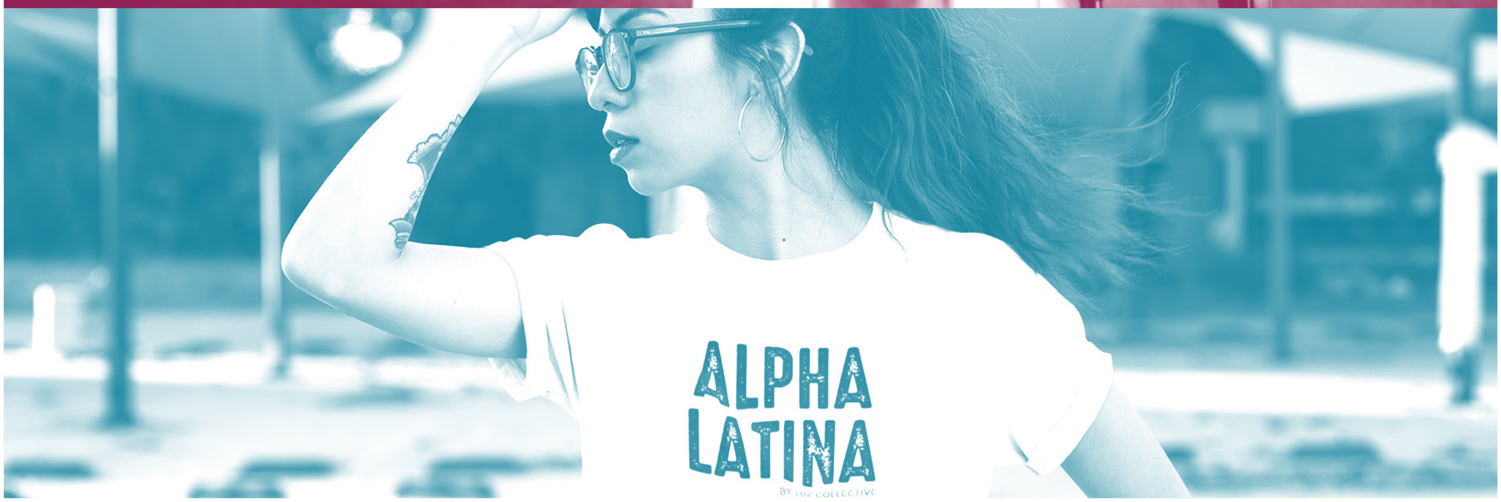

Investing in Equitable News and Media Projects

FORD FOUNDATION

transform finance

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Artwork: “Infinite Essence-James” by Mikael Owunna #Atthecenter; Luz Collective; Media Development Investment Fund.

INVESTING IN EQUITABLE NEWS AND MEDIA PROJECTS

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ABOUT TRANSFORM FINANCE

Transform Finance is a nonprofit organization working at the intersection of social justice and capital. We support investors committed to aligning their impact investment practice with social justice values through education and research, the development of innovative investment strategies and tools, and overall guidance. Through training and advisory support, we empower activists and community leaders to shape how capital flows affect them – both in terms of holding capital accountable and having a say in its deployment. Reach out at info@transformfinance.org for more information.

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I. Introduction

Equitable media has always been an essential component of vibrant and inclusive societies. The recognition of the sector's importance has not been matched by efforts to sustain it and enable it to thrive. In fact, equitable media has been experiencing historical and economic challenges[1] that include the ongoing revenue decline (particularly from ad sales[2]), persistent staff cutbacks on local journalism[3], concerns around the sustainability of current business models, and more. Over time, these factors have led to a decrease in the support of private capital for an equitable media ecosystem, further complicated by the problematic outcomes of more recent venture capital investments in content and tech-driven media companies such as Vox Media, UpWorthy, and Buzzfeed[4] in the 2010s.

Philanthropic support has stepped in to some extent to fill the gap, with a quadrupling of philanthropic investments in journalism and media since 2009[5], with some $1.1 billion going to US-based journalism[6] alone. Bold new initiatives have emerged, such as the American Journalism Project (AJP)[7], CUNY's Center for Community Media[89], and Google's 2020 Innovation Challenge, which seeks to increase the capacity and sustainability of diverse media[10]. At the global level, 2020 saw the launch of the International Fund for Public Interest Media. These efforts have not been sufficient to shore up a thriving equitable media landscape, a realization that led to a renewed effort to identify the potential for aligned private capital to step in.

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[1] *"Why journalism should be unhooked from commercial funding models",* World News Publishing Focus, March 3, 2020.

[2] See *"Warren Buffett Is Giving Up on Newspapers",* The Wall Street Journal, January 29, 2020, which notes that Buffett's Berkshire Hathaway agreed to sell its 31 papers to Lee Enterprises for $140 million in cash citing falling ad sales of papers are the reason.

[3] *"The future of local newspapers just got bleaker. Here's why we can't let them die."* The Washington Post, Margaret Sullivan, February 15, 2020.

[4] *"Why venture capitalists are suddenly investing in news",* Adrienne LaFranz, March 12, 2014, Quartz.

[5] *"Journalism Grantmaking: New Funding, Models and Partnerships to Sustain and Grow the Field",* by Sarah Armour-Jones, September 2019.

[6] *Magda Konieczna, Journalism Without Profit: Making News when the Market Fails, p. 93 (citing Media Impact Funders, "Foundation Maps for Media Funding: Introducing a New Tool for Unlocking the Power of Media Grants Data").*

[7] *"A Pledge in Support of Local News",* March 2019, Emerson Collective.

[8] See https://www.journalism.cuny.edu/centers/#center-community-media.

[9] *Worth noting that in 2019, Renaissance Journalism supported a study to determine whether the creation of a media cooperative would help sustain small, community and ethnic newspapers. See "Renaissance Journalism Supports Study of Media Co-Op To Assist Community News Outlets".*

[10] *"An innovation challenge to sustain diverse media"*, Google News Initiative, February 27, 2020

With these challenges in mind, the sector has now once again hit another important intersection. The global Covid19 pandemic, the ensuing economic crisis, and the national and global focus on policing and historical racial inequalities have now placed diverse local news and media ecosystems as central to a just and equitable recovery. If anyone doubted the importance of local media and media that is responsive to diverse community perspectives, 2020 has been the final wake-up call.

While this report and landscape analysis were conducted in late 2019, pre-Covid19, and before our current reckoning over race and policing in the US and around the world, our examination of the historical underinvestment in equitable media outlets still stand with an increased sense of urgency and opportunity. The findings line up well with current efforts within philanthropy to implement rapid response and other relief grants, to reexamine their support of diverse local news and equitable media ecosystems, to deepen their racial equity framework, and to recommit to sustainably fund and invest in Black-led organizations and Black entrepreneurs.

There is a need, today more than ever before, to explore new ways for catalyzing greater and better-aligned capital in support of equitable media in particular, news outlets and projects led by members of communities historically and currently underserved by journalism.

WHAT DO WE MEAN BY "EQUITABLE MEDIA"?

For purposes of this analysis, we loosely defined equitable media as: media organizations, enterprises, and projects — both new and old, for profit and nonprofit — by or for historically overlooked groups, particularly people of color.

In our research, we noticed that interviewees and other experts reacted well to the term equitable media, even if the boundaries of what is included can at times be fuzzy, or used as a catch-all phrase for current purposes.

The findings and recommendations in this report reflect the experiences through 2019 of grantmakers, private investors, and news and media entrepreneurs who shared with us data, feedback, ideas, and reflections. While this analysis looks explicitly at equitable media, in many ways the challenges of equitable media are not disconnected from those of traditional news and media broadly. Structural concerns faced in the media landscape, not specific to the equitable media space, (e.g., buyouts/consolidation, general shortcomings of early-stage enterprise financing, implicit bias, etc.) are acknowledged and noted where relevant to the limited scope of this report.

WHAT DO WE MEAN BY "INVESTMENT"?

The term "investment" can be quite ambiguous and lends itself to confusion, especially as an increasing set of grantmakers are beginning to call their grants "investments" and their grantees "partners."

In this report, we use investment to refer to allocation of capital with some expectation of a financial return that is generated by revenue, or at the very least, an expectation that the capital may be returned (concessionary investments) or lead to more capital being invested (catalytic capital). This includes equity investments by angel investors, loans by financial intermediaries, as well as foundation program related investments (PRIs) and recoverable grants, but would not include pure grants that are not tied to revenue generation, or expenditures (as in the case of advertising purchases).

