

Distressed Debt News

Panel: Secular changes create 'Darwinian moment' for media industry

By Stephanie N. Rotondo

Portland, Ore., March 9 – Despite its historic ability to weather recessions, the media industry is experiencing an evolution never before seen in that sector.

According to Ken Yager, principal with Morris Anderson and moderator of the Turnaround Management Association's media industry webinar held Tuesday, the media has "largely thrived for 50 years." In that time, the United States underwent as many as 10 recessions, each one presenting new opportunities for companies in the field to grow.

Now, however, is a different story. The industry is experiencing a "Darwinian moment," he said – and only the strongest will survive.

The current cycle is one not often seen. On top of cyclical changes – that is, changes that occur every so often, like the tightening and contracting of the credit markets – the media space is also suffering from secular changes – specifically, changes in advertising, technology and consumer behavior as well as how media companies do business.

"The business model of the future, and even today, is different than recent past," said panelist Barbara Cohen, president of Kannon Consulting.

Goodbye, ad dollars, goodbye

Before the recent economic debacle, media companies were "ad supported," Cohen explained. In some cases, advertising dollars made up 80% of revenue, while subscriptions and other consumer-driven revenues made up only 20%.

But Cohen expects that will change, possibly to a 50/50 scenario. One reason for this, she said, is consolidation in the retail environment – yet another broader secular change that came from the woes of 2007 to the present. The result was that advertisers – in this case, department stores and the like – were spending less money, as there was even less to advertise.

That puts the advertisers, and not the media companies, in the driver seat.

Cohen also pointed to classified advertising, which is mainly a print media venue. Classified ads have also experienced a decline, which Cohen suspects has something to do with the internet and its vast web of information.

"The days of picking up a newspaper to look for a house or a car are gone ... and will never come back," she said.

But there are still ways companies can bring advertisers in, she said.

"Traditional legacy media have ignored the service sector, to their peril," she said. Instead, they have focused on selling products, not services. Media outlets should now correct their prior mistake and prove to service providers that their advertising dollars would be well spent if they chose to advertise with said company.

Additionally, Cohen believes that there are "alternative revenue streams" that can be generated from advertisers. Media companies can use their skills to help advertisers in a consulting manner or perhaps by helping the advertiser to create a marketing campaign.

Technology changes consumer focus

With the emergence of the internet and such devices as the Kindle and the iPhone, the way consumers receive – and pay for – content has changed dramatically. Consumers have moved toward media they can get for free over media they have to pay for, which only results in further revenue declines for the companies producing the content.

That brings up the question, as Cohen put it, how can companies get consumers to pay for content they can get for free?

"If all you are doing is asking consumers to pay for content they can get elsewhere for free, you will fail," Cohen opined.

She suggested that the new devices

technology has brought can be used to entice subscribers. For example, she said, a company can offer an iPhone application along with a subscription. That application would only be offered to subscribers and would have to include something they might not get anywhere else.

"New devices open up a revenue stream," she explained.

And new technology can also be a way to help companies reduce costs. Cohen foresees a "relentless challenging of technology to help lower costs."

Cohen also sees new technology helping as subscriptions falter. While she does not believe that subscribers will ever disappear totally, she expects "subscriptions will be a niche product, not a mass product."

New competition rules

It used to be that a local media company did not have to compete with national networks, though the goal for local media has always been to get the story first.

"That's not really true anymore," Cohen said, as national companies now have the ability – through the use of new technology – to have their fingers in every pie. "[Local media] cannot really have a superiority claim in content anymore."

However, that doesn't mean that local media cannot compete at all. What they can do, Cohen said, is make ease of access better.

"It's about adding more than content," she explained, using the example of the blogger as the new columnist.

Readers, she said, read those writers they find some connection with, whether it be in attitude or opinion. They read the columns not only to find out the latest sports scores but to also read commentary on one event or another. Therefore, local media can use new technology – i.e., blogging and other types of social media – to reach an even broader audience than it was able to before.

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Erickson Retirement Communities' disclosure statement approved

By *Caroline Salls*

Pittsburgh, March 9 – **Erickson Retirement Communities, LLC's** disclosure statement was approved Monday by the U.S. Bankruptcy Court for the Northern District of Texas.

The plan confirmation hearing is scheduled for April 15.

As previously reported, the company has agreed to sell its assets to Redwood Capital Investments, LLC, which is an investment company controlled by Baltimore businessman Jim Davis.

The company said it will reorganize its core management and real estate businesses into separate but commonly owned legal and financial entities so existing and future

residents will be better protected from the volatility of the real estate development business.

Treatment of creditors will include:

- Holders of administrative claims, priority tax claims and other priority claims will be paid in full in cash;

- Holders of debtor-in-possession facility claims will be paid in cash through proceeds from a credit against cash transaction. In addition, DIP lender ERC Funding Co. LLC will have the right to credit bid for any sale of the DIP facility collateral;

- Holders of secured tax claims will either receive the proceeds from the sale of the collateral securing the claim or the

claims will remain unaltered;

- Holders of ERC interest rate swap claims will receive a share of \$2.35 million in cash and interest in a \$75,000 Cedar Crest receivable;

- Holders of general unsecured claims may receive a participation interest in the recoveries of a liquidating creditor trust; and

- Interest holders will receive no distribution.

Baltimore-based Erickson Retirement develops full-service retirement communities. The company filed for bankruptcy on Oct. 19. Its Chapter 11 case number is 09-37010.

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Lean lending

“Media lending by nature is a cash-flow-based approach,” said panelist Dave Meier, managing director of the Gladstone Companies. Valuation metrics previously used relied on the “predictability of revenue and cash flow.”

But the recent recession changed all of that, creating “a huge lull in lending to media sectors.”

Typically, Meier said, as cyclical changes move forward, lending would increase. But due to the aforementioned secular changes, that is not the current case.

“The cash-flow lending market is essentially dead,” he said.

There are many reasons for the demise of cash flow lending, including weakness in brand value.

“Loan-to-value metrics are becoming

less relevant,” Meier said. “Values are fleeting, so it’s hard to understand what value there is today and what value there will be tomorrow.”

That has led lenders to look at other factors when contemplating lending to a media company, including liquidity, the amount of fixed charges and any one company’s ability to weather a downturn.

“We need period-to-period revenue growth,” he said.

Only the strong survive

“The good days of high margins will never come back,” Cohen said.

The panel largely differed on what media sectors will survive. Cohen thinks traditional radio is “under great risk,” while Chuck DelGrande, managing director of Presidio Merchant Partners,

sees yellow pages publishers all but vanishing.

Panel members did agree, however, that only the strongest – and most adaptable – media will survive.

For her part, Cohen believes the key factors will be consumer behavior and how that transfers to the allocation of advertising dollars. She also noted that, with the emergence of Google and similar entities, “the big meteor is privacy.”

“Watch people’s attitudes and government regulations of privacy,” she said. If those change, then so will the media landscape.

DelGrande believes that, in addition to some sort of restructuring, media companies need to “reboot.”

However, in his view, “most are kicking the can down to the next generation.”