



Performing Arts Groups

NAICS: 7111

SIC: 7922, 7929, 7999

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Coronavirus Update

Dec 2, 2020 -- Tourism Recovery Will Be Slow

- Tourism will not fully rebound in New York City (NYC) for at least four years, according to NYC & Company, the city's tourism promotion agency. Performing arts groups are likely to be among the businesses that are negatively impacted. NYC & Company counts all overnight guests and anyone who travels from more than 50 miles away as a visitor. Its new forecast calls for 38.2 million visitors in 2021, rising to 69 million by 2024. NYC drew a record 66.6 million visitors in 2019.
- The Save Our Stages Act, which was re-introduced in October, would make grants available for independent live music and entertainment venues. Six months of financial support would be made accessible to these venues to stay afloat. Save Our Stages was originally included in the Heroes Act coronavirus stimulus package that was voted down in early October.
- Estimated financial losses for nonprofit arts and cultural organizations totaled \$13.1 billion as of September 14, 2020, according to a survey by Americans for the Arts. The survey revealed that 96% of respondents had canceled events; 48% have no target date for reopening; 29% had laid off or furloughed staff; and 10% were "not confident" they would survive the pandemic.
- In the survey, 63% of artists reported becoming fully unemployed because of COVID-19 and 95% experienced income loss from COVID-19. The average decline in estimated total annual income per creative worker was \$22,000. Two-thirds said they could not access the supplies, resources, spaces, and people necessary for their creative work.
- The COVID-19 pandemic has forced smaller performing arts groups to pivot and innovate to deliver live performances and survive financially. Groups have performed for tiny audiences (sometimes just two patrons), reduced theater capacity dramatically (25%), installed plexiglass between seats, and performed in parking lots (giving an entirely new definition to "street theater"). The American Shakespeare Center will rotate "Othello" and "Twelfth Night" between indoor and outdoor stages, so audiences can choose where they are most comfortable, and the cast has quarantined themselves, according to the New York Times. "We'd rather go down creating good theater than die the slow death behind our desks," said Bryan Fonseca, the producing director of Fonseca Theater Company in Indianapolis.
- The National Endowment for the Arts (NEA) awarded 40% of the \$75 million appropriated through the CARES Act directly to state and regional arts agencies to distribute through their funding programs during April. The remaining 60% will go towards direct grants to nonprofit arts organizations and be announced by June 30.
- Most nonprofit arts organizations operate with lean budgets so the loss of earned income can have an outsized impact, according to the National Endowment for the Arts (NEA). About one-fifth of arts organizations are non-profit organizations, and "about 40% of artistic non-profits operate at the break-even point at the best of times," according to The Hill. Income from "ticket sales, books, concessions, and souvenirs, which account for about 60% of revenues for nonprofit arts groups, have all but evaporated." Donors, who include wealthy individuals and corporations that account for about 30% of revenue, are also stretched thin trying to accommodate the needs of multiple non-profits. Grants from state and local governments are in jeopardy. "And the arts may be among the last sectors to find relief once the pandemic starts coming under control."
- Performing arts groups around the world are streaming performances to keep audiences engaged while their venues are shut down because of the coronavirus. The Metropolitan Opera offers different "encore" presentations from the company's Live in HD series on its website. The League of Orchestras also offers livestreams and video performances through Symphony Spot. The new streaming service Broadway on Demand kicked-off programming with "30 Days of Opening Nights."

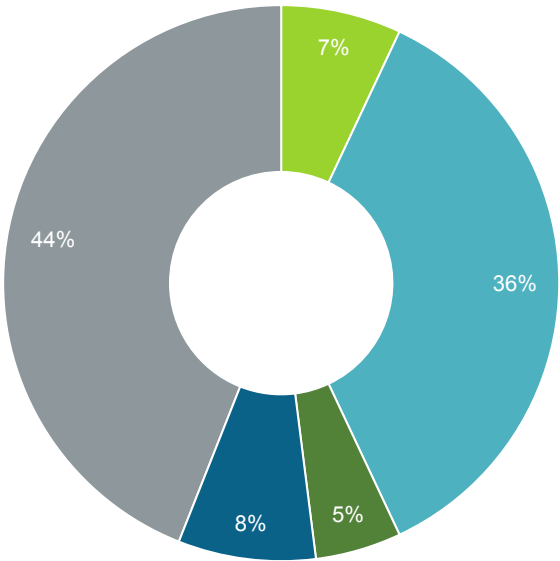
Industry Structure



The average performing arts group operates out of a single location, employs about 15 workers, and generates \$2 million annually.

- The performing arts industry consists of about 8,700 groups that employ 131,600 workers and generate about \$18.7 billion annually.
- The industry is fragmented; the top 50 companies account for 33% of industry revenue.
- The majority of firms operate within a limited geographical market. Large organizations include the Metropolitan Opera Association, the "Big Five" orchestras (New York Philharmonic, Boston Symphony Orchestra, Chicago Symphony Orchestra, Philadelphia Orchestra, and Cleveland Orchestra), Feld Entertainment (Ringling Brothers), and Cirque du Soleil based in Canada.
- Theater companies account for about 36% of firms and 48% of industry revenue. Musical groups and artists account for about 55% of firms and 37% of industry revenue. Dance companies and other groups account for about 7% of firms and 5% of industry revenue.

Industry Demographics



- Corporations (7.0%)
- S-Corporations (36.0%)
- Individual Proprietorships (5.0%)
- Partnerships (8.0%)
- Non-profit/Other (44.0%)



Female Owned

35.0%



Minority Owned

25.0%



Veteran Owned

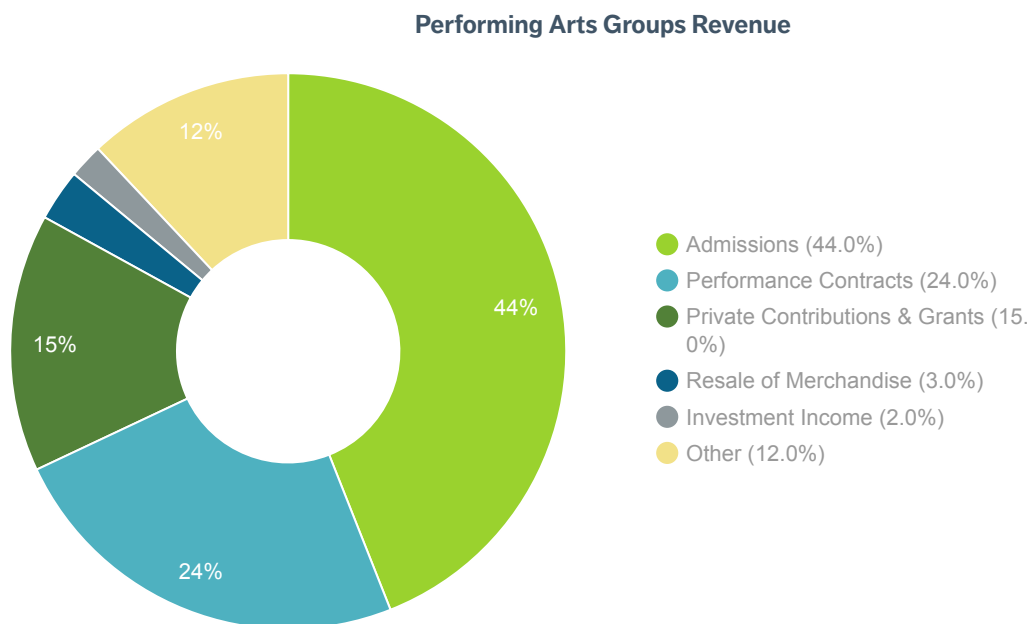
7.0%

How Firms Operate

Products and Operations

Performing arts groups produce live presentations of performances by a variety of artists, including actors, singers, dancers, and musical groups.