There is an important distinction to note when thinking about contributions or investments in media enterprises versus discrete media projects. Underwriting a specific topic for coverage by a publication (like a special supplement with credit to the underwriter or sponsor) does not count as an investment since there is no expectation of financial return tied to the revenue of the publication itself. Conversely, a contribution to a podcast with no expectation of repayment, but with provisions to share the returns from a sale of the podcast's movie rights between the contributor and the podcast, would count as an investment. The contribution by a high-net-worth individual to a single media project that has an extremely low chance of commercial success is more akin, for current purposes, to a charitable contribution (or as often said, deemed to be a vanity project), even if in theory there could be a financial return.

While we encourage broad thinking and experimentation in investment instruments, we highlight these boundaries because, if the aspiration is to attract capital at a scale that can contribute to the growth of equitable media, we need to be cognizant that the majority of that capital will expect some sort of financial return. For this reason, the focus here is on investments with some return expectations.

II. Landscape and Key Considerations

In the abstract, the space of equitable media is of interest to investors, particularly ones who have an affinity for its mission and alignment with democratic and social justice values.

The capital that does flow to equitable media enterprises and projects is not commensurate with the interest. As such, rather than documenting the exceptions and the one-off instances of investments in equitable media, our analysis, as informed by our interlocutors, focused on identifying the pain points and barriers to the flow of capital.

1. THE REVENUE MODEL REMAINS THE PRINCIPAL INVESTOR PAIN POINT.

While the old business model of funding news and media through subscriptions and advertising is obsolete for anyone other than Facebook or Google[11], viable alternatives have been slow to emerge. As Jeff Bezos said in 2013 upon taking over the Washington Post, *"There is no map, and charting a path ahead will not be easy. We will need to invent, which means we will need to experiment"*[12].

In many ways, the field is still inventing and experimenting, and the development of new revenue streams remains a critical issue not only for equitable media but for all ad-driven content competing for audience attention.

The current trend in revenue models is moving towards a mix of sources[13] beyond advertising, most notably subscriptions (including pay-what-you-wish), events, and branded content. Other innovations include SaaS for publishing, such as Arc Publishing by the Washington Post, and the licensing of IP for other mediums including TV and movies, as pursued by Axios.

Among these, advertising and subscriptions present more of a challenge for equitable media because they rely on scale, which does not always suit equitable media. Both models require an audience with disposable income, either from the advertiser who wants to reach an audience with spending power or in terms of the ability to pay for a subscription, particularly in light of all the free content available. Subscription models have worked well even at a small scale for niche publications where the information provided is in itself a source of actionable or revenue-generating intelligence, as is the case for The Information and Politico Pro. It is not clear that such a niche would exist writ large for equitable media.

The uncertain revenue models and the complexity and changing

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[11] *"Renewing Philanthropy's Commitment to Local Journalism"*, Stanford Social Innovation Review. Julie Sandorf, Winter 2020.
[12] *"Jeff Bezos on Post Purchase"*, The Washington Post, August 5, 2013.
[13] *""Renewing Philanthropy's Commitment to Local Journalism"*, Stanford Social Innovation Review. Julie Sandorf, Winter 2020.

nature of the industry are universally cited as a barrier to more private capital investment. Therefore, lead investors have resorted to taking a wait-and-see approach (other than the most philanthropic-minded or angel investors) and remain reluctant to jump in while the models are figured out. The need to experiment with and figure out revenue models "is both an opportunity and a problem," according to Ben Wirz, formerly of the Knight Enterprise Fund -- but likely one that will need to be led by philanthropy while investors gain comfort.

Equitable media investors, even if driven by an impact thesis, are still affected by the uncertainty to primarily screen for financial opportunity. Therefore, if the numbers don't work, they may support the endeavor in other ways (but it should not necessarily be a business, nor an investable business).

The need to experiment with and figure out revenue models "*is both an opportunity and a problem*." While experimentation may lead to breakthroughs that have positive field-wide implications, it will likely need to be led by philanthropy all the way through the proof phase while investors gain comfort.

2. NEWS AND MEDIA FOUNDERS ARE OFTEN NOT WELL-POSITIONED TO FOCUS ON REVENUE AND THE BUSINESS SIDE OF LAUNCHING AN ENTERPRISE.

A theme from our conversations with investors is the sense that news and media entities and entrepreneurs, especially at the early-stage, tend to lack vital finance and business expertise, or don't always allocate the requisite resources to revenue-producing positions, such as sales or events. To a larger extent than seen in other industries, early-stage company teams of media producers, and in particular journalists, tend to lean more heavily toward editorial excellence and content-producing jobs than having the management skills to execute a scalable commercial strategy[14]. As a result, investors tend to see many of these startups as not investable due to the lack of professional operational/management teams. Additionally, a recent study looking at good reader revenue models[15] found that success can sometimes hinge on news entities being able to align editorial excellence with its membership program or in other words, redefining their value proposition by focusing on the bond between readers and journalists[16]. Therefore, it is helpful to think about the variety of complementary skills and supports underrepresented news and media entrepreneurs need in order to manage and scale revenue generating entities and attract more and better-aligned private capital.

"Early-stage company teams of media producers, and in particular journalists, tend to lean more heavily toward editorial excellence than having the management skills to execute a scalable commercial strategy."

3. THE NUMBER OF INVESTORS AND INVESTMENTS IN EARLY-STAGE MEDIA GENERALLY IS REMARKABLY LIMITED.

Practitioners across the industry agreed that investing in early-stage media overall is challenging. Of the few investors engaged in the early-stage media company space, even fewer are looking at equitable media. However, the core reasons offered for non-engaging center less explicitly on the *"equitable"* aspect.

If anything, the number of investors in the early-stage media sector overall appears to be shrinking, after a brief spike when media companies were seen as "technology" investments (e.g. BuzzFeed, UpWorthy, etc) in the 2010s. There has been some uptick of activity, especially around digital media, with recent investments in The Athletic ($50 million), Axios ($20 million), Minute Media ($40 million), and Quibi ($750 million).[17] However, while the main investor pain point is around concerns of viable revenue models the decrease of investor interest is also tied to a variety of factors such as past investments that did not work out, reeling from inflated valuations, investors' lack of general familiarity with the media investment landscape, and limited examples of successful exits after an investment.

Even philanthropic entities that can serve or have served in both a grant and an investment capacity have recently been leaning more toward grants and away from early-stage investments.

4. ADJACENT INVESTORS ARE RELUCTANT TO ENTER THE EQUITABLE MEDIA SPACE.

Equitable-approach investors (such as impact investors with a diversity, equity, and inclusion - DEI - approach who are active around sectors such as inclusive and progressive tech, creative economies, and women and gender issues) have shown little interest in expanding into the equitable media space. As noted earlier, there is a sense that media is vastly different from other forms of early-stage

[14] Harsh as it may sound, a version of this point was made by several interviewees, even ones who are extremely sympathetic to the industry or are media producers themselves.
[15] *"How to build a good reader revenue model: lessons from Spain and the UK",* Eduardo Suárez, February 2020. Reuters Institute Journalist Fellowship Paper. University of Oxford.
[16] *"8 Ways to Build Your Newspaper's Digital Reader Revenue"*, Eduardo Suárez . Nieman Reports, March 3, 2020.
[17] *"Scoop: The Recount raises $13 million in Series A round."* Axios, March 10, 2020.

investments, because of its unique revenue models and its rapidly changing nature as a business. There are also very few examples of successful equitable media investment exits for investors to get a sense of how they will be able to get their capital back. Therefore, given the ambiguous likelihood of success—whether financial or in terms of impact, there has not been much interest in crossing over into equitable media explicitly.

In our landscape analysis, we did identify investors who had made one-off investments to underrepresented entrepreneurs working in media. However, these investments came out of a sector-agnostic approach and was therefore not a precursor to more focused media portfolio investment strategies. For example, Plexo Capital, a hybrid venture capital fund that invests in emerging early-stage ventures, mirrored the Google Ventures strategy of focusing on businesses that are led by women or people of color. Yet under this strategy, they are still industry/sector agnostic.

