2012 Digital Media Financial Operating Trends

The strong increase in the stock market during 2012 (S&P 500 +13.4%) and continued positive pace in Q1 2013 (S&P +10.0%), is fueled in part by the rapid growth of technology companies. Following the 2008 recession, digital media companies have enjoyed rapidly growing revenues and consistent operating profit margins. Although, there are many different types of companies and business models within the digital media segment, the trends have been relatively similar.

Bond & Pecaro examined six digital media segments.[1] These categories included Diversified (Amazon, Google), eCommerce (Blue Nile, Priceline), Internet Communications (Facebook, Linkedin), Online Advertising (Local, Monster), Online Entertainment (Pandora, Zynga), and Online Information/Content (Ancestry.com, TheStreet).

The revenue growth rate trends over the 2008-2012 time period are shown below.

Annual Revenue Growth	2012	2011	2010	2009	2008
Diversified	18.2%	21.5%	15.2%	3.0%	18.5%
eCommerce	17.2%	19.9%	13.7%	4.3%	10.8%
Internet Communications	41.8%	84.6%	N/A	N/A	N/A
Online Advertising/Search	18.0%	24.5%	6.3%	-13.1%	10.8%
Online Entertainment	11.3%	39.2%	N/A	N/A	N/A
Online Information/Content	1.9%	14.8%	19.4%	N/A	N/A

The Diversified, eCommerce, and Online Advertising/Search segments have followed a similar pattern over the last three years and experienced a comparable level of growth during 2012. The high level of revenue growth in the Internet Communications sector is driven by Facebook and Linkedin while the rapid rise in Online Entertainment is due in large part to the revenue growth of Zynga. Many Online Information/Content companies experienced a decline in revenues in 2012 which may indicate a pause in the customer willingness to pay for certain content.

An analysis of the Sales and General Administrative Expenses (SG&A) as a percent of total expenses shows that most of the segments had very consistent levels over the last four to five years.

[1] The underlying data provided by SNL Kagan SNLxil database.

SG&A Expense/Expense %	2012	2011	2010	2009	2008
Diversified	35.0%	35.3%	34.3%	32.9%	30.7%
eCommerce	51.3%	51.4%	50.8%	49.9%	46.1%
Internet Communications	43.4%	40.6%	39.7%	27.5%	30.0%
Online Advertising/Search	43.9%	44.2%	44.6%	46.4%	48.0%
Online Entertainment	39.4%	43.9%	37.1%	40.1%	52.3%
Online Information/Content	51.5%	51.6%	53.8%	53.6%	55.6%

In most categories, for those companies that have been profitable, EBITDA margins have stayed relatively stable as well over the last four years.

EBITDA Margin	2012	2011	2010	2009	2008
Diversified	28.0%	24.6%	26.4%	26.8%	21.9%
eCommerce	16.8%	17.0%	17.8%	16.3%	11.5%
Internet Communications	22.1%	32.4%	31.8%	5.6%	1.2%
Online Advertising/Search	16.9%	16.9%	15.4%	18.4%	25.8%
Online Entertainment	21.7%	14.1%	23.2%	26.2%	17.3%
Online Information/Content	8.4%	15.0%	12.9%	12.5%	10.3%

Companies comprising the Diversified, eCommerce, and Online Advertising/Search segments have exhibited the most stable margins over the last four years. Diversified margins have stayed consistent within the range of 24%-28% over the 2009-2012 time frame while companies in the eCommerce and Online Advertising/Search segments have generated profits within the 15%-18% range. Operating profit margins were more volatile in the Internet Communications and Online Entertainment categories given that there were fewer companies in the segment that were profitable on a consistent basis. The Online Information/Content operating average operating profit margins were generally the lowest of the groups.

Current valuation multiples for each digital media industry segment are shown below:[2]

2 Company enterprise value is as of May 1, 2013. Revenue and EBITDA reflect most recent year amounts.

Valuation Multiples	Median Enterprise Value/Revenue (x)	Median Enterprise Value/EBITDA (x)	Median Enterprise Value/Recurring EBITDA (x)
Diversified	3.2	11.1	10.9
eCommerce	2.0	18.2	16.9
Internet Communications	8.8	33.4	10.8
Online Advertising/Search	1.6	10.3	10.3
Online Entertainment	1.7	7.1	21.2
Online Information/Content	1.9	31.3	15.3

Digital media technology Enterprise Value (EV)/revenue multiples generally fall within the 1.5x - 3.0x range. The high revenue multiple for Internet Communications is due to the low number companies in the data set and the excessive EV/revenue multiple associated with Linkedin. With the exception of Online Entertainment, the EV/Recurring EBTIDA multiples fall within a reasonable range compared to other technology companies. The Online Entertainment segment multiple is high given that few companies are profitable in the category and those that are (Zynga and Shutterstock) have very high multiples.

Annual revenue growth rates for 2012 declined compared to 2011. Given that many of these companies face stiff competition and are entering a maturation phase, 2013 revenue growth rates may be set for a decline compared to 2013. Similarly, the robust stock market has pushed technology valuation multiples up over the last couple of years which may be hard to sustain going forward.

The valuation of digital media assets is often required for accounting, tax, litigation, acquisition, and estate planning purposes. Bond & Pecaro professionals have over 25 years of experience in intangible asset valuation and the expertise to value complex intellectual property such as developed technology and customer relationships.

For more information on the valuation of digital media companies, please feel free to contact any of the principals of Bond & Pecaro at 202-775-8870.

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