BuzzFeed's acquisition of HuffPost: a merger of survival

BuzzFeed – privately owned company
HuffPost – private company owned by Verizon Media

Introduction

On November 19th, 2020 BuzzFeed and HuffPost, two of the largest players in digital media, announced the latter's acquisition in a stock deal. The transaction is part of a larger agreement between HuffPost's owner, Verizon Media, and BuzzFeed, according to which the companies will syndicate content on each other's platforms and look to jointly explore advertising opportunities. This deal provides the media arm of Verizon Communications Inc. a minority stake in BuzzFeed. According to a person familiar with the matter, Verizon Media is additionally making an undisclosed cash investment in BuzzFeed. The acquisition will bring together the complementary audiences of both companies and allow them to benefit from greater scale. So far, the financial terms for the deal remain confidential, including the valuation for HuffPost.

The agreement comes as another confirmation of the consolidation trend in the sector that has noted a number of deals and failures in the past two years. Invariably, the goal is to achieve more sustainable scale, negotiate power across the portfolio and thus attain better operating leverage.

About BuzzFeed

BuzzFeed is an American Internet media, news and entertainment company founded in 2006 by Jonah Peretti and John S. Johnson III, with the idea to focus on tracking viral content. Originally dominated by light fare such as quizzes and "listicles", easy-to-read and preview articles in the form of a list, the site started hiring more prominent political journalist such as Ben Smith to build an ambitious news division that produced work later nominated for the Pulitzer Prize.

The initial focus of the company was set on generating profit from native advertising that was in line with the tone and style of editorial content. Unfortunately, as social media companies began developing their algorithms to make it almost impossible for such posts to be widely viewed organically, BuzzFeed was forced to resolve to more traditional forms of digital advertisements such as automated auctions, e-commerce and content licensing.

In its early years, BuzzFeed saw the impressive annual revenue growths ranging from 50% to 200% being constantly fueled by venture capital. After vivid expansion of its content, including the notable one for Obama administration in 2012 which lead to a substantial increase in income from ads, Buzzfeed passed the $100m in revenue in 2014. With two-round investment from Comcast Corp.'s NBCUniversal equal to $400m combined, came plans to hire more journalists all around the world and open outposts in India, Germany, Mexico and Japan. However, after hitting a valuation of $1.7bn in the 2016 funding round, growth has started to consistently slow over the next years. In 2017, the company began missing its revenue targets what resulted in laying off 100 employees. Additional 200 were dismissed in 2019 to help facilitate growth despite raising revenue by 15% from 2017 to 2018. Even before Covid-19 pandemic, BuzzFeed's losses exceeded $50m. During the lockdown, the company announced cuts of employee salaries ranging from 5% up to 25% in what came as a relief to the staff who was expecting additional layoffs. Unfortunately, later this year BuzzFeed shut down its divisions in the UK and Australia and further terminations of contracts followed.

About HuffPost

HuffPost is an American news aggregator and blog, with localized and international editions. The content offered ranges from politics and business to healthy living, women's interests and local news featuring columnists. It was launched in 2005 as a liberal alternative to popular aggregators such as The Drudge Report and its strategy was to craft search engine optimized stories and headlines based on trending keywords, such as "What Time Is the Super Bowl?". Today, in addition to content posted directly on the site, HuffPost offers user-generated content via video blogging, audio, and photo.

Similarly to BuzzFeed, the company enjoyed in its early years the attention of venture capital firms followed by numerous investments. Only in 2006, it raised a $5m in Series A round from SoftBank Capital and Greycroft. During the subsequent years, additional investment followed, with the most notable $25m from Oak Investment Partners in 2008 which allowed the company's development of technology, infrastructure, and its local versions. In 2011, HuffPost's web search engines solutions drew the attention of AOL's CEO Tim Armstrong and within the two-month time AOL bought the Huffington Post for $315m. The firm ended up in Verizon's hands as a result of the 2015 acquisition of AOL by Verizon Communications for $4.4bn. Unluckily, Verizon's efforts to improve its digital media side of business failed to gain momentum and in 2018 Verizon wrote down the value of its media assets by $4.6bn to just $200m. The rumors of Verizon Media looking to sell HuffPost appeared for the first time last year and the Financial Times reported last October that Verizon was seeking buyers. Verizon Media CEO shortly dispelled the rumors and yet the deal with BuzzFeed was announced only few months later.