The analysis is slightly more complicated with regard to more traditional media investors, which include household names such as Berkshire Hathaway, Jeff Bezos, and Sinclair, but also lesser-known hedge funds such as Alden Global Capital that focus on distressed media companies. While they could easily cross over into equitable media, as tech investors have done, interviewees agreed that this shift has not been happening. To the extent that traditional media investors have invested in diverse media, it has been without explicit impact and/or mission-driven considerations — that is to say, the relevant community was seen as a market to be dominated, not as a population to be adequately served. This makes us cautious around a recommendation to seek to attract traditional media investors. However, given the lack of an emerging set of best practices for media investors to invest with an impact lens, this also presents an opportunity to establish some guardrails and recommendations around investments from non-equity focused investors.

"We do see some investors who focus on underrepresented entrepreneurs having made one-off investments in media, but these tend to come from their sector-agnostic approach and are not a precursor to more focused media portfolio investment strategies."

It's important to note that this report does not explore the potential role of strategic investors in supporting equitable media. Strategic investors are essentially companies in the same industry. So, in the media space that would mean having media and news journalism entrepreneurs and entities engage with established media and news companies as partners, instead of just financial investors. For example, after the recent Series A fundraising for Recount Media, that brought to the table venture capital with strategic media companies, the staff of Recount Media noted, "It's better to have big companies looking out for us and rooting for us than a bunch of purely financial investors around the table," Battelle tells Axios.[18]

5. BESIDES THE REVENUE MODEL, THE APPROPRIATE DEAL STRUCTURE FOR MEDIA INVESTMENTS IS UNCLEAR.

Usually, an investor seeks to match a deal structure to the business model, financial needs, and financial prospects of the enterprise. Therefore, even if an early-stage equitable media company could show a credible revenue model, it is not obvious that the right deal structure exists to deploy capital into the enterprise. (For more detail on the different deal structures, see below Section IV, **Primer on Different Types of Private Capital Investments.**) For example, debt financing -- essentially, borrowing from a bank or a lender with a promise to repay at a pre-set rate -- is extremely hard to obtain for early-stage companies that lack collateral or a history of revenue (and we note that many previously underrepresented entrepreneurs are not in a position to put up personal collateral). Likewise, equity financing -- raising money for an enterprise by selling a piece of ownership of the enterprise in the form of shares -- is generally limited to companies that have the potential for large scale, and is best geared for circumstances where an acquisition is contemplated. There has not been much acquisition activity (let alone IPOs) in the equitable media space that would capture the interest of investors. And even if there was, it is unclear that an exit of this sort would suit the impact thesis of the equitable media company.

Some alternative deal structures that are gaining traction elsewhere can be a good match for early-stage equitable media. These include:

1. Revenue-based financing, where the investor's capital is returned over time as a percentage of the company's revenues, which removes the need for a sale, acquisition, or IPO.

2. Using a grant-like instrument, but structured as an equity investment. This increases the governance rights of the grantmaker and tends to improve the rigor of reporting from the grantee (since it now takes the form of a report to investors). It also has the advantage that, if for some reason the investment is successful, the grantmaker can capture some of that upside.

[18] *"Scoop: The Recount raises $13 million in Series A round."* Axios, March 10, 2020.

3. Concessionary financing that supports the stabilization and growth of an equitable media company in alignment with its mission, but **reserves some upside** (that is, opportunity for a financial return) in the event of a success, such as the sale or licensing of intellectual property for movie production. This type of financing is often seen in crowdsourcing of films and other media projects.

6. NEWS AND MEDIA ENTREPRENEURS EXPERIENCE A VARIETY OF PAIN POINTS WHEN ENGAGING BOTH PRIVATE INVESTORS AND PHILANTHROPY.

News and media entrepreneurs point to the inability to reach investors willing to support their endeavors as one of their main pain points. Especially for founders of color and from less privileged backgrounds, early-stage investment circles are perceived as largely exclusionary and elite spaces. Regarding their engagements with private investors, equitable media entrepreneurs expressed frustrations with the barriers and challenges in accessing private capital, such as bias, lack of networks, lack of early technical and business support, and lack of mentoring that explicitly put at a disadvantage those who are not already within investors' circles[19].

"To the extent that traditional media investors have invested in diverse media, it has been without explicit impact and/or mission-driven considerations—that is to say, the relevant community was seen as a market to be dominated, not as a population to be adequately served."

Somewhat surprisingly, things did not fare better for the philanthropic community. When engaging with philanthropy, news and media entrepreneurs noted dissatisfaction with a variety of factors worth reckoning with. These range from fickle grant cycles often incompatible with running a start-up, overly onerous reporting requirements, philanthropy's tendency to foster dependency rather than capacity[20], and limited opportunities for renewal and/or long term funding. Some of the above may read like general criticisms of philanthropy. More topically, in the context of early-stage enterprise funding, grant-like and philanthropic capital was not seen as a perfect solution. While philanthropic support can be more mission-aligned and "patient" than venture capital, it can also hinder the growth and durability of an early-stage news and media entity. A specific concern that emerged is around the signaling of philanthropic support: financing equitable media through grants tends to peg equitable media as not *"investment-worthy".* Therefore, once an equitable media company has gone the path of philanthropic support, even if it were to become a commercial success, its ability to access commercial and private capital for growth is hindered.

Some who sit both on the grant and investment side note that there is a benefit to structuring support as a capital investment, as opposed to a grant, specifically for news and media entities, where the capital investment coincides with higher rigor levels. For example, in overseeing the projects (even if just for their impact) and having more precise reporting on the effect achieved, (such as rate of audience growth, for example, which an investor would certainly demand but a grantmaker may be more flexible on).

In some ways, the sharp distinction between the two may be slowly becoming outdated. There have been some notable steps in removing the silos between private and philanthropic capital that have led the way for the emergence of *"venture philanthropy"* -- the adaptation and application of venture capital financing approaches to philanthropic funding. This includes stricter due diligence and a higher level of involvement, technical support, and oversight on the part of the grant provider[21]. Specifically in the news and media space, emergent organizations such as the American Journalism Project can help foster deeper field learning regarding ways to give grants to news entities tied to a venture philanthropy partner that can bring media business experience. In addition to much of the business operations skills-building that many accelerators and incubators provide to entrepreneurs, independent and grassroots efforts such as Zoo Labs[22] help prepare entrepreneurs with the business and finance skills they will need to execute a commercial strategy (should they choose to go that route).

Notably, regardless of whether it was in the context of grant funding or investment, equitable media entrepreneurs largely echoed the challenges of philanthropic support that were highlighted in a recent study of the negative consequences of the increased relevance of foundations in the media space[23].

[19] We note that this is a well-documented issue even outside the media space and it affects founders across a variety of mission-driven enterprises.
[20] *"63 industry leaders, 40 organizations, and 5 opportunities for revitalization on the horizon of local news",* Nieman Lab, Christine Schmidt, September 6, 2018.
[21] For more information on venture philanthropy see e.g. https://evpa.eu.com/about-us/what-is-venture-philanthropy
[22] Zoo Labs, https://www.zoolabs.org/, is supported by Google Ventures.
[23] See "*The New Advertisers: How Foundation Funding Impacts Journalism",* Patrick Ferrucci and Jacob L. Nelson, Media and Communication 2019, Vol. 7, Issue 4, p. 45. See also *"Foundation Funding and the Boundaries of Journalism",* Martin Scott, Mel Bunce & Kate Wright, Journalism Studies 2019, Vol. 20, Issue 14.

7. THERE ARE TWO CORE POTENTIAL INVESTMENT APPROACHES TO PURSUE: INVESTING IN DISCRETE MEDIA/JOURNALISM PROJECTS VERSUS MEDIA/ JOURNALISM ENTERPRISES, EACH WITH A DIFFERENT FINANCING MODEL.

There appears to be more significant financing available for specific, discrete narrative projects, such as films — which in theory bodes well for journalism and equitable media enterprises — but not as much financing that goes directly to an enterprise.

From an investment perspective, project financing and enterprise financing are very different. Project financing is also often attached to a specific revenue stream, as opposed to the fate of an enterprise. As such, investing in a discrete project does not have to contend with an overall revenue model or cost structure, and is in some way more similar to program support (as opposed to general operating support) for a philanthropic investor. According to some of the interviewees, investing in discrete projects has the advantage of an easily quantifiable impact return that is less complicated, feels more concrete, and avoids the challenges of structuring/managing expectations that are inherent in enterprise-level investments.