- Major revenue categories include admission fees; contracts for performances; contributions, gifts, and grants; and investment income.
- The industry includes theater companies and dinner theaters; dance companies; musical groups and artists; and other types of performing arts groups.



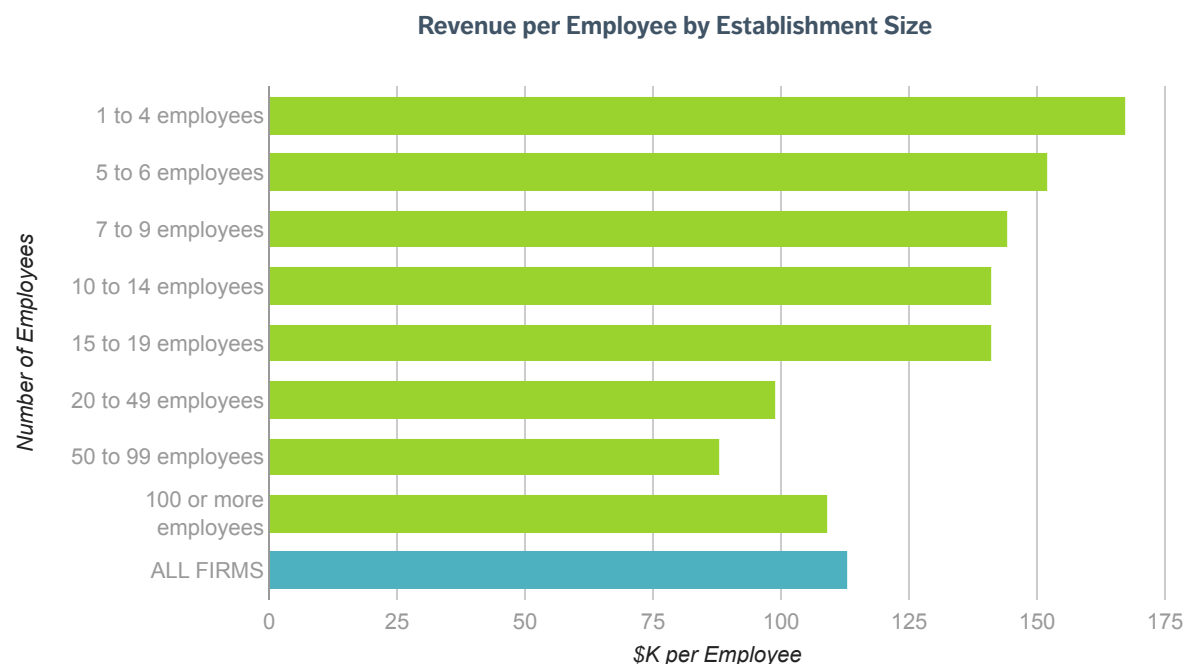
Theater companies produce live, theatrical presentations, such as musicals, operas, and plays. Theater companies also include comedy, improvisational, and puppet shows. Dinner theaters provide food and beverages in addition to live performances. Theater companies range in size and stature – from large, well-known Broadway shows to small community theaters. Off-Broadway refers to smaller theaters in New York located away from the main theater district. Off-Broadway venues typically showcase original material, and are considered testing grounds for Broadway shows.

Musical groups and artists provide live musical entertainment, and include bands, orchestras, and choirs. Orchestras include professional groups (with paid musicians), volunteer groups, collegiate/conservatory groups, chamber orchestras, and youth orchestras. While the largest orchestras have 52-week seasons and annual budgets in the millions, many orchestras have shorter seasons and smaller budgets. Choirs include children's, men's, women's, and symphony choral groups. The performing arts industry includes bands and artists primarily engaged in live entertainment, although groups may also record music. Dance companies generally specialize in a particular style of dance, such as ballet, contemporary, interpretive, jazz, modern, or tap. Other types of performing arts groups include circuses, ice skating shows, magic shows, and carnivals.

Performing arts groups may own facilities or rent performance space. Big productions involve large casts and elaborate sets, lighting, sound systems, and costumes. Touring companies travel from city to city to perform, and often work with a streamlined set and smaller cast. Some groups, such as summer theater groups, only operate for a limited period of time.

Some performances run for years, while others may open and close within the same week.

Performing arts groups, particularly small organizations, may rely on volunteers to supplement paid workers. Non-profit performing arts groups are typically overseen by boards. Directors manage production, rehearsals, and casting. The number of performers varies according to the needs of the production, and performers often work under contract. Other key staff include stage crew, technicians, and designers. Some types of performers and staff belong to unions. For example, orchestra members may belong to the American Federation of Musicians. Broadway productions generally involve union stage crews.



Profit Drivers

Higher Ticket Sales

Ticket sales are performing arts groups largest revenue source and are also key to attracting private donations. Groups need to select productions that appeal to local audiences and effectively market upcoming events. Subscription sales for an entire season helps sell tickets for less popular shows and aids groups in forecasting attendance levels. Discounts on group ticket sales for schools, senior centers, and other groups can help boost attendance and enhance community relations.

Successful Fundraising

Most performing arts groups rely on donations and grants to make up the “performance income gap” and have staff dedicated to fundraising. They work with wealthy individuals to become patrons and implement broader fundraising campaigns for the general public. They also apply for grants from state and federal government programs and private charitable funds. Small groups may rely on volunteers for fundraising efforts, but they need individuals with skill and expertise to be effective. Many recruit board members from the local business community to provide management expertise and help with fundraising campaigns.

Cost Control

Performing arts groups must match production costs with expected revenues to ensure the profitability of performances. Production costs can vary widely, depending on how elaborate the sets, costumes, and special effects are for plays, musicals, and concerts. Groups may also rely on volunteer staff to lower administrative costs and contract out for marketing and accounting services.

Industry Trends

Trends are affected by the COVID-19 pandemic.

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the “Coronavirus Update” chapter for those industries most affected and on our [Covid-19 Updates Webpage](#).

Industry Income Recovering

Performing arts groups are better positioned, financially. Subscription revenue has fluctuated in recent years. Subscription revenue fell 0.9% in 2015, rose 0.3% in 2016 and 2.8% in 2017, then fell 3.3% in 2018. Single ticket sales rose 3.2% in 2015, 4.1% in 2016, 5.2% in 2017 and 0.2% in 2018. Income from non-ticket sources (presenter fees, education, concessions, rentals, etc.) rose 8% in 2015, 9.7% in 2016, 8.8% in 2017 and 19.4% in 2018, according to the Theatre Communications Group. During periods of economic difficulty, consumers tend to cut subscriptions to the arts as they reign in discretionary spending. When the economy improves and disposable income is greater, consumers spend more freely on the arts.

Modest Growth For Broadway

Improved economic conditions have spurred recovery on Broadway, which enjoyed higher grosses in recent years. However, Broadway grosses decreased 3.7% in 2019 from a year earlier, while attendance rose 1.7%, according to the Broadway League. Attendance was up due in part to a 0.8% increase in the number of playing weeks in 2019. Both attendance and playing weeks were up in 2018 and 2019. The number of play weeks fell while attendance increased in 2017. Shows have maintained or increased grosses by raising ticket prices – the average ticket price increased from \$103 in 2016 to \$127 in 2018, but fell back to \$120 in 2019.

Orchestras Struggle

Orchestras across the US continue to struggle with weak attendance and shifts in public funding. Both large-budget orchestras (budgets of \$15 million and above) and mid-budget orchestras are affected. The last recession was extremely unkind to US orchestras, with several groups forced into bankruptcy. Decreases in donations and state and local government funding, combined with lower ticket sales pushed many orchestras into dire financial situations. Renegotiations of contracts with musicians have been tenuous. As the economy and state revenues improved, orchestras have stood a better chance of receiving grants and other funds from the government to supplement ticket sales, merchandise revenue, and donations. State arts agencies' (SAAs) budget appropriations fell 2.8% in fiscal year 2016, rose 7.5% in 2017, fell 3.6% in 2018, then increased 1.9% in 2019 and 37.3% in 2020, according to the National Assembly of State Arts Agencies.