Interestingly, one of the founders on HuffPost, Jonah Peretti, is also a founder and current chief executive of BuzzFeed. He spent several years on building HuffPost's strategy and turning it into a leading media brand on the internet. Even though Mr. Peretti admits he has a deep connection to that brand because of the history, he emphasized that this transaction is solely a result of future common goals and business opportunities.

Industry Analysis

The internet, digital publishing technologies, and changes in global media habits have resulted in dramatic changes in how newspapers are published and distributed, how news are gathered and reported, how newspapers generate revenues, and even how much people trust the news they read.

The economic decline brought about by the coronavirus outbreak has violently hit an industry that had already lost nearly 30,000 jobs in US, roughly a quarter of its reporters, over the last decade, as its advertising-based revenue model proved antiquated in the age of the internet. Even as readership soars, statewide lockdowns have further reduced revenues because print publications are dependent on distributors being able to drive copies around the country and shops and stalls being open for people to buy or pick up the publications.

The scale and speed of the economic crisis has inspired journalists to turn to an unlikely source for help: Congress. The News Media Alliance, one of the American newspaper industry's top trade groups, and the NewsGuild, journalism's biggest labor union, have each called on Congress for emergency stimulus assistance to prevent layoffs and keep journalists working and news outlets in business amid the crisis. Talk of government assistance may seem like a controversial solution for an industry that prides itself on its independence, but the idea of news industry bailout is not unprecedented. Last year, the Canadian government created a $600m relief fund meant to revive the country's struggling newspaper industry. On the other hand, any bailout plan would likely run into even bigger problems in the U.S., where trust in the media is much lower, and where perceptions of bias are much stronger.

In the last few months there has been a shift from advertising to subscription business model; this is happening mainly because of two reasons: first, during these tough economic times advertising budgets often diminish, being seen as a discretionary spend; secondly, the primary benefit of a subscription model is that you can generate revenue from an engaged customer base. News outlets have traditionally relied on advertising revenue to fund their journalism, but that business model has fallen apart over the last three decades, as both news and advertising have shifted to the internet. Digital advertising now outpaces TV and print spending, but the wealth is in the hands of only a few: Facebook and Google have become a duopoly that soaks up more than 60% of the $100bn spent on digital advertising each year.

Another popular option that has been called for is the creation of a public journalism trust fund, supported by tax revenue, that would permanently bolster the business and support the most basic coverage. The fund would be mainly fuelled with money generated through new taxes on Facebook and Google's advertising revenues, and it would heavily subsidize nuts-and-bolts coverage of state houses and city councils, public agencies and local lawmakers. Instead, last summer the Australian Government approved a landmark move that will force U.S. tech giants Facebook and Google to pay Australian media outlets for news content. This provision could pave the wave for future similar measures in other countries to protect independent journalism around the world.

Looking at global newspaper advertising (print and online), PWC's Media Outlook report 2020-2024 forecasts that it will fall from $49.2bn in 2019 to $36bn in 2024, a decline of more than a quarter (27%) over five years. Moreover, Global circulation and subscriber revenue is expected to fall from $58.7bn in 2019 to $50.4bn in 2024, which does not seem a disastrous forecast only because publishers have the extra lever of cover-price rises to mitigate unit sales decline.

On the other hand, digital circulation revenue continues to grow, from $4.5bn in 2019 to $7bn by 2024 thanks to the format changing trend, where news become increasingly available online and through a wide range of sources.

