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How The Pandemic Reshuffled Radio's Ad Category Deck.

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As more radio companies reveal their third quarter financial results – no less than six report Q3 numbers today – a clearer picture is emerging of how the pandemic upended some of radio's biggest ad categories while others mushroomed to pick up some of the slack. While the quarter marked another period of sequential improvement at Cumulus Media, "the pace of the recovery has been muted by protracted pandemic effects," CEO Mary Berner said

Wednesday. Those include labor shortages and supply chain issues that are crimping otherwise stalwart categories like automotive, restaurants, retail and entertainment. But while some categories are still struggling, newer ones are stepping on the gas.

Sports betting “has been on fire,” Berner said, fueled not only by a multi-platform partnership Cumulus struck with WynnBet in the second quarter but also from eight other new operators that have booked business in the last several months. “We’re on track to grow this category by more than four times 2020 spend,” Berner told investors during the company’s quarterly results call. Meanwhile, government, professional services, general services and financial are “approaching or even exceeding 2019 levels,” she added, while recruitment, events and pharmaceutical are all gaining traction.

‘Reimagination’ Of Core Assets

Berner used the quarterly call to talk up the company’s new strategic positioning as it moves from a traditional radio model to “the multi-product, multi-channel, on-demand, audio-first media company that we’re building today.” Cumulus now generates “billions of monthly impressions from a wide variety of audio sources,” she explained, which its 800-person salesforce can sell in tandem with a complementary suite of digital marketing services. This “reimagination” of its core assets allows Cumulus to play in a \$30 billion market of radio, digital audio and digital marketing services instead of just the \$14 billion radio ad pool.

Digital, once again, was the quarter’s main growth driver, surging to \$33.4 million, a 67.1% increase over \$19.9 million one year ago. Digital now accounts for 14% of revenue and has plowed \$115 million into the company’s topline during the past 12 months. The Cumulus Podcast Network generates more than one billion downloads a year, helping the company land in the top five on Podtrac’s ranker of the top podcast networks in Q3. Sales of digital marketing services to local businesses grew more than 50% in the quarter.

Financial Flexibility To Pursue Acquisitions

Under CFO Frank Lopez-Balboa, Cumulus has worked to improve its balance sheet with a tight focus on reducing expenses and improving margins. Next year the company will operate with \$70 million less overhead than it did in 2019 and that’s giving it the financial flexibility to once again pursue acquisitions that could accelerate growth. This follows several years of pruning “non-core” assets. “Our balance sheet and liquidity profile will provide us with flexibility and capital allocation that we’ve never had before,” Berner offered. When asked by an analyst what types of assets they might be interested in, she said they’re more likely to look at acquisitions that “drive digital growth, particularly in the podcasting and digital marketing services area.”

Back to the Q3 numbers, spot sales at the company’s radio station group improved 12.2% to \$122.0 million, up from \$108.7 million one year earlier. The Westwood One network division did better, with billings up 21.0% to \$63.9 million versus \$52.8 million in Q3 2020. Total revenue at radio’s third largest operator rose 21.0% to \$237.7 million for the three months ended Sept. 30, compared to \$196.4 million in the same period one year ago.

While Cumulus delivered a better-than-expected financial performance, Berner sounded a note of caution about fourth quarter, which began with a negative impact from the surge in the Delta variant and is having a greater impact than they first expected. “We expect these factors to abate at some point in 2022, so we don’t anticipate them being a significant factor in our long term performance,” she explained. For now Q4 is pacing “up slightly” compared to the presidential election year of 2020, and up in the high single digits when political is factored out. Compared to 2019, Cumulus is pacing down in the mid-teens. “We expect that our pacing will continue to improve as we go through the quarter, though not to the extent that we’ve seen in prior quarters,” Berner said.

She also made a not-so-subtle pitch to investors that don’t own Cumulus stock. Shares of “CMLS,” which closed at \$12.30 Wednesday, are at a “highly attractive entry point” for investors sitting on the sidelines, Berner said.