Simulcasting

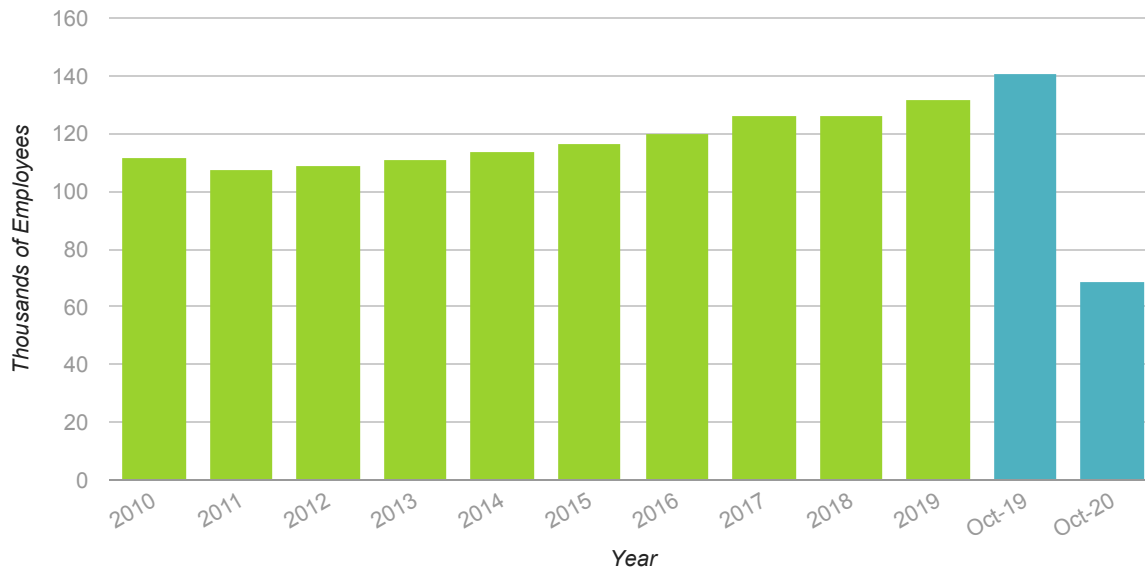
While the growing presence of digital broadcasts has created competition for live performances, some performing arts groups are leveraging technology through simulcasts to expand reach. The Metropolitan Opera pioneered HD simulcasts for a number of performances in thousands of theaters throughout the world, and benefited from the incremental ticket sales and exposure. Some theater companies, dance troupes, and symphonies have followed suit. In addition to movie theaters, some groups are promoting simulcasts in non-traditional venues, such as football and baseball stadiums and parks.

Employment and Wage Trends

Employment by performing arts groups decreases

Overall employment by performing arts groups changed -51.1% in October compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

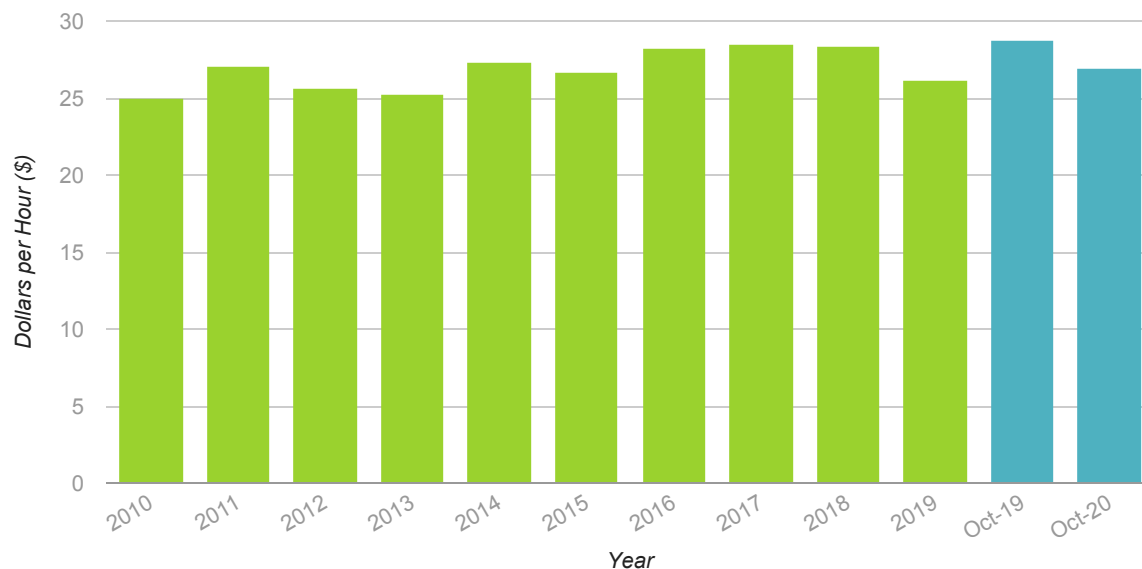
Performing Arts Groups Employment



Wages at performing arts groups fall

Average wages for nonsupervisory employees at performing arts groups were \$26.88 per hour in October, a -6.2% change compared to a year ago.

Average Wages for Nonsupervisory Employees



Credit Underwriting and Risks



| | | |
|-----------------------|-----|---|
| Business Exit Rates: | 6.5 | Higher than US average for all businesses |
| Cyclical Sensitivity: | 4.5 | Moderate Sensitivity |
| Barriers to Entry: | 4.3 | Moderate initial capital; moderate regulatory/technical barriers; low concentration |
| External Risk: | 6.5 | High external risk |
| Industry Outlook: | 5.1 | Comparable to GDP; some cyclical risk |
| Financial Summary: | 5.0 | Average margins; moderate liquidity; moderate leverage |

Key Metrics

| METRIC | VALUE | COMPARISON |
|--|--------|----------------------|
| Performance During 2007—2009 Recession | 4.2% | 0.0% GDP |
| Business Exit Rate 2017—2018 | 11.03% | 9.0% All Industries |
| Compound Annual Growth Forecast (2018—2024) | 2.91% | 3.6% GDP |
| SBA 7(a) Default Rate by Number of Loans (2010—2019) | 3.64% | 3.82% All Industries |
| SBA 7(a) Default Rate by Gross Loan Amount (2010—2019) | 0.33% | 1.21% All Industries |

Underwriting Considerations

- Collateral as a secondary form of repayment can be challenging. AR and Inventory are not typical assets. Alternative sources of collateral are recommended.
- How dependent is the entity on donations and grants?
- Compare leverage and liquidity to the industry average. It is recommended that they compare more favorably to averages especially to manage through shows that do not have sounds result and through economic turns.

Industry Risks

Sensitivity To Economic Conditions

Revenue for the performing arts industry is dependent on economic conditions and consumer spending. Revenue growth generally slows or declines during economic downturns. Attendance is considered a discretionary activity, and consumers cut back on non-necessary expenses when finances are tight. Individual donations and corporate funding also drop as donors re-evaluate charitable causes. During recessionary periods, groups may operate at a deficit or shut down due to lack of funding.

Competition From Alternative Entertainment

Performing arts groups compete with a variety of alternative forms of entertainment, including movies, television, sporting events, and digital media. Because tickets to live events can be costly, some consumers turn to less expensive activities. Several major Broadway plays have been turned into movies with all-star casts. Television allows viewers to enjoy live

performances from the comfort of home. Digital media offers access to live events through multiple channels. Live broadcasts of major events, such as Metropolitan Opera performances, have created debate over the advantages of attendance of broadcast-based events versus live events.

