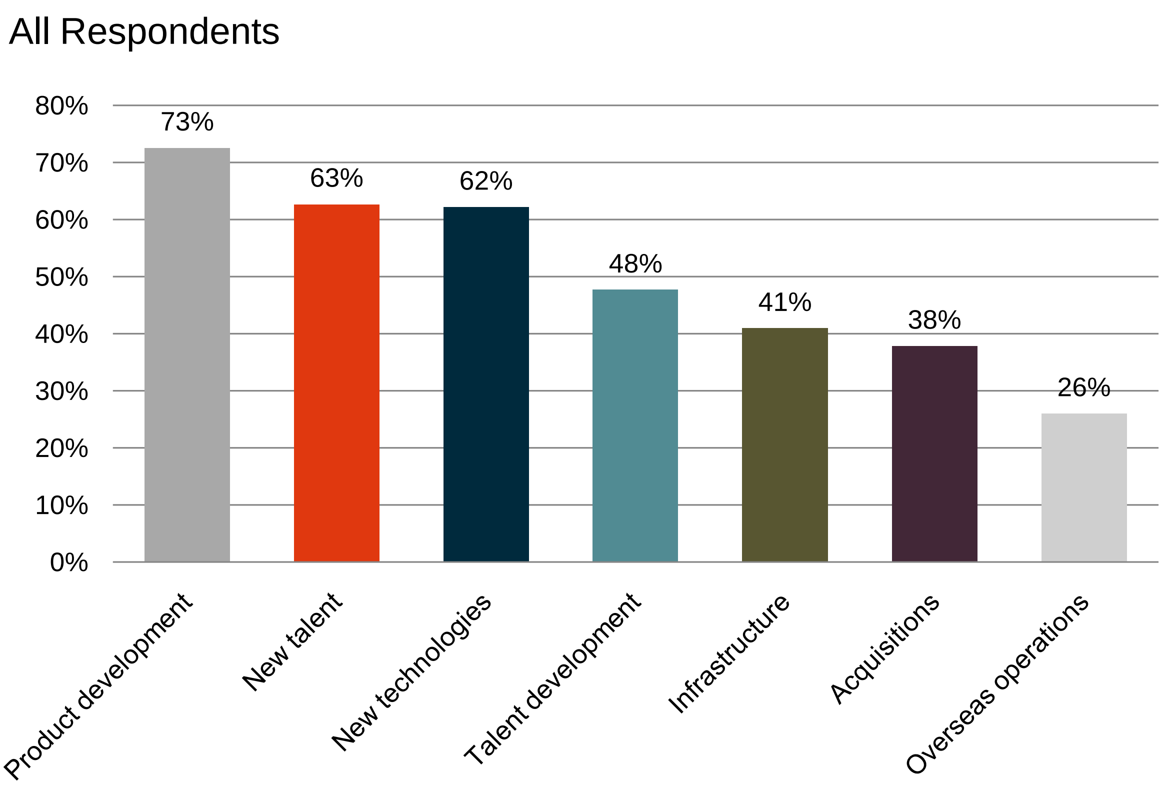
Number of respondents: 483

In keeping with their predictions for near and mid-term growth, organizations' top investment priority is the development of **new products**, presumably geared toward digital and multi-format media delivery.

Acquiring and developing **talent** and new **technologies** are also key areas of investment. In open responses, company leaders repeatedly mentioned two specific difficulties related to talent. The first was in attracting the kinds of sales executives who excel at building hybrid business models that span traditional and digital media. The second was finding talented management candidates that understand emerging media and can spark innovation.

Investments in **infrastructure** and **acquisitions**, while not number one priorities, are still important to a significant number of senior executives (41% and 38%, respectively).