"The project financing model cannot be easily replicated to enterprise financing."

The relative frequency of project financing should not be construed as a substitute for actual for-profit investments into enterprises -- in the same way that program support does not play the same role for the sustainability of a non-profit entity as general operating support.

Several angel investors and PRI makers mentioned that they do not see project financing as investments per se, even when embedded in for-profit companies, but rather view them as creative opportunities that often are allocated to their philanthropic budgets. Despite the shortcomings, project financing can play an important role in providing small bets around potential ancillary revenue streams that, if fruitful, can strengthen the overall sustainability of a media enterprise.

8. IN FUNDING THE FIELD TWO APPROACHES ENDURE: DIRECT, ONE-OFF INVESTMENTS AND INVESTMENTS INTO FUNDS THAT AGGREGATE POOLS OF CAPITAL.

There are some intrinsic differences between direct investments (those made into one enterprise at a time) and investments into funds - pools of capital managed as a portfolio of investments into enterprises. A direct investment, of the style done by angel investors, has the advantage of allowing an investor ultimate control over which enterprises are supported. This can give the investor a high-touch connection to the enterprise and its mission and build familiarity with a type of deal. Direct investments of this sort, however, require significant attention from the investor and lack the advantage of relying on a professional fund manager whose sole function is to source, provide due diligence, and structure such investments.

Investing through a fund structure is more common, except for angel investments, most asset owners rely on intermediaries in the form of funds. Investing indirectly through a fund structure gives the benefit of risk diversification, as the risk to the investor is spread across a variety of enterprises, and of having an expert manage an entire portfolio without the need for further involvement from the asset owner once the allocation to the fund has been made.

In the context of equitable media, some interviewees raised challenges to direct investments: they may seem ad-hoc and less predictable. There are high inefficiencies (smaller amounts, repeated due diligence). The competition by individual investors over the same few outstanding deals can create false expectations and further disadvantage the remaining enterprises -- which ideally ought to be avoided in a space rooted in equity.

For these reasons, several interviewees spoke in favor of there being a core entity that aggregates capital and serves almost as a clearinghouse of investable opportunities in equitable media, avoiding a replication of structures and competition for scarce dollars among investment managers[24]. Such a model would work along the lines of New Media Ventures, which was universally mentioned as a good example of centralization and intermediation with the advantages of efficiency in deploying capital, sector-wide expertise with a deep understanding of the pipeline, and a growing handle on the overall landscape and relationships.

Conversely, especially among those who seek bespoke investments, there was a general sense that "we don't need another fund," discounting the role that such an intermediary can play and focusing instead on the added infrastructure cost (and potentially gatekeeping). These voices instead suggested a focus on seeding individual equitable media entrepreneurs in the belief that the distributed approach would ultimately strengthen the entire ecosystem.

The relative wisdom of the two approaches seems like a prime issue for consideration by those who seek to deploy investment capital into equitable media enterprises.

[24] That is to say, if there were a multiplicity of early-stage funds for equitable media, given the dearth of asset owners committed to investing in the space, those fund managers would find themselves competing both for capital from the asset owners and for deals in the same pipeline, neither of which is necessary in a field with few players on each side.

III. Recommendations

CAPITAL SPECIFIC RECOMMENDATIONS

1. DEVELOP A STRATEGY FOR ENGAGING PROMISING ADJACENT INVESTORS THAT INCLUDES:

a. **Research and network mapping to identify promising adjacent investors—especially POC angels and POC high-net-worth individuals;**
b. **Explore how to get more people of color in the angel investing media spaces;**
c. **Conduct outreach to these groups in order to assess and market test their interest;**
d. **Identify their pain points and their investment flexibility around their potential allocation to equitable media;**
e. **Develop an onboarding strategy;**
f. **Develop a set of best practices for media investors to invest with an impact/equitable lens.**

This analysis conducted a broad investor landscape review to identify the types of private capital investors that are best poised to deploy greater and better-aligned capital in support of equitable media. There is a near-universal recognition that investing in early-stage equitable media, at this point, is best suited for philanthropy and mission-aligned angel investors.

Philanthropy has mostly proven to be too risk-averse, both in terms of the experimentation it supports, and of its willingness to enter the fray of for-profit enterprises. Angel investors with an interest in social/progressive impact or those who utilize a DEI lens have emerged as the most promising capital source; the challenge becomes how to activate them around early-stage equitable media investments.

As an activation mechanism, the establishment of loose angel investor networks to support equitable media was well received. More specifically, wealthy women, women and men of color, and Democratic donors[26] were highlighted as good candidates for a core group of angels, given their increasing interest in impact investing and the resonance of the theme of equitable media with them.

The Financial Director of a Black-led media organization noted that there was an opportunity to identify and aggregate high-net worth people, many who are not well known and develop strategies for engaging and activating them. In addition, to the field needing to create new vehicles for increasing their knowledge and access to the pipeline of diverse media projects.

In summary, several themes emerge when thinking about how to engage and activate individual angel investors:

- A need to develop relationships with promising individual angel investors that may be ready to invest in equitable media ;
- Exploring opportunities for organizing individual angel investors by fostering (1) the creation of angel groups of POC that care about equitable media or (2) supporting existing angel groups to focus more on equitable media;
- Educating individual angels and angel groups around equitable news and media opportunities;
- Developing and presenting a compelling pipeline that would push equitable media above other interest areas and;
- Attention to the issue of discretion, a parsing of those who wish to remain behind the scenes versus those, like Gina and Shonda, who may be willing to serve as a beacon for others.

Because early-stage equitable media is not intrinsically attractive to investors seeking to maximize their risk-adjusted returns, one can expect a high degree of mission alignment from new entrants.

However, caution must be exercised if the search for additional investors focuses on the adjacent universe of traditional (i.e., not first and foremost equity-minded) media investors. To the extent that traditional media investors have invested in diverse media, it has been without explicit impact considerations — that is to say, the relevant community was seen as a market to be dominated, not as a population to be adequately served. There is not an emerging set of best practices for media investors to invest with an impact lens. As such, an effort to crowd in private capital that is not intrinsically aligned with the impact thesis should be matched with an effort to establish guardrails and providing capacity building around the impact aspect for current media investors entering the equitable media space.

EXAMPLES OF NEW WOMEN-LED ANGEL GROUPS INTERESTED IN MEDIA: GINA'S COLLECTIVE AND SHONDALAND

GINA'S COLLECTIVE

Gina Sanders, founder of Teen Vogue, recently started an Angel Group called Gina's Collective. Gina's Collective seeks to provide seed funding, coaching, and connections to technology-enabled nonprofit startups led by or serving vulnerable women, girls, and non-binary individuals, globally. Investors spoke highly of this newly launched angel group and of Gina's leadership. They also noted that Gina's Collective is reportedly looking to invest in media companies.

SHONDALAND

Shonda Rhimes is an angel investor who founded ShondaLand in 2018. Shonda is one of Hollywood's most successful producers who has been turning to philanthropy, with special attention to equity and African American issues. She is also encouraging others in her industry to do the same. Shonda's only investment so far is in a digital-media company built on a daily newsletter aimed at millennial women called TheSkimm.[25]

[25] *"TheSkimm Closes $12 Million Round With Shonda Rhimes, Tyra Banks Among Group of Women Investors"*, Variety, May 21, 2018.

[26] Some of the media entrepreneurs consulted noted that they had been able to raise investment capital from high-net-worth Democratic donors.

2. EXPLORE THE APPLICABILITY OF EMERGING ALTERNATIVE DEAL STRUCTURES AS A GOOD FIT FOR EARLY-STAGE EQUITABLE MEDIA COMPANIES:

Despite the enduring interest in engaging the venture capital (VC) space, recent efforts have emerged to move away from traditional VC models and instead explore alternative deal structures to scale early-stage enterprises. The Zebra movement, for example, has articulated a compelling alternative model ("zebras" versus "unicorns")[27]. Zebras rely on an alternative financing model where the returns to the investor come not from a sale or IPO, but instead from a steady percentage of the revenue of the enterprise. The revenue-based financing model has a long history in movie and restaurant financing and is currently being repurposed for early-stage enterprises across a variety of industries, with the common element resting in the notion of steady growth and mission preservation. See below the **Primer on Different Types of Investments for Early-Stage Enterprises** for more information on revenue-based financing.