High Costs, High Prices

The high cost of production has forced performing arts companies to raise ticket prices, making many programs unaffordable for the average consumer. A typical Broadway play costs about \$2.5 million to produce, while a large scale musical can cost between \$10 million and \$15 million. The majority of production costs are incurred prior to the first performance. The average price for a Broadway ticket was about \$120 in 2019, and prices for shows ranging from \$73 to \$250 in early 2020. Escalating production costs, rents, and advertising budgets and union restrictions have encouraged some producers to work outside of the US, where costs can be considerably lower.

Maintaining Attendance

While the US is home to some of the highest quality performing arts groups in the world, many categories face dwindling attendance and struggle to remain relevant. The percentage of adults that attend benchmark arts activities, which include classical music and jazz concerts, musicals, plays, operas, and ballet, has declined over time, according to the National Endowment for the Arts (NEA). In the wake of several recessions, even the most loyal patrons are less likely to purchase full season subscriptions in favor of single tickets – a practice that forces arts groups to spend more on marketing and administration. While the reasons for declining attendance are the subject of debate, some experts cite the overwhelming presence of mass media and pop culture as probable causes.

Dependence On Key Performers

Performing arts groups can be overly dependent on one or a few key performers to draw an audience. Popular lead singers, actors, and actresses are often critical to obtaining financing for major productions. Celebrities in starring roles can be essential for attracting investors and selling seats. Illness, accidents, contract disputes, and creative differences can jeopardize a key performer's presence and ticket sales.

Limited Ways To Improve Productivity

Unlike many industries, the performing arts have limited methods to improve productivity and reduce costs without hurting the quality of performance. Musicals, plays, orchestras, and ballets require a minimal number of performers and staff. Groups are generally unable to eliminate roles or musicians and deliver an acceptable performance. With declining attendance across multiple categories, most groups are unable to generate additional revenue through extra performances.

Company Risks

Maintaining Funding

Many performing arts groups rely on a combination of ticket sales and donations and grants from public and private sources. Maintaining a healthy level of financial support is an ongoing challenge, particularly for small groups that appeal to a limited audience and lack the resources to establish an endowment. Reliance on a small number of big donors is also risky, should any donor decide to change to a different charitable cause.

Attracting An Audience

Generating awareness and attracting an audience are challenges for performing arts groups, particularly smaller organizations. With limited marketing budgets and little-known talent, building an audience beyond regular patrons is difficult. Even big productions may struggle in markets where oversaturation forces audiences to choose between a large

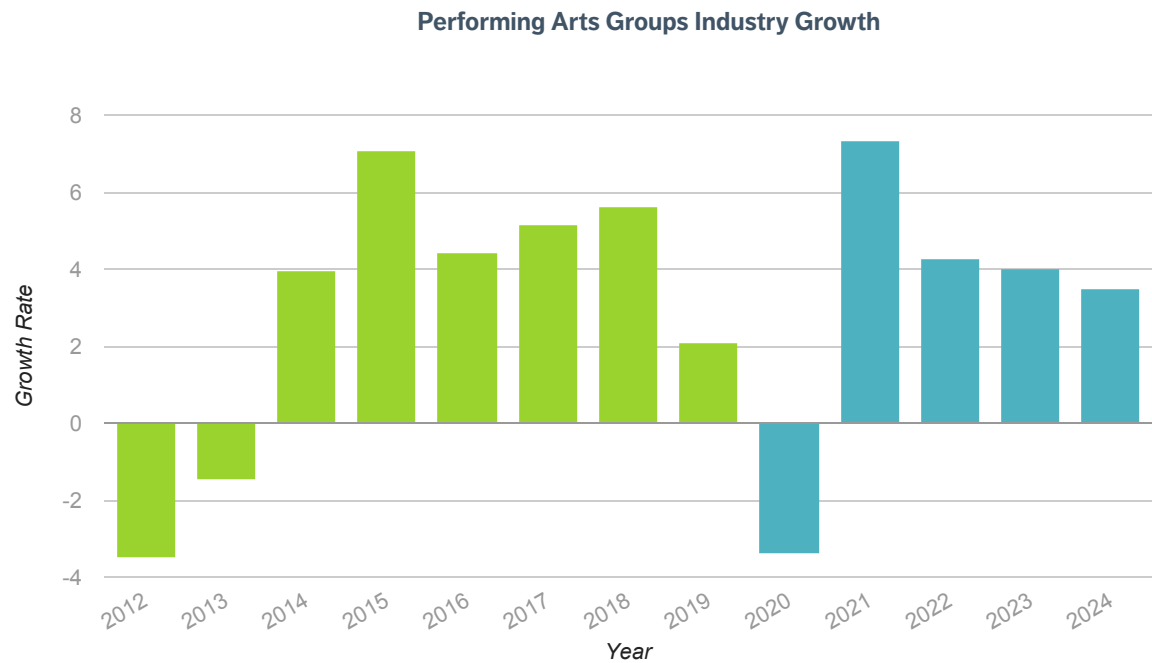
number of options. The number of regular patrons (subscription buyers) for most types of performing arts groups is decreasing.

Industry Forecast

Sales for the US performing arts groups industry are forecast to grow at a 2.91% compounded annual rate from 2018 to 2024, slower than the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2020



Working Capital

Sell and invoice

Companies generate revenue through a variety of sources, including admission fees; contract fees; contributions, gifts, and grants; and investment income. Ticket prices vary significantly, depending on type of performance, popularity, and location. The average price of a Broadway ticket was about \$120 in 2019, according to the Broadway League. Musicals averaged \$122 per ticket, while plays averaged about \$116 per ticket during the 2018-2019 season. Subscriptions involve purchasing tickets to a series of performances, in some cases the entire season, and typically offer a discount off single ticket prices.

12% of amusement and recreation services said they go to their accountant or bookkeeper for cash flow advice, while 3% turn to their banker, 12% turn to a colleague or industry partner, and 86% do not seek advice, according to a survey of small businesses by Barlow Research Associates.

Source: Barlow Research Associates.

Collect

Customers may purchase tickets from the venue box office, by mail, online, or through a ticketing service, such as Ticketmaster. Payment forms include cash, check, or third-party credit card. Subscription packages may require advance payment, however, many groups offer installment payment plans. Collection periods average 30 to 34 days and receivables average 6-9% of assets. In some situations, the venue operates the box office and remits revenue from ticket sales after expenses.

Manage Cash

Cash flow can be uneven, and is driven by a particular group's schedule or season. Income from grants arrives according to the donating organization's timetable. Government funding can be tricky - in some cases, grants are awarded based on partially or totally completed programs. Subscription revenue generally comes at the beginning of a season, while individual ticket sales occur throughout a program's run. Performing arts groups often have concentrated schedules of performances, even though they incur expenses year round. Organizations must pay salaries during rehearsals, which occur well in advance of ticket sales. In some cases, groups delay paying staff until they receive funding.

The financial model for performing arts groups varies. Non-profit groups are more dependent on contributions (both private and public sector funds) than for-profit groups. For example, ticket revenue for orchestras generally does not cover the cost of performance. Cirque du Soleil generates an estimated 80% of revenue at the box office, with the remainder coming from show-related merchandise.

Pay

Payroll is the single largest expense, and averages 26-29% of revenue. Rent averages 5-6% of revenue. The size, type, and location of the cast and venue can greatly affect costs. Union cast and crew members generally earn higher wages than non-union counterparts. Some venues charge a base rent plus a percentage of the box office. Theaters may also charge fees for providing box office and administrative services. Advertising averages about 3-4% of sales.

Report

After-tax net profit averages 7-9% of sales, although profitability varies significantly depending on the production. An

estimated 20-30% of new Broadway shows turn a profit each year. Key metrics include average weekly gross (receipts), number of seats sold/attendance, and ticket prices. Orchestras break out performance-related and non-performance-related revenue and expenses. Some performing arts groups operate with a performance income gap, and rely on contributions and grants to make up the difference.

