



How to Bet Against the Mainstream Media

Description

The [mainstream media model](#) is broken. In a recent survey by communications firm Edelman, 52% of Canadians said the media is not doing well at being objective and non-partisan. Meanwhile, technology has shifted the way younger consumers access news and information.

The transition from traditional forms of media to democratized, online communities seems inevitable. Now, investors can bet on this transition through a recently listed stock: **VerticalScope Holdings** ([TSX:FORA](#)). Here's a closer look.

Shifting away from mainstream media

The mainstream media model doesn't really deliver value for its consumers or stakeholders. The need to reach a wide audience and hold their attention dilutes the editorial process. Meanwhile, advertisers on traditional platforms like television and radio don't have the sophisticated tools they need to figure out if their ads are reaching the right people.

Younger consumers and startups have ditched this model in favour of social media. According to *MediaSmarts*, 61% of Canadians aged between 18 and 29 receive breaking news through digital platforms such as social media or websites. In other words, online communities are the primary source of information for the next generation.

Since 2010, VerticalScope has been actively acquiring these niche online communities. This year, the team listed their digital media empire on the Toronto Stock Exchange.

Digital communities

At the time of listing, VerticalScope claims it has over 1,200 online communities in its portfolio. This includes niche websites like the V-Twin Harley Davidson forum, ElectricianTalk, Guitars 101, Veggieboards and Michigan Sportsman.

These hyper-focused content sites tend to attract passionate readers who are more likely to sign up for premium subscriptions or buy merchandise through the digital platform. In other words, they're easier

to monetize.

Altogether, this basket of niche websites attracts 101 million unique visitors every month and has 55 million registered users. The user base is monetized through a combination of personalized digital ads and subscriptions. VerticalScope is an online media giant.

Financials

Over the past 12 months, VerticalScope has generated US\$61.6 million (CA\$77.1 million) in revenue. The majority of that was generated through e-commerce sales, while less than half was derived from digital advertising.

Over the same period, the company reported US\$26.6 million (CA\$33.3 million) in free cash flow. The company has raised \$143.8 million in its initial public offering and says it has acquisition targets that could collectively add US\$18 million (CA\$22.5 million) in gross earnings in the near term.

VerticalScope stock is up 28% since it listed in June. The company is currently worth \$590 million. That implies a price-to-free cash flow ratio of 17.7. That's perfectly reasonable for a digital media company.

After raising capital from the public market, the company could significantly expand its portfolio and unlock more value for shareholders in the years ahead. Keep an eye on it.

Bottom line

VerticalScope is a digital content conglomerate. For decades, this team has been accumulating niche websites and online communities. This network represents a disruption to mainstream media and large-scale news platforms. It's clearly the future. This is why the stock should be on your radar.

CATEGORY

1. Investing

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1. TSX:FORA (VerticalScope Holdings Inc.)

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