Alternative deal structures are well suited for the equitable media space given the concerns around mission preservation, the lesser emphasis on exits, and the focus on organic growth within what may ultimately be smaller audiences.

It would be a fruitful strand of work to engage alternative deal structure experts, such as Indie.vc, the Tugboat Institute, and Lighter Capital to explore the applicability of alternative deal structures for equitable media financing.

ANGEL INVESTOR NEIL BARSKY AND FORD FOUNDATION HELP SEED THE MARSHALL PROJECT

Neil Barsky is a former hedge fund manager and philanthropist who helped to seed The Marshall Project in 2014 with a grant from the Ford Foundation. The Marshall Project is a nonprofit news organization covering the US criminal justice system.

Neil Barsky is also an advocate for helping journalism find new sustainable business models.

3. EXPLORE THE APPLICABILITY OF EMERGING ALTERNATIVE OWNERSHIP STRUCTURES AS A GOOD FIT FOR EARLY-STAGE EQUITABLE NEWS AND MEDIA COMPANIES:

The Media Enterprise Design Lab at CU Boulder has been a leader in experimentations around alternative investment and ownership models for media. Specifically, the Lab's Nathan Schneider has spearheaded the model of exit to community and other forms of mission-aligned ownership[28]. Among other things, exits to community aim to address the issue of aligned exits (where the investor gets a return and the mission of the media company is preserved upon a change of ownership).

The emerging work on stakeholder and public ownership for journalism and media entities has shown promise[29] -- and dovetails well with the Media Enterprise Design Lab's focus on the dynamics of media concentration[30].

Public ownership of media through investments in a cooperative form is also gaining grounds. An alt-weekly in Acron recently converted to a cooperative model with the readers at its heart[31]. This conversion was done with the support of the Membership Puzzle Project at NYU. The Membership Puzzle Project is a public research effort ending in May 2020 which seeks to develop innovations in audience engagement and spread successful membership models to journalists across the country.

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[27] Zebras Fix What Unicorns Break - https://medium.com/@sexandstartups/zebrasfix-c467e55f9d96

[28] *"Broad-Based Stakeholder Ownership in Journalism: Co-ops, ESOPs, Blockchains"* by Nathan Schneider (forthcoming in Media Industries, draft available at https://osf.io/d4cbv/?view_only=e9cb90e1f67c4aaab97666b213c75d75)

[29] In the past few years, journalists and academics have been exploring various public ownership models. Additionally, a new book, Power is Everywhere: How Stakeholder-Driven Media Build the Future of Watchdog News, by Dr. Mark Lee Hunter, examines how the rise of stakeholder-based media organizations are taking a larger role in setting the news agenda and presenting viable new ways to attract readers and sustain news businesses.

[30] See especially the work of Nathan Schneider, an expert on cooperative ownership, including his recent work on broad-based stakeholder ownership in journalism: *"Broad-Based Stakeholder Ownership in Journalism: ESOPs, Co-ops, Blockchains"* (Forthcoming in Media Industries), University of Colorado Boulder.

[31] *"See why this Akron alt-weekly publication is becoming a reader-owned media co-op",* Shareable, December 23, 2019.

In a variant that focuses instead on employee ownership, the Province of Quebec in Canada has similarly turned to worker cooperatives as a way to preserve local media[32]. Other ownership models being explored are direct public offerings (DPOs), such as the one done by Berkeleyside, as well as other non-profit conversions such as the Salt Lake Tribune and the alt-weekly Chicago Reader.[33]

In 2019 Renaissance Journalism supported a study to determine whether the creation of a media cooperative would help sustain small, community and ethnic newspapers.[34] Additionally, Report for America (an initiative of the GroundTruth Project) asks its host newsrooms to experiment with local sustainability by fundraising from the community to support the salary of their corps member. The results for 2019: Report for America's 52 local newsroom partners raised more than $800,000 through more than 1,150 donations. That's quadruple their initial goal.[35]

Finally, after the announcement that Warren Buffet's Berkshire Hathaway was sold its newspaper business to Lee Enterprises Inc., Todd Copper, a union leader at the Omaha World-Herald noted, *"We just felt that the best fit for journalism and the future of journalism is either single local ownership or ownership groups, or nonprofits, foundations."*[36] Therefore, the question around alternative ownership models will continue to be a critical area of exploration.

OPPORTUNITIES FOR INSIGHTS AND LEARNING FROM NEW MEDIA VENTURES' PORTFOLIO OF FOR-PROFIT AND NONPROFIT MEDIA RELATED INVESTMENTS

New Media Ventures stands out for its willingness to invest in media-related entities at a very early stage. Early bets taken by NMV have enabled others to follow, including foundations that were not eager to consider the investments at the time of NMV's first move. Below is a list of for and nonprofit media investments in the New Media Ventures portfolio. Like the section on page 26, "What does a successful exit look like," the investments below touch on various aspects of the media sector, i.e., content, tools, data/metrics, and online communities.

For-Profit Media Entities

Blavity: Family of digital media properties focused on black millennials, attracting more than 7M visitors each month. Raised a Series A led by Google Ventures; investors include Harlem Capital and Baron Davis Enterprises. In the Spring of 2020, Blavity raised $1.5 million from the W.K. Kellogg Foundation, explicitly as part of its racial equity portfolio[36].

Wonder Media Network: Podcast network focused on stories by and for women.

Luz Collective - Media company focused on empowering & giving voice to Latinas.

Hearken: Recently completed a merger and expanded internationally. Helping local newsrooms engage the public from pitch through publication.

Upworthy: At the time that NMV invested in them in 2011, they were the fastes-growing media company in history. Since then they merged with the social impact media company, GOOD Worldwide Inc., and have partnered with Facebook on video content.

Nonprofit Media Entities

PushBlack: Facebook messenger platform engaging Black Americans around history, civic engagement, etc.

Pantsuit Nation: Largest Facebook group in the US. Now the digital core of Supermajority; a community for women who want to work together to build economic and political power, organize for gender equity, and transform this country.

Pulso: Facebook messenger platform focused on engaging, inspiring, and mobilizing Latinx community.

Prism: Nonprofit, long-form content leveraging DailyKos network for reach—focused on telling stories and amplifying voices that reflect the diversity of America.

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[32] See for example "*Judge Authorizes Plan To Transform Six Quebec Dailies into Employee Cooperatives*"
[33] *"5 Business Models for Local News to Watch in 2020"* by Mark Glaser, January 7, 2020. Knight Foundation.
[34] *"Renaissance Journalism Supports Study of Media Co-Op To Assist Community News Outlets."* December 16, 2019.
[35] *"Partner newsrooms Raise nearly$1M in local philanthropy."* Report for America, February 2020.
[36] *"Wall Street Has Plans for Newspapers, and They Aren't Pretty",* Bloomberg News, February 7, 2020.

4. OUTLINE AND COORDINATE THE INTERSECTION OF PHILANTHROPIC AND PRIVATE CAPITAL FLOWS IN THE EQUITABLE MEDIA SECTOR.

In the nonprofit media ecosystem, there is a need to increase the understanding of how grants and investments (by foundations and others) can best intersect. This will require increased coordination and learning (1) between program officers and philanthropic investment teams and (2) between philanthropy and private investors.

As a starting point, philanthropic media funders and media investors should jointly explore the entire ecosystem of equitable media from a holistic perspective, rather than separating investment and grant funding. There is a clear continuum between the two, and an upfront mapping can lead to better results, especially to take into account the opportunity for enterprises that start out as grant-funded to become investable. Both sets of actors stand to benefit from each other's work and from greater interweaving of strategies with a clear hand-off potential (as has been seen, for example, in other impact investing areas where initial grant support helped establish and derisk an entire market that allowed for the entrance of for-profit investors at scale).

Within foundations, closer coordination and joint learning sessions between program officers and PRI makers could jumpstart the identification of a pipeline and the detection of potential issues around the replacement of grant dollars with investment dollars.

5. SUPPORT THE MOVE OF PHILANTHROPIC CAPITAL, SUCH AS PRIS, INTO MORE RISK, INCLUDING BEING MORE OPEN TO FOR-PROFIT MODELS, THROUGH A COMMUNITY OF PRACTICE OF PARADIGM SHIFTERS IN PHILANTHROPY.