Cash Management Challenges

Seasonal Swings In Ticket Sales

Payroll services invest in information systems to efficiently manage customer payrolls, tax reporting, and benefits administration. Efficient operations are critical to profitability, given pricing pressure from other payroll service providers and in-house payroll options. Companies seek to streamline processes and procedures, while also putting in place controls to protect sensitive customer data from cyberattacks and employee theft.

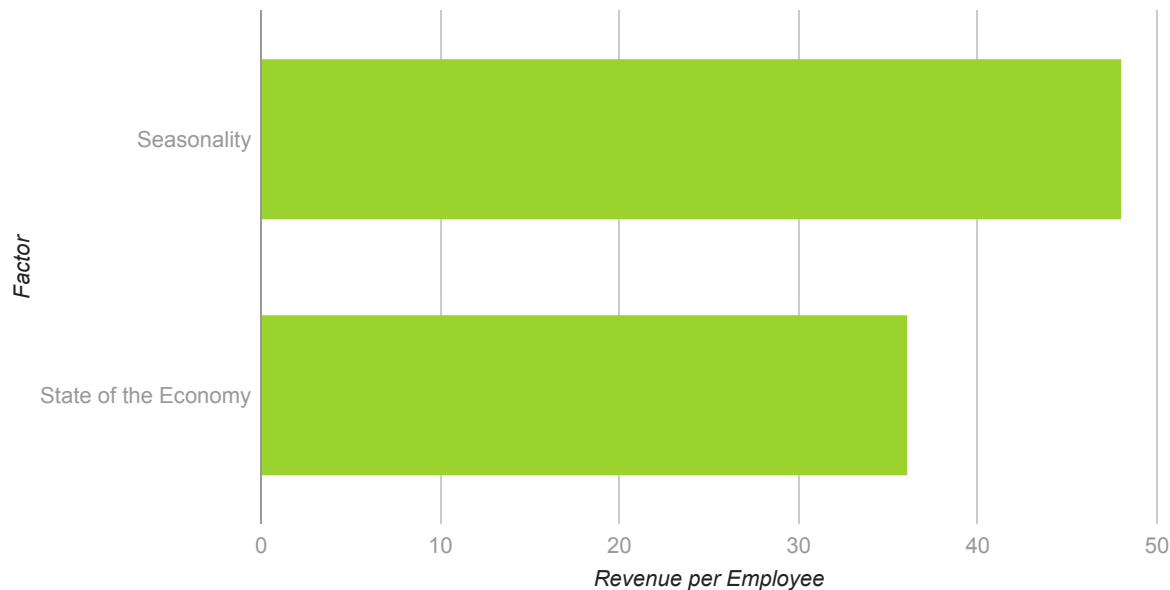
Timing Of Revenue And Expenses

Performing arts groups often incur significant expenses upfront to produce and market a new performance, well in advance of revenue from ticket sales. Costs for set and costume design, licensing, payroll, advertising campaigns, and venue rental span a wide range and can be over \$10 million for major productions. Most groups promote advance subscriptions to an entire season of productions in order to better match incoming cash with expenses.

Uncertainty Of Contributions And Grants

Performing arts groups that rely on contributions and grants from private and public donors to help fund operations face uncertainty due to ups and downs in the level of giving. Private donations typically decline during difficult economic conditions and government grants may also fall due to budget cutbacks.

Factors Causing Cash Flow Stress: Amusement and Recreation Services



Source: Barlow Research Associates

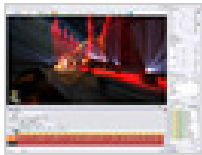
Capital Financing

Projects that involve capital financing include the purchase of property, buildings, sets, costumes, props, and technical equipment (sound and lighting systems). While some groups own performance facilities, many organizations rent space and the associated technical systems. Maintenance and upkeep of older venues, particularly those with historical importance, can be significant.

Performing arts groups often have large upfront costs. For major productions, design and construction of sets and costumes is generally high. Production costs for major Broadway musicals have ranged from \$10 million to \$15 million. The Broadway production of “Spider-Man: Turn Off the Dark” cost \$79 million. On the other end of the spectrum, community theaters may work with minimal budgets and donated materials for sets and costumes. Orchestra members typically purchase their own instruments.

Groups often hold capital campaigns to raise funds for significant projects. Some campaigns span several years. Developing long-term relationships with wealthy donors, foundations, and private investors is critical to maintaining funding. State and local government grants and private funding organizations are also important sources of capital. Large organizations may issue bonds to help fund major projects.

Examples of Equipment Purchases



Lighting and Set Design Software

\$3,000 - 4,000

Software for creating 3D set designs and lighting show simulations.



Fog and Smoke Machine

\$1,000 - 2,000

Fog and smoke machine with remote control for creating special effects.



Muslin Drape

\$1,000 - 2,000

60 feet by 25 feet muslin drape for dividing areas of stage.

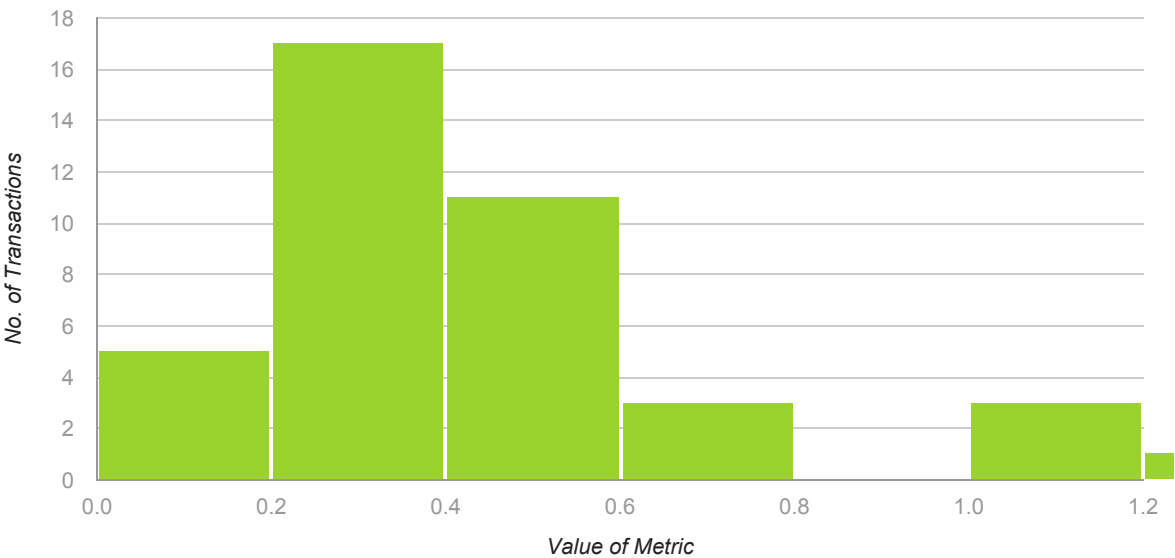
Business Valuation

This data on business valuations is supplied by DealStats, an online database with the most complete financial details on nearly 36,000 acquired companies. These companies are mostly small and medium-sized private firms and the majority of deal sizes are less than \$2 million.