Figure 17: Areas of Investment in Next 12 to 24 Months



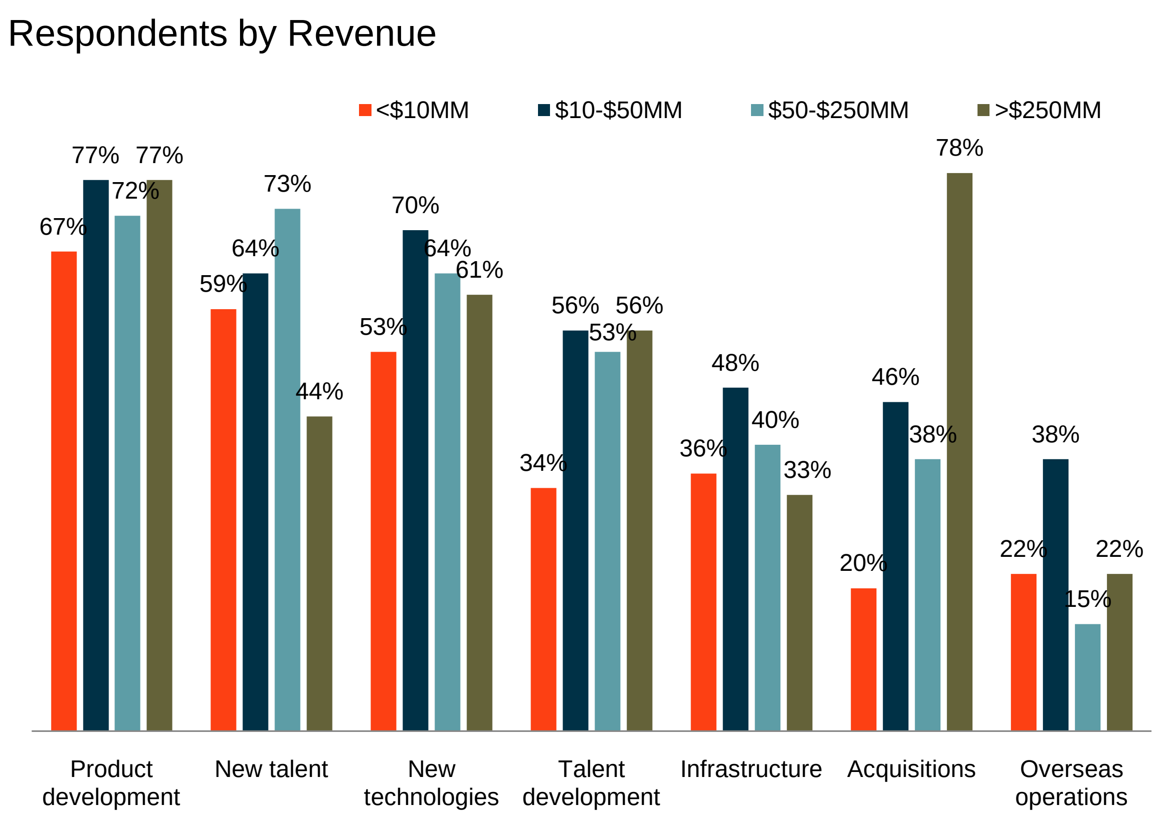
Number of respondents: 483

Differences in most likely areas for investment by company revenue are consistent with views on growth and its challenges (see **Growth Drivers** and **Challenges to Growth**). All companies are focused on new product development, but larger organizations (those with more than $250 million in revenue) are focusing their funds on acquisitions, new technologies, and talent as well.

Mid-sized companies (those between $50 million and $250 million in revenue) are more concerned with acquiring new talent and technologies, as well as developing existing talent, while infrastructure and acquisitions are also important areas of investment.

Companies with less than $50 million in revenue are focused on acquiring new talent and technologies, with some investment in infrastructure and talent development.

Figure 18: Areas of Investment by Company Revenue



Number of respondents: 483

Figure 19: Cloud – Professional Development Goals

To round out our survey of top media executives, we asked two questions about professional and personal growth. The first explored what areas of professional development most interested our respondents. The cloud in Figure 19 (above) shows all of their responses, while Figure 20 (below) parses out some of the dominant ideas.

Senior executives see a world of continued digitalization of media, where the lines blur between technology and content. They are also concerned with social media as a powerful disruptor of their industries that, for most, does not present a clear path to revenue (**see Growth Drivers).**

Figure 20: Cloud – Professional Development Goals (Simplified)

Figure 21: Cloud – Personal Development Goals

In regard to personal development, Figure 21 shows that senior executives are a dedicated group – they are far more likely to learn Mandarin or study statistical analysis than take up yoga or the piano. The cloud speaks to the dropping of geographical barriers to digital content, to an increasingly Asian-focused business world, and of course, to the enduring allure of golf.