Philanthropic funding is supposed to take on risk. Indeed, foundation PRIs generally seek to provide financing where traditional capital is not available at a standard rate of risk-adjusted returns. This must include being willing to assume some of the investment risk, even if it effectively subsidizes return-seeking investors, if this means jumpstarting a sector that desperately needs capital. However, most funders have shied away from the risk of making investments into early-stage for-profit enterprises and are generally more comfortable with making investments into sectors explicitly associated historically with nonprofit funding, such as affordable housing and workforce initiatives.
While interest in venture philanthropy is growing, there is much for the field to explore to support for-profits. Open Philanthropy and The California Endowment are two funders that have been forward-thinking in how they fund for-profit entities.

Enterprise financing for equitable media could be as effective as grants, if not more, in advancing mission, with the added benefit of potential returns on or recoupment of part of the investment. The availability of enterprise financing would also send a signal to investors of the growing investability of the sector, increase the formalization and thoroughness of quarterly reporting, and afford an opportunity for philanthropic investors to set forth best practices and guardrails through the weight of the capital, which could become standardized across the equitable media sector. This would also give an opportunity to push the sector toward alternatives from the standard VC model of early-stage financing.

Because of foundations' pre-existing relationships with grantees that are potential investment recipients, housing the capital provision function within the same organization could help potential investees develop clear expectations for investability, e.g., stage, model solidity, and focus on revenue. This dual function can also ensure that there remains a funded space for equitable media that will always require philanthropic support. Attention to investability should not entail neglect of grant funding.

Lastly, philanthropic investors should couple the investments — and thereby also derisk them — with the provision of technical assistance. TA toward investability, historically less a focus of philanthropic support, is now in a position to thrive, thanks to a multiplicity of efforts to support newsrooms around the development of revenue models.

All the above means that, as interest in venture capital and philanthropy partnerships continues to grow, there is a need to develop best practices and foster a more transformative cultural change within philanthropy. Philanthropy needs to be open to bringing in and accepting partners that may be a bit more on the investment side. Philanthropic (grants plus investments) and commercial capital already coexist in the same space and shape the media funding ecosystem. Given that all evidence points to a needed diversification of revenue sources for media and journalism enterprises, there needs to be openness to experimentation while the space gets figured out. Not every investment will be a success, and the "failures" from a traditional philanthropic perspective may well include some interventions that result in commercial success that strays from the mission. It is helpful in this context that many media entrepreneurs tend to have experience with both grants and investments. After all, limiting oneself to grant interventions has not insulated philanthropy from putting its finger on the scale of media, as this quote encapsulates: *"But it's not just rich capitalists and venture investors who bring such influence—every form of funding, however well-meaning, shapes the kind of journalism that gets done, and that includes funding from foundations and nonprofits."* [37]

"Despite the overlap and similarities between philanthropic and commercial capital, there is very little coordination, common language, and compatible frameworks, even where equitable media enterprises regularly are asked to deal with both sides."

This will require increased coordination, common language, and compatible investment frameworks that merge philanthropy's natural focus on impact with investors' emphasis on returns. At a minimum, philanthropy will need to address the head-spinning expressed by a few interviewees from trying to understand investors and the world of philanthropy in the same quest for the sustainability of their equitable media enterprises.

Many also noted that philanthropy still has a long way to go in understanding how to coexist alongside private capital, fund for-profits, and media and journalism ventures at the early stage. As a result, foundations tend to support well-established journalism and media outlets. This can be a major issue for start-ups that may take three to five years at a minimum to reach financial stability and move out of a "start-up" phase. Making the challenge more difficult, foundations also expect that grantees quickly demonstrate impact.[38] This was a similar sentiment noted in the recent report by Borealis Philanthropy, "The Ecosystem of Media Outlets Led By and For People of Color", and "Supporting Diversity, Equity, and Inclusion In Journalism: Trends in National Grantmaking" by Katie Donnelly and Jessica Clark, Democracy Fund.[39] To this end, Open Philanthropy and California Endowment were noted as two foundations that have been forward-thinking in how they fund for profits. Therefore, while interest in venture-philanthropy partnerships is growing, there is still very little the field knows about how to support and set these partnerships up for long-term success.

"Many also noted that philanthropy still has a long way to go in understanding how to coexist alongside private capital, fund for-profits, and media and journalism ventures at the early stage."

[37] *"How foundation funding changes the way journalism gets done."* Mathew Ingram, February 1, 2019 Columbia Journalism Review and *"Foundation grants have strings attached, and nonprofit journalists sometimes don't like being told what to do by them",* Laura Hazard Owen and Joshua Benton, January 13, 2020, Nieman Lab.

[38] *"Funding the News: Foundations and Nonprofit Media",* By Matthew Nisbet, Professor, John Wihbey, Assistant Professor, Silje Kristiansen, Post-doctoral Associate & Aleszu Bajak, Lecturer at Northeastern University. Working paper co-published by the Shorenstein Center on Media, Politics and Public Policy at the Harvard Kennedy School and Northeastern University's School of Journalism.

[39] This latter report noted: *"When it comes to funding that serves racial and ethnic groups, relatively few dollars go towards financial sustainability compared to programming and project-specific funding. About a third of nonprofit news outlets responding to the API survey said that a previous funder had been the subject of a subsequent news story. When grant officers and their boards make the decision to fund media, such factors can make them reluctant to invest in anything but a well-established outlet."*

BARON DAVIS ENTERPRISE

Former NBA player, Baron Davis, started his own angel group Baron Davis Enterprise in 2012 with the goal of investing in film and music production, publications, merchandise and retail, finance, real estate, and technology. In 2019, he invested in Blavity, along with Comcast Ventures and Plexo Capital during their Series A led by GV which brought in $6.5 million.

CAPITAL ADJACENT RECOMMENDATIONS

1. SUPPORT EXPERIMENTATION AROUND REVENUE STRATEGIES AND DEAL STRUCTURES, WITH A STRONG EYE TOWARD R&D.

PRIs are especially suited to support organizations in their efforts to figure out a financial sustainability strategy that is aligned with their mission, as it can give equitable media entrepreneurs the needed flexibility in their explorations.

Beyond revenue model explorations, experimentation is needed also on the deal structures and ownership structures side. Some interviewees noted the current exploration on this issue between Purpose Ventures and Creative Action Network as important and notable for furthering the field. This work builds on efforts by the Kauffman Foundation, which leads on revenue-based financing models and research on entrepreneurial pain points, and has focused on rural communities and racial equity approaches. Kauffman's Capital Access Lab[40] specifically seeks to catalyze new financing mechanisms to serve the wide majority of entrepreneurs who can't access venture capital or bank loans.

Omidyar Networks has been doing trailblazing work on alternative investments (through its Future of Capitalism team), combined with a focus on and expertise in media. The Ford Foundation can similarly build on the intersection of its work on innovative finance with the longstanding program funding of media and journalism with a social justice lens.

2. SUPPORT EXPERIMENTATION ON PROJECT FINANCING.

One of the most promising areas, as identified by entrepreneurs, rests in the experimentation around project-specific financing. Investments in a specific project can mean a smaller and more bounded risk for the investor. They do however require increased creativity in terms of structuring and figuring out where the real upside lies. There is currently a wave of interest in the monetization of residual streams, such as the upside from IP licensing for derivative works.

A similarly promising approach is the combination of a tech play to the content play in a way that allows for separate financing. Radio Ambulante, a Spanish-speaking podcast telling the stories of Latin America in long-form narrative journalism, successfully launched an app, Lupa, that builds on the stories as a Spanish language education tool. Such derivative efforts can drive revenue without compromising mission, as they are not intrinsically dependent on the content itself.

[40] Kauffman Foundation's Capital Access Lab: https://www.kauffman.org/what-we-do/entrepreneurship/market-gaps/capital-access-lab

3. STRENGTHEN COMPLEMENTARY BUSINESS SKILL FOR JOURNALISTS AND MEDIA ENTREPRENEURS.

The refrain rings ever truer that to succeed, journalism and media entities need to have *"a hack, a hacker, and a hustler."* [41]

An early wave of enthusiasm for technological integration supported the hacker part. The hustler piece, however, has hardly been supported systemically. Philanthropy can explore opportunities for journalism schools, accelerators, incubators, etc., provide emerging media and journalism entrepreneurs with the skills and ancillary elements for running a revenue-based organization.

A media entrepreneur that we spoke with noted that in her alma mater, Columbia University, business students have an incubation program embedded within the business school that provides some initial start-up capital, mentorship, and other wrap-around support. Yet the same support is not available in the media program at the same school – but would be equally vital.