Summary Valuation Data for Performing Arts Groups

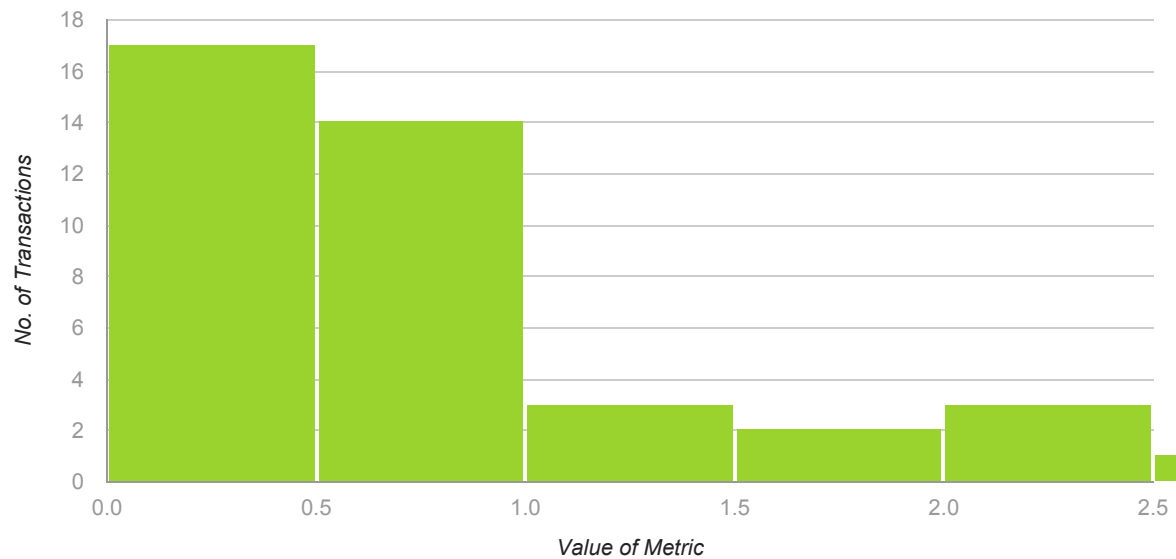
| | MEDIAN | MEAN | # TRANSACTIONS | DATES |
|------------------------|--------|-------|----------------|------------------------|
| Price to Net Sales | 0.33 | 0.45 | 40 | 02/27/1998—10/05/2018 |
| Price to Gross Profits | 0.64 | 0.85 | 40 | 02/27/1998—10/05/2018 |
| Price to EBITDA | 2.66 | 36.53 | 26 | 02/27/1998—10/05/2018 |
| Price to EBIT | 2.53 | 24.38 | 31 | 02/27/1998 —10/05/2018 |

Click on the metric below to see a distribution of transactions for the industry:



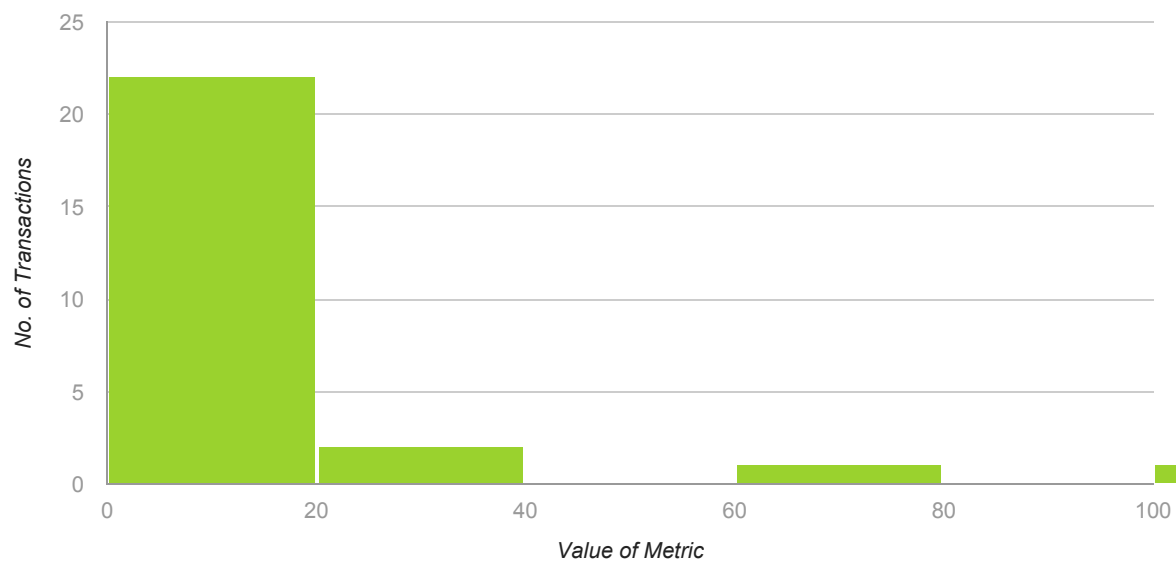
Count: 40 Min: 0.15 Max: 1.51 Mean: 0.45 Median: 0.33

Price to Sales = Selling Price/Net Sales
Date range: 02/27/1998 - 10/05/2018



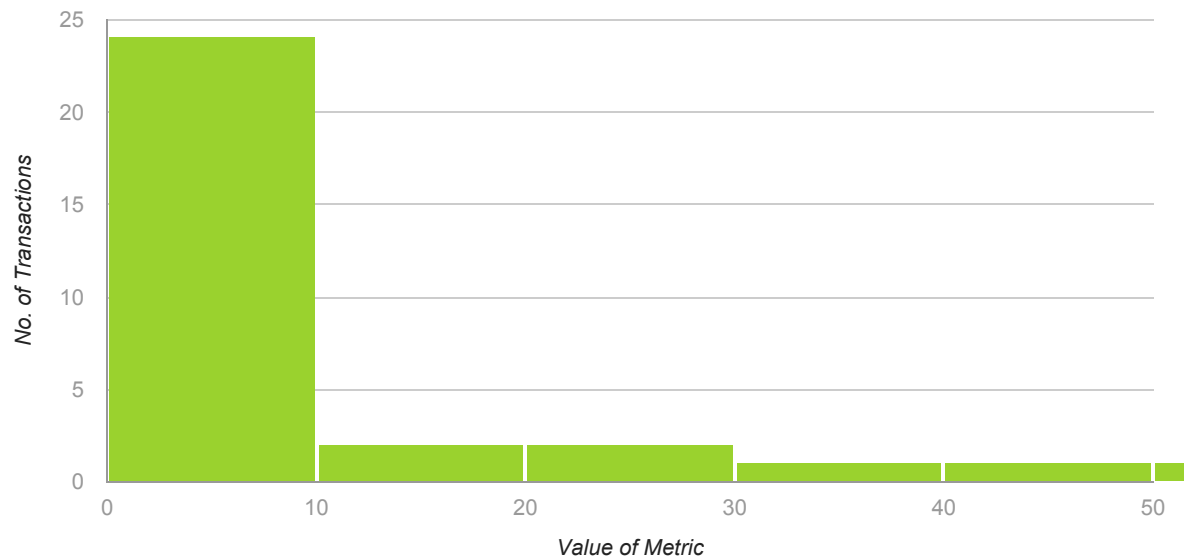
Count: 40 **Min:** 0.17 **Max:** 4.59 **Mean:** 0.85 **Median:** 0.64

Price to Gross Profit = Selling Price/Gross Profit
Date range: 02/27/1998 - 10/05/2018



Count: 26 **Min:** 0.74 **Max:** 746.91 **Mean:** 36.53 **Median:** 2.66

Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization
Date range: 02/27/1998 - 10/05/2018



Count: 31 Min: 0.0 Max: 746.91 Mean: 24.38 Median: 2.53

Price to EBIT = Selling Price/Operating Profit
Date range: 02/27/1998 - 10/05/2018

Selling Price, also known as MVIC (Market Value of Invested Capital) is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer. The MVIC price includes the noncompete value and the assumption of interest-bearing liabilities and excludes (1) the real estate value and (2) any earnouts (because they have not yet been earned, and they may not be earned) and (3) the employment/consulting agreement values. In an Asset Sale, the assumption is that all or substantially all operating assets are transferred in the sale. In an Asset Sale, the MVIC may or may not include all current assets, non-current assets and current liabilities (liabilities are typically not transferred in an asset sale).

Source: DealStats 2019 (Portland, OR; Business Valuation Resources LLC). Used with permission. DealStats is available at <https://www.bvresources.com/learn/dealstats>

Financial Benchmarks

The following financial benchmark data is based on annual financial statements submitted by member institutions of the Risk Management Association from Q2 of the first year listed through Q1 of the following year.