Deal Structure

BuzzFeed is acquiring HuffPost from its parent company Verizon Media, a unit of Verizon Communications Inc, in a deal that unites two of the major players in the digital media sector. As part of the deal, which is entirely paid in stocks, Verizon media is also making an undisclosed cash investment in BuzzFeed and will become a minority shareholder in the firm. In addition, Verizon Media and BuzzFeed have agreed to syndicate content across each of their respective platforms while collaborating on advertising and sharing ad revenue. Although the two newsrooms will continue to operate as separate entities, the companies intend to create a joint innovation group to explore monetization opportunities. Financial terms for the deal have not been disclosed, including the valuation for HuffPost. The deal, which is expected to close at the beginning of 2021, is subject to customary closing conditions.

Jonah Peretti, BuzzFeed's founder and CEO and co-founder of the original Huffington Post, will run the combined company. BuzzFeed will also lead the search for a new editor in chief of HuffPost this upcoming year.

Deal Rationale

It was not long ago that HuffPost and BuzzFeed were considered to be major disruptors of the traditional media landscape and among the fastest-growing new journalism operations.

However, both of these companies have struggled to maintain growth in recent years as tech giants like Facebook and Google have swallowed up ever-larger shares of online advertising (more than half of all the money spent on online advertising is with these two companies). Ads on digital news media have revealed themselves to be far less focused than many advertisers hope for and this is a stark contrast to Google and Facebook's incredibly targeted and specific advertising. This has increased the pressure on the advertising funded business model of Buzzfeed and in 2017 BuzzFeed missed its revenue target by $90m. Although Buzzfeed is expected to turn an operating profit this year for the first time since a few years this is as a result of $30m in cost reductions involving a 15% cut of its workforce. In addition to financial woes, both companies have also struggled to maintain website traffic levels in recent times. BuzzFeed's monthly visitors were down 23% year-on-year in October while HuffPost was down a steadier 5%. However, HuffPost's website traffic has seen a decline of 45% over the past three years.

The BuzzFeed HuffPost merger comes after a wave of consolidation has swept through the digital media sector last year as companies look to scale in order to counteract the revenue shortfalls as a result of the sinking trends in online advertising. Among the M&A deals last year: Vice Media Group acquired Refinery29, Vox Media bought New York Media and Group Nine Media bought PopSugar. The rationale behind BuzzFeed's acquisition and the recent M&A deals in the digital media sector are analogous. BuzzFeed has merged with HuffPost in the hope that resulting synergies and economies of scale will strengthen their hand towards advertisers and reverse their revenue shortfalls. The two firms have complementary audiences with HuffPost's readers presenting a broader and wealthier demographic than BuzzFeed's. In addition, BuzzFeed will also be able to take advantage of Verizion Media Immersive, which boasts the largest online extended reality platform for advertising and content. Extended reality is often touted to be the future of digital advertising as these immersive mediums garner strong engagement from audiences. Moreover, BuzzFeed will have access to Verizon Media's ad platform that spans mobile, desktop, connected TV and other channels. This ad platform provides access to powerful data sets that can help both

BuzzFeed and HuffPost to provide more bespoke advertising and so better compete with tech goliaths like Facebook and Google.

Market Reaction

BuzzFeed and HuffPost are both privately owned so no information is available regarding their market reaction. However, the shares of Verizon Media, HuffPost's parent company and future BuzzFeed's minority shareholder, dropped by 0.6% to $60 per share on 19th November, the day the deal was announced.

Advisors

Skadden, Arps, Slate, Meagher & Flom LLP acted as legal advisors for BuzzFeed on the deal. The financial advisors involved in the transactions, if any, were not disclosed.

TAGS: BuzzFeed, Huffpost, Verizon Media, M&A, digital advertising, publishing, subscriptions, newspapers, Verizon, revenue opportunities