This also means supporting the hiring of talent that focuses on the business side of the enterprise.

A fruitful way of advancing the sustainability of an equitable media enterprise is by helping the content-facing entrepreneurs identify and recruit business-focused co-founders. Investors continue to stress that early-stage media or journalism entities would be vastly more investable if they complimented the editorial and content talent with more professional operational / management teams. At this year's Media Impact Funder's meeting, a session featuring emerging diverse media entrepreneurs highlighted the challenges that founders face in navigating the startup ecosystem and the need for sponsors who can give them access to complementary talent and thus to investors with increased credibility. Therefore, it is helpful to think about what complementary skills and supports underrepresented media or journalism entrepreneurs need and to experiment with different ways of obtaining that integrated talent.

4. CONSIDER MORE INDIRECT SUPPORT FOR EQUITABLE MEDIA ENTERPRISES.

Interviews and research provided a fruitful range of broader ideas on what could move the needle at the industry-wide level, including effort such as:

a. A headhunting company that places diverse journalists and responds to the growing demand from newsrooms for diverse voices (which often stops at "but we don't know where to find them").

b. Support networks and collectives of artists and freelancers that can identify the specific needs for unassociated content producers, which can range from the instability of

CAPITAL ADJACENT WAYS INVESTORS ARE SUPPORTING DIVERSE MEDIA ENTREPRENEURS:
Serena Ventures Invests in a Platform to Support Entrepreneurs from Underrepresented Group

Venture capital firm Serena Ventures, led by Serena Williams, recently invested in Alice, a free platform that guides business owners through the growth of their company. Together, Alice, Bumble and Serena Ventures will provide access to critical growth resources, guidance and small business opportunities for those with an entrepreneurial spirit. In light of this investment, Alice plans to provide financial grants and mentorship to small business owners who apply at helloalice.com.

"Alice helps connect business owners to resources important to their individual industry growth. As an investor in the company, we are working to ensure that women, people of color, the LGBTQ+ community, and all underrepresented groups in business are given equal access to funding, networking and services that are vital to business," said Williams.[42]

[41] The quote has been attributed to staff from Matter, a media incubator, as saying that, *"At some point, in order to succeed with a journalism company you need a hack, a hacker, and a hustler—or at least two of them".*

[42] *"Serena Ventures, Bumble Invest in Alice, an AI-Driven Platform That Helps Businesses Grow"*, WWD, December 12, 2019.

income (which can be smoothed out), lack of benefits, lack of back-office infrastructure. For example, Backstage Capital recently invested in *Color Farm Media*, a platform and community for creators of color to find each other and build support and resilience among themselves.

c. Explore ways to redeploy the talented journalists, especially journalists of color with ties to their communities, who get laid off every day. Even just small coordination and centralization of talent could be timely, noteworthy, and visible.

d. Additional wrap-around services can include a Crunchbase for investors to connect with journalism organizations or a United Way journalism version to connect funders to organizations and support for incubators and accelerators embedded in journalism programs that have proven their usefulness.

[43] See, for example, the successful efforts of SMart in Belgium and across Europe in supporting freelancers and creatives: https://smartbe.be/wp-content/uploads/2015/07/What-is-SMart.pdf.

[44] *"Business Models for Local News: Finding and Seeding Growth Capital for Mission-Driven Journalism Enterprises"*, The Lenfest Institute, Elizabeth Hansen, September 6, 2018.

IV. Primer on Different Types of Investments in Early-stage Enterprises

TYPES OF INVESTMENTS

The thought of a start-up enterprise immediately conjures images of venture capital funding. However, there are several channels through which an early-stage company can receive financing. This section runs briefly through their main components and then turns to their pros and cons as applied to the context of early-stage media investments.

1. VENTURE CAPITAL

Venture capital investments are made by funds who build up a portfolio of investments by buying stakes in early-stage enterprises that are poised for growth. These are generally high-risk equity investments at the early-stage of projects. This high-risk/high-reward model is predicated on most portfolio companies (6 or 7 out of 10 companies) failing, with just one or two leading to an exit that returns the entire portfolio. Because of this, any company that gets invested in must display enough growth potential to make up for all the fellow companies that are likely to fail. The VC investor makes its money by selling its ownership stake after a period of growth—to an acquirer, to another investment fund, or via a listing on a public equities market (the famous initial public offering, or IPO).

2. ANGEL INVESTMENTS

Angel investors are individuals who make small, very risky investments into early-stage enterprises in exchange for an equity stake (which is an ownership stake in the enterprise). They are often entrepreneurs in the same industry who have made enough money to be able to risk the small checks they write. While venture capitalists invest out of a fund that they manage that has pooled money from multiple investors, angel investors invest their own money, and the angel investments represent a small portion of their overall investment portfolios.

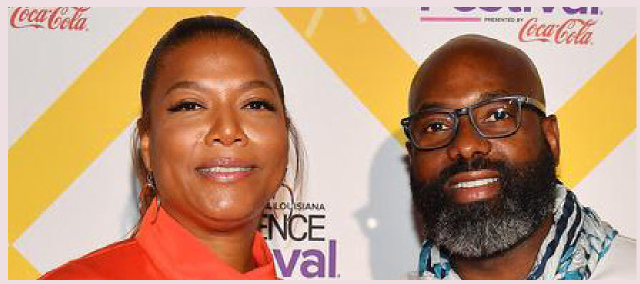
3. DEBT FINANCING

Debt financing is any form of lending, meaning that it must be repaid, unlike an equity investment. It is hard—and costly—for early-stage companies to get debt financing since the risk is high that they would not be able to repay. Venture debt is a variety of debt financing for companies that have received equity investments but don't have the assets or cash flow required for traditional debt financing. Where a debt investment is too risky for a commercial investor, it can be done by a foundation in the form of a PRI (see below), or the risk can be reduced via a loan guarantee or similar instrument, again often provided by a foundation via a PRI.

4. REVENUE-BASED FINANCING

A relatively novel financing method that is getting more traction, especially in tech circles, is revenue-based financing. While a loan targets a set amount that is repaid periodically, a revenue-based loan takes instead the repayment as a percentage of the company's revenue, up to a cap. Because of this, revenue-based financing takes on some of the elements of an equity investment, in that the return to the investor is tied to the actual revenue of the company. This form of financing is especially suited for enterprises that may not want to sell themselves (for example, in order to preserve their mission).[45]

4 EMERGING INNOVATIVE PROJECTS TO SUPPORT EQUITABLE MEDIA



1. **MDIF's South Africa Media Innovation Program:** a media initiative made possible with funding from Open Society Foundation of South Africa and Luminate which seeks to accelerate digital media innovation among independent media outlets in South Africa. They provide financing (grant and/or equity) and capacity building to organizations selected to participate.

2. **New philanthropic/venture capital hybrid in fund in support of diverse women founders in media:** Earlier this year, Queen Latifah, joined the investment committee for VC firm, Essence Ventures which launched a $20 million fund for film, TV and documentary productions by women of color.

3. **VC aggregates angel investors in support of diverse cultural leaders:** Chris Lyons runs the Cultural Leaders Fund for VC firm, Andreessen Horowitz. Their goal is to get more high-net-worth people of color to invest in inclusive technology companies led by people of color.

4. **Supporting local diverse media through a central capacity building and skills sharing hub:** CUNY recently launched the Center for Community and Ethnic Media. With funding from The Knight Foundation, the Democracy Fund, and Ford Foundation the Center will scale up its existing services to help the national local media ecosystem by providing outlets resources, tools, and opportunities for networking to help their publications survive and thrive during a rough time for all local news.

[45] See Aner Ben Ami, Don't Go Chasing Unicorns, http://transformfinance.org/blog/2018/2/26/dont-go-chasing-unicorns-or-how-to-support-a-more-inclusive-startup-ecosystem.

TYPES OF INVESTORS

There are many types of investors, each with their own set of priorities, motivations, and constraints.

COMMERCIAL (OR TRADITIONAL) INVESTORS

What we usually think of as investors are those who seek to maximize their return while minimizing risk. They want to play a role in the direction of the company to drive profitability, and want to reap the returns from their investments quickly. They can be agnostic to the mission of a company and would view, for example, an underserved media population as a market opportunity, rather problem to be solved.