Financial Ratios (Performing Arts Groups)

| MEASURE | 2017-18 | 2018-19 | 2019-20 |
|--------------------------------------|------------|------------|------------|
| Current Ratio ? | 1.94 | 2.17 | 1.79 |
| Quick Ratio ? | 1.55 | 1.85 | 1.53 |
| Days Inventory ? | 0.0 | 0.0 | 0.0 |
| Days Receivables ? | 34 | 31 | 30 |
| Days Payables ? | 0.0 | 0.0 | 0.0 |
| Pre-tax Return on Revenue ? | 7.82% | 4.17% | 2.25% |
| Pre-tax Return on Assets ? | 4.67% | 2.5% | 1.61% |
| Pre-tax Return on Net Worth ? | 6.38% | 3.92% | 2.37% |
| Interest Coverage ? | 13.9 | 6.17 | 7.85 |
| Current Liabilities to Net Worth ? | 0.18 | 0.22 | 0.24 |
| Long Term Liabilities to Net Worth ? | 0.18 | 0.35 | 0.23 |
| Total Liabilities to Net Worth ? | 0.37 | 0.57 | 0.48 |
| <i>Number of Firms Analyzed</i> | <i>166</i> | <i>146</i> | <i>126</i> |

Income Statement (Performing Arts Groups)

| ITEM | 2017-18 | 2018-19 | 2019-20 |
|---------------------------------|------------|------------|------------|
| Revenue | 100.0% | 100.0% | 100.0% |
| Cost of Sales | 0.0% | 0.0% | 0.0% |
| Gross Margin | 100.0% | 100.0% | 100.0% |
| Officers Compensation | 1.67% | 2.55% | 1.23% |
| Salaries-Wages | 24.88% | 26.03% | 25.83% |
| Rent | 5.3% | 5.71% | 5.85% |
| Taxes Paid | 3.8% | 3.75% | 3.55% |
| Advertising | 3.17% | 3.41% | 3.45% |
| Benefits-Pensions | 2.91% | 2.99% | 2.88% |
| <i>Number of Firms Analyzed</i> | <i>166</i> | <i>146</i> | <i>126</i> |

| ITEM | 2017-18 | 2018-19 | 2019-20 |
|---------------------------------|------------|------------|------------|
| Repairs | 1.18% | 1.23% | 1.25% |
| Bad Debt | 0.08% | 0.08% | 0.09% |
| Other SG&A Expenses | 46.43% | 45.15% | 44.4% |
| EBITDA | 10.58% | 9.1% | 11.47% |
| Amortization-Depreciation | 4.12% | 4.43% | 4.2% |
| Operating Expenses | 93.54% | 95.33% | 92.73% |
| Operating Income | 6.46% | 4.67% | 7.27% |
| Interest Expense | 1.31% | 1.83% | 1.96% |
| Other Income | -0.94% | -0.9% | -0.32% |
| Pre-tax Net Profit | 6.09% | 3.74% | 5.63% |
| Income Tax | -3.0% | -4.99% | -1.75% |
| After Tax Net Profit | 9.09% | 8.73% | 7.38% |
| <i>Number of Firms Analyzed</i> | <i>166</i> | <i>146</i> | <i>126</i> |

Balance Sheet (Performing Arts Groups)

| ASSETS | 2017-18 | 2018-19 | 2019-20 |
|---------------------------------|---------------|---------------|---------------|
| Cash | 24.25% | 26.39% | 20.35% |
| Receivables | 6.46% | 8.44% | 8.08% |
| Inventory | 0.55% | 1.09% | 0.95% |
| Other Current Assets | 4.54% | 4.78% | 5.93% |
| Total Current Assets | 35.81% | 40.71% | 35.32% |
| Net Fixed Assets | 41.16% | 36.55% | 38.84% |
| Net Intangible Assets | 4.1% | 4.16% | 3.4% |
| Other Non-Current Assets | 18.96% | 18.6% | 22.45% |
| <i>Total Assets</i> | <i>100.0%</i> | <i>100.0%</i> | <i>100.0%</i> |
| LIABILITIES | | | |
| Accounts Payable | 3.93% | 9.69% | 5.81% |
| Loans/Notes Payable | 7.83% | 9.56% | 4.73% |
| Other Current Liabilities | 15.8% | 20.12% | 16.67% |
| <i>Number of Firms Analyzed</i> | <i>166</i> | <i>146</i> | <i>126</i> |

LIABILITIES

| | | | |
|---------------------------------|------------|------------|------------|
| Total Current Liabilities | 27.57% | 39.37% | 27.21% |
| Total Long Term Liabilities | 17.14% | 22.61% | 20.23% |
| Total Liabilities | 44.71% | 61.97% | 47.44% |
| Net Worth | 55.29% | 38.03% | 52.56% |
| Total Liabilities & Net Worth | 100.0% | 100.0% | 100.0% |
| <i>Number of Firms Analyzed</i> | <i>166</i> | <i>146</i> | <i>126</i> |

Vertical IQ financial benchmark data is based on data provided by the Risk Management Association (RMA) and Powerlytics, Inc. RMA's Annual Statement Studies provide comparative industry financial benchmarks based on financial statements of small and medium business clients of RMA's member institutions. Additional detail on income statement line items is provided using Powerlytics financial benchmarks, which are based on reporting submitted to the IRS. Additional detail on these data sources can be found at [RMA](#) and [Powerlytics](#).

Quarterly Insight

4th Quarter 2020

Proposal Seeks Federal Funding for Arts Groups

The Be An #ArtsHero campaign is preparing a bill to be introduced in the US Congress, called the Defend Arts Workers Now (DAWN) Act, that seeks further funding for the arts. The bill-in-the-making would grant \$43.85 billion to a coalition of government-run arts organizations: the National Endowment for the Arts, the National Endowment for the Humanities (NEH), the Institute of Museum and Library Services (IMLS), the Corporation for Public Broadcasting (CPB), and the Small Business Association. Those parties would then disperse the funds to the “operators, employees, and artists of live venues, recording venues, cultural spaces, and other arts businesses to address the effects of the COVID-19 pandemic,” according to BeAnArtsHero.com.

3rd Quarter 2020

Industry Losses Mounting

Estimated financial losses for nonprofit arts and cultural organizations totaled \$10.2 billion as of August 11, 2020, according to a survey by Americans for the Arts. The survey revealed that 96% of respondents had canceled events; 61% had cancelled events through September 2020 and beyond; 48% have no target date for reopening; 29% had laid off or furloughed staff; and 10% were “not confident” they would survive the pandemic. In the survey, 63% of artists reported becoming fully unemployed because of COVID-19 and 94% experienced income loss from COVID-19. The average decline in estimated total annual income per creative worker was \$21,100. Two-thirds said they could not access the supplies, resources, spaces, and people necessary for their creative work.

2nd Quarter 2020

Broadway Shut Down, Revenue Streams Vanish

Broadway’s 41 theaters will remain closed until at least September 6, as New York City continues to deal with COVID-19. Frozen was canceled and Neil Simon’s Plaza Suite and MJ, the Michael Jackson bio-musical, delayed start dates to March 2021, according to Hollywood Reporter. Performing arts groups around the world are streaming performances to keep audiences engaged while their venues are shut down because of the pandemic. Unfortunately, the lost ticket revenue could be catastrophic because most nonprofit arts organizations operate with lean budgets. About 40% of artistic non-profits operate at the break-even point at the best of times, according to The Hill. Bans on large gatherings are especially harmful to performing arts groups and could be one of the last restrictions lifted.

