Soft landing?

Numis' analyst **Paul Richards,** is one the world's leading media authorities. He explains why, despite the downturn, B2B media looks set to thrive

There is no question that the last 12 months have been very difficult for equity markets. A situation driven by the sub-prime crisis, reduced confidence in the financial services industry and fears that the woes affecting the financial sector will spill over into the real economy. The FTSE 250, which better reflects the health of the UK economy, is also about 20 per cent off its peak.

The share prices of the quoted B2B groups in our universe of coverage have been hit harder still, falling by 30 per cent on average since May last year. In terms of individual performance, Reed has held up very well while Reuters clearly benefited from the cash and shares offer from Thomson. The share prices of Euromoney and Informa are little more than half of the level of just twelve months ago.

So why have B2B share prices fallen so much? Although the City is often – and rightly – accused of being short term, it remembers when it has had its fingers burned, and given how much money investors lost in the B2B sector last time, it is no surprise the market is still unwilling to give the sub-sector the benefit of the doubt.

'Lessons from the last downturn' analysed the performance of the media sector in the 2000-03 recession, a dreadful period for the B2B sub-sector, with an average share price fall of 78 per cent. However, this time around there is massive disparity between the various businesses.

Numis has identified five reasons which explain this divergence:

1. US exposure.
2. Business media groups in the 'eye of the storm' due to the verticals they serve.
3. Differing resilience of the different revenue streams.
4. High levels of debt – shows the fickle nature of the finance world as only a year ago this was rewarded.
5. Premium for liquidity with smaller companies trading at a discount to their larger peers across all market sectors.

Although the share price performance of B2B has been desperately disappointing over the past year, the sub-sector has actually been the best-performing area of the media sector.

And the reason B2B – and agencies – have outperformed consumer-facing print and broadcast media is that B2B groups have been more adept at taking advantage of the structural opportunities available to them, rather than viewing new media formats purely as a threat.

Veronis Suhler Stevenson forecasts that B2B media spending will increasingly shift away from print towards online and face to face media. In 2001, print accounted for over half of B2B media spend, but Veronis projects that this will fall to a third by 2011. Over this period, Veronis expects face to face media to hold share at around 40 per cent, with the share lost by print moving to online, which is forecast to grow from just three per cent in 2001 to no less than 20 per cent by 2011.

WHEN THE MOOD TURNS, SHARE PRICES OF GROUPS IN THE B2B SUB-SECTOR WILL REBOUND STRONGLY

I don't want to be too negative about print, as recent Forrester / ABM research shows it is very much a case of horses for courses. The study concluded that print, face to face media and online perform different, and complementary roles. We still believe that print has a robust future, and in particular that weekly titles are at the very heart of the industries which they serve.

I have long been a supporter of moves by B2B publishers to use a strong position in printed media to build an integrated vertical offering. Printed products, and in particular market-leading weeklies, have long standing franchises built upon well recognised brands, which enables groups to redeploy the cashflow generated by established printed products into faster growing areas of B2B media, notably online and face to face.

There are two principal advantages to providing a wide range of products and services around a strong central title in a vertical market: these products reinforce barriers to entry, the products can leverage their existing infrastructure.

The most exciting new area is e-media because it provides the ability to deliver highly relevant, very targeted messages to a defined audience, relatively cheaply with the ability to track the return on investment and adds significant value to information though the provision of high value content, search and evaluation functionality.

Holy grail of B2B

At Numis, our two favoured B2B business models are face to face media and subscription-based, electronically delivered information. This has to be the holy grail of B2B media. The subscription base gives highly visible recurring revenue streams, usually with cash collected upfront, while electronic provision enables the information provided to be integrated into the workflow of the client, ensuring a high renewal rate. A further attraction of these businesses is their scalability, with the provision of an additional log-on to a customer incurring only very modest incremental costs.

There are a number of businesses in the sector which enjoy this business model. Good examples include WGSN Datamonitor and BCA. Although data businesses such as these are the highlights of the online B2B sector, we are also attracted by advertising based formats.

The B2B industry has moved on significantly since the early days, when publishers seemed to do little more than put their magazines online. The development of rich advertising formats has breathed new life into online display advertising, and there is scope to take this to the next level with increased video content.

An area of concern for B2B publishers however is the potential for print-based recruitment advertising to move online. As with property and cars, the ability to search using online functionality transforms the ease of use of situations vacant advertising. Weekly titles have been the historic home of recruitment advertising and there is no reason why B2B publishers should not continue to command the same market position in the online world as they did offline.

In particular, Reed's development of its online recruitment properties has been impressive, forming strong online recruitment sites in key verticals, which then feed into the totaljobs network, the largest online recruitment player in the UK.

In addition to the attractions for jobseekers, who can search for vacancies and upload their CVs for matching services, there are real advantages for employers, who are able to provide richer detail on the advertised vacancy and manage the application process. Developing the theme of search is one of the key attractions of online B2B information and we believe this extends naturally to directories.

The newest area of online opportunity, is the establishment of evaluation and transaction tools such as lead generation. This model is attractive for advertisers as it is fast, targeted, cost effective and provides clear return on investment, while for users it gives free product information and downloads and can aid the shortlisting of suppliers.

Face to face is the other big area for growth. There are three principal attractions of events:

1. They are essential within many industries for buyers and sellers to meet to transact their business.
2. They have low capital intensity and once established, should move quickly to high gross margins.
3. They have an established place in the media mix.

Events and in particular, exhibitions lend themselves well to being rolled out internationally, perhaps acting as an entrée into a new market. Informa calls this process geocloning, and it has been successfully adopted by other groups such as UBM.

Although the tougher economic environment is likely to put pressure on many areas of face to face events, viewed as discretionary spend, they will continue to hold up well. Conferences, seminars, awards, training and other forms of face to face events will grow as a proportion of B2B expenditure. However, they may experience volatility driven by the economic cycle.

Rapid bounce back

The outlook therefore is not all gloomy – although share prices have fallen heavily over the past year, dropping 30 per cent on average across the companies in our universe of coverage, it should be remembered that B2B groups enjoyed a very rapid bounce back from their troughs in the last cycle when economic recovery become apparent.

We believe that when the mood turns, even though this may not be for a while, the share prices of the groups in the B2B subsector will rebound strongly.

Central to this will be the continued drive by B2B groups to adapt to the multiplatform world. There continues to be a robust future for print, but it will be critical for B2B groups to maintain their efforts to surround their printed products with online properties and face to face events to preserve – and indeed strengthen – barriers to entry, while launching new products which can tap new revenue streams at high incremental margins.

Electronically delivered, subscription driven data businesses and exhibitions are the most attractive areas for expansion, but there are a wide range of other attractive online propositions and face to face events in experimental stage and there is an observation that if groups don't suffer the occasional failure then they aren't trying hard enough.

PRINT, FACE TO FACE AND ONLINE MEDIA PERFORM VERY DIFFERENT, BUT COMPLEMENTARY, ROLES

So, although the cyclical outlook is challenging, we remain optimistic about the future growth opportunities for the B2B sub-sector. We retain our view that, provided its constituents continue to build their products across platforms, B2B will prove to be one of the most attractive areas to invest in the media sector over the medium to long term.