1st Quarter 2020

California Employment Law Creates Uncertainty

California’s Assembly Bill 5 (AB5), which is intended to reduce worker misclassification, may be making it harder for performing arts groups in the state to treat workers as independent contractors. The law establishes a test to determine if workers are employees who should receive minimum wage, paid sick days, and other benefits, but its ambiguous language, such as the lack of a definition of the term “fine artist,” has already had led one opera company to postpone a production, prompted other small arts organizations to consider cutting programs, and caused others to raise more money to ensure compliance. Some professions, including fine artists, are exempted from the law, but there is no particular exemption for

performing artists and no clarification if actors, singers, dancers or musicians are considered fine artists. The term fine artist was intentionally left undefined, according to Assemblywoman Lorena Gonzalez, the author of AB5. Clarifying the exemption is a job that falls to the state's Employment Development Department.

4th Quarter 2019

Alaska Arts Counsel Funding Is Restored

Funding for the Alaska State Council on the Arts was restored when Governor Mike Dunleavy signed the state's final operating budget in mid-2019. Alaska would have become the only state without an arts council if the \$704,000 in state funding hadn't been restored. The rest of the agency's \$3.9 million budget, which comes from a mix of federal and foundation dollars would have gone unused, as it cannot be spent on other programs. Artists and arts organizations who had their grants canceled due to the expected shut down of the council expect to have those grants restored.

3rd Quarter 2019

Alaska May Lose Arts Council

Alaska will become the only state without an arts council if Gov. Mike Dunleavy's elimination of the Alaska State Council on the Arts via line item veto in June 2019 is not reversed by the state legislature. The closure would result in a \$2.8 million loss of arts funding for the state and all programs, grants, and services offered by the council will become inactive. The state will also lose a dollar-for-dollar federal match for any money appropriated by the Legislature.

2nd Quarter 2019

Cities are Initiating Cultural Planning Processes

An increasing number of cities are creating plans to help protect their cultural resources from variations in the strength of local, national, and global economies. Cultural plans typically outline a city's position on artists and creators and include policy recommendations developed with the input of city agencies, residents, performers, facility administrators, and others. Many plans attempt to address rising real estate and living costs in urban areas that push performers and performing arts groups out beyond city limits. While attempts to create cultural plans are widely praised, some critics note that many do little more than spell out policy suggestions rather than providing real metrics for measuring a city or state's goals. Measurable goals, critics say, are essential to decision making processes that produce results.

1st Quarter 2019

City Tries Ticket Tax to Fund Programs

The Columbus, Ohio, City Council adopted two 5% ticket taxes in December 2018 to fund arts program and facility improvements. The council plans to increase funding for existing programs rather than create new ones. It will also fund improvements at the city's Nationwide Arena. Opponents say they plan to gather signatures for a ballot referendum on the arts tax and to file a legal challenge against the arena tax.

Call Prep Questions

Working Capital

What are your group's main sources of revenue?

Companies generate revenue through a variety of sources, including admission fees; contract fees; contributions, gifts, and grants; and investment income.

What does your group consider when setting ticket prices?

Ticket prices vary significantly, depending on type of performance, popularity, and location.

What types of subscription packages does your group offer?

Subscriptions involve purchasing tickets to a series of performances, in some cases the entire season, and typically offer a discount off single ticket prices.

How does your group compensate for uneven cash flow?

Cash flow can be uneven, and is driven by a particular group's schedule or season. Subscription revenue generally comes at the beginning of a season, while individual ticket sales occur throughout a program's run. Organizations must pay salaries during rehearsals, which occur well in advance of ticket sales. In some cases, groups delay paying staff until they receive funding.

How dependent is your group on donations and grants?

Income from grants arrives according to the donating organization's timetable. Government funding can be tricky - in some cases, grants are awarded based on partially or totally completed programs. Non-profit groups are more dependent on contributions (both private and public sector funds) than for-profit groups.

What is your group's average weekly gross?

Key metrics include average weekly gross (receipts), number of seats sold/attendance, and ticket prices.

Capital Financing

What types of projects typically involve capital financing?

Projects that involve capital financing include the purchase of property, buildings, sets, costumes, props, and technical equipment (sound and lighting systems).

What kind of investment has your group made in facilities?

While some groups own performance facilities, many organizations rent space and the associated technical systems. Maintenance and upkeep of older venues, particularly those with historical importance, can be significant.

What were your group's production costs?

Performing arts groups often have large upfront costs. For major productions, design and construction of sets and costumes

is generally high.

What does your group do to minimize production costs?

Community theaters may work with minimal budgets and donated materials for sets and costumes. Orchestra members typically purchase their own instruments.

How much did your group raise during the most recent capital campaign?

Groups often hold capital campaigns to raise funds for significant projects. Some campaigns span several years.

What are your group's most common sources of capital funding?

Developing long-term relationships with wealthy donors, foundations, and private investors is critical to maintaining funding. State and local government grants and private funding organizations are also important sources of capital. Large organizations may issue bonds to help fund major projects.

How Firms Operate

What is your group's specialty?

The industry includes theater companies and dinner theaters; dance companies; musical groups and artists; and other types of performing arts groups.

How big is your group's cast?

Theater companies range in size and stature - from large, well-known Broadway shows to small community theaters.

What type of material does your group perform?

Off-Broadway venues typically showcase original material, and are considered testing grounds for Broadway shows.

How long is your group's season?

While the largest orchestras have 52-week seasons and annual budgets in the millions, many orchestras have shorter seasons and smaller budgets. Some groups, such as summer theater groups, only operate for a limited period of time. Some performances run for years, while others may open and close within the same week.

How dependent is your group on volunteers?

Performing arts groups, particularly small organizations, may rely on volunteers to supplement paid workers.

How involved is your group's board of directors?

Non-profit performing arts groups are typically overseen by boards.

Industry Risks

How sensitive is your group's attendance to economic conditions?

Revenue for the performance arts industry is dependent on economic conditions and consumer spending.

What is your group's primary source of competition?

Performing arts groups compete with a variety of alternative forms of entertainment, including movies, television, and digital media.

How frequently does your group raise ticket prices?

The high cost of production has forced performing arts companies to raise ticket prices, making many programs unaffordable for the average consumer.

What programs does your group have to improve attendance?

While the US is home to some of the highest quality performing arts groups in the world, many categories face dwindling attendance and struggle to remain relevant.

How dependent is your group on a star performer(s)?

Performing arts groups can be overly dependent on one or a few key performers to draw an audience.

How does your group keep production costs at a reasonable level?

Unlike many industries, the performing arts have limited methods to improve productivity and reduce costs without hurting the quality of performance.

Industry Trends

What trend are you seeing in subscription sales?

Subscription revenue has fluctuated in recent years.

What are the key factors affecting your group's recent financial performance?

Improved economic conditions have spurred recovery on Broadway, which enjoyed higher grosses in recent years.

How is your group maintaining relevance to today's consumer?

Orchestras across the US continue to struggle with weak attendance and shifts in public funding.

How is your group leveraging technology to improve reach?

While the growing presence of digital broadcasts has created competition for live performances, some performing arts groups are leveraging technology through simulcasts to expand reach.

Industry Terms

Big Five

Five major US orchestras, New York Philharmonic, Boston Symphony Orchestra, Chicago Symphony Orchestra, Philadelphia Orchestra, and Cleveland Orchestra .

Gross

Receipts or ticket sales.

NEA

National Endowment for the Arts.

Off-Broadway

Smaller theaters in New York located away from the main theater district.

Performance Income Gap

Gap that occurs when revenue associated with performances (ticket sales) does not cover performance-related expenses.

Simulcast

Broadcast of a live event through media.

Stop Clause

Clause in a contract with a venue that terminates the agreement if weekly receipts fall below a minimum level.

Web Links

[National Endowment for the Arts](#)

News, trends, statistics, and studies on the arts

[Americans for the Arts](#)

News, trends, statistics and studies on the arts

[The Broadway League](#)

News, trends, and statistics on Broadway plays and musicals

[League of American Orchestras](#)

News, trends, and statistics on orchestras

[The National Opera Center America](#)

News, trends, and statistics on operas

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