IMPACT INVESTORS

invest with the dual aim of making a financial return and intentionally achieving a measurable social or environmental results. They often invest in risky markets or enterprises that would not otherwise be financed by commercial investors. This category includes individuals as well as foundations; more and more, the impact investing space has been attracting commercial investors as well, including corporate entities.

FOUNDATIONS

Play a major role as investors because of the large amounts of capital in their endowments (for example, the Ford Foundation has approximately $13 billion that it invests). It is generally out of the returns from investing the endowment that foundations pay for their expenses and their philanthropic activity. While most of their capital is invested traditionally, they have two tools at their disposal: Mission Related Investments and Program Related Investments.

MRIs are investments made out of the corpus of the foundation. They are similar to traditional investments in that they target comparable rates of return, but they align with the mission of a foundation (for example, investments in renewable energy for an environmental foundation).

By contrast, **PRIs** are investments that explicitly advance the charitable purpose of a foundation. This often takes the form of investments that due to some characteristic would not generally be made by purely commercial investors. They may be riskier, or likely to yield a lower return, or require a longer timeline. PRIs can be structured in many ways, including equity investments, loans, guarantees, and even recoverable grants, and can be done with both nonprofit and for-profit entities.

WHAT MONEY FLOWS TO EARLY-STAGE COMPANIES?

While venture capital tends to receive the bulk of the public's attention especially with shows like HBO's *"Silicon Valley"* popularizing the world of start-up investments with a fairly accurate view of VCs - the reality is that very few start-up companies receive any outside funding at all. According to a 2018 survey[46], only 3% of start-ups received venture capital investment, and 3% received angel investments. Bank loans and other forms of lending are far more prevalent, with 34% of small businesses capitalized at least partially by banks. The rest is generally self-financed through personal savings, "friends and family" support, or even credit cards.

This is the case for companies that make it big, as indicated in the table below:

[46] *"Small Business Owners: American Dream is Out of Reach",* Melanie King, Lendio, September 27, 2018.

SOURCES OF EARLY-STAGE FINANCING FOR THE INC. 500 COMPANIES[47]

	Count	Share
Personal Savings	322	67.2%
Bank Loans	248	51.8%
Credit card	163	34%
Family	100	20.9%
Business acquaintances	57	11.9%
Angels	37	7.7%
Close friends	36	7.5%
VC	31	6.5%
Government	18	3.5%
Have not used finance	65	13.6%

Despite few companies actually receiving VC investments, venture capital-style financing can still be relevant for equitable media enterprises. It is important to note that even if it were more widely available, VC money has specific applicability and significant potential downsides. As some put it, a VC investment is like jet fuel: it is most suited for high and fast-growth companies that have a high chance of being acquired at the end of the investment lifespan. That means that from day one, VC money would be relevant only to the equitable media companies that have two traits: (1) they can grow remarkably big and do so fast, and (2) they are planning to be sold in a few years to a bigger media entity.

In fact, most of the VC excitement around media came during a period when media companies were being treated (and valued) as if they were technology companies.

Each of these factors can be a threat to a journalistic enterprise, both during its early days— in terms of what it needs to do to grow fast—and as it matures, in terms of concerns about what will happen to the equitable focus once it's acquired. For example, Circa, which had an initial good run breaking down the news for a millennial audience, was acquired by Sinclair Media, which turned it into a conservative mouthpiece and eventually shuttered it earlier in 2019. But there are countless other illustrative examples such as what happened at Gawker, Vox, Deadspin, Considerable, and Splinter.

For those reasons, it is important not to limit the focus on funding opportunities for early-stage media companies to the VC universe. Debt financing, revenue-based financing, and recoverable grants, outlined above, should be included as options worth pursuing.

A FEW ISSUES AROUND DIVERSITY AND EARLY-STAGE FINANCING

Among other things, venture capital is noticeable in its tendency to fund white male entrepreneurs from Stanford and other top universities. It is not especially inclusive—both as a matter of who it invests in, and which markets it seeks to address. For example, women founders only received 2.2% of VC funding in 2018[48]. A similar proportion goes to enterprises who have non-white founders[49].

There has been an intentional effort to diversify venture capital, which has included increased attention to media and other creative spaces. Those tend to be largely in the impact investing space. Upstart Co-Lab's recent landscape analysis of 100 creative economy space impact investment funds (representing an estimated $25.7 billion), revealed that 24% invested in impact media[50]. They include New Media Ventures and Backstage Capital, for example.

The problem of lack of diversity starts well before the venture capital stage. Fewer founders of color have access to "friends and family"

[47] *"Startup Financing Trends by Race: How Access to Capital Impacts Profitability: Annual Survey of Entrepreneurs Data Briefing Series",* Alicia Robb and Arnobio Morelix. October 2016. Additionally, The Inc. 500 is the top 10% of the Inc. 5000 list - a well-trusted list devised by Inc. magazine that tracks the fastest-growing privately held companies in the country. Fastest growing is measured by percentage revenue growth over a three-year period (with the beginning of at least $100,000 in year 1 and at least $2 million in year 3).
[48] *"Funding For Female Founders Stalled at 2.2% of VC Dollars in 2018"* Emma Hinchliffe, January 28, 2019. **Fortune Magazine.**
[49] *"One Of The Biggest Challenges Of Getting Funding For Minority-Owned Business"*, **Fast Company,** 5/24/16.
[50] *"A Creativity Lens: Impact Investing in the Creative Economy, Social Impact Media"*, **Upstart Co-Lab**, June 2019.

money, or for that matter connections to angel investors. That seems to be the case even more so in the media space (most founders, and angels, have an engineering background). To make up for that lack of the very first money, seed investors such as the Runway Project have emerged. As of now, they have not explicitly focused on equitable media.

"While many of these efforts focus on inclusive scalable technology companies, there is a clear opportunity to mobilize this wealth for equitable media."

A parallel effort involves getting high profile successful people of color to invest and leverage financial talent, such as Chris Lyon's Cultural Leaders Fund at Andreessen Horowitz.

While many of these efforts focus on inclusive scalable technology companies, there is a clear opportunity to mobilize this wealth for equitable media. This approach would counsel focusing on angel investors rather than VC funds.

Much of what is detrimental in the world of venture capital is actually the result of how returns are distributed to investors in funds. Some of the issues of the VC model that result in its bias against women and people of color are structural. Because of the high risk, high return fund structure where many investments are expected to fail, a VC fund will only be interested in those that can grow stratospherically. This means, in many ways, a push for the investee to make it or break it, as opposed to running a steady business. But not everyone can take that type of risk - or wants to. These issues are even more salient in the case of a founder that is addressing a more niche market, or whose commitment to the mission does not lend itself to the type of growth expected by VC investors.

WHAT DOES A SUCCESSFUL INVESTMENT EXIT LOOK LIKE IN EQUITABLE MEDIA?

A "successful" exit can also mean different things for the investor vs the media entrepreneur. For example, from an investor perspective, an acquisition by Facebook can be seen as a success (as was the case with Crowdtangle) but presents challenges to the long-term mission preservation of that entity or project. Finally, institutions with the opportunity to both do grants or make investments fall more toward the philanthropic side, which does not bode well for the potential for investments at scale, since the bulk of early-stage capital is controlled by traditional investors—that is, those who invest first and foremost with an expectation of financial returns.

Mission-Driven Media Exits: Examples from New Media Ventures & Knight Enterprise Fund

As noted, investors cite the lack of examples of successful media exits as a reason for their reluctance to explore the equitable media space. New Media Ventures and the Knight Enterprise Fund are two unique philanthropic hybrids that have combined grant and investment capital towards the early-stage funding of media. Their portfolios provide notable case studies of what successful media exits can look like for a variety of media-related investments – i.e. metrics tools, content, social sharing platforms, etc.

The Knight Enterprise Fund, which operated from 2011-2017, dedicated a portion of the Knight Foundation's endowments to mission-related investments in support of journalism and media innovation. New Media Ventures, founded in 2010, supports a network of early-stage investors in media and tech startups that create progressive political change.

New Media Ventures Portfolio

Attentive.ly: Acquired by Blackbaud. Helps organizations track what people are saying on social media, engage influencers, and improve targeting.

Crowdtangle: Acquired by Facebook. Keeps track of social media news, stories, and tracking performance.

ShareProgress: New Media Ventures got their capital returned back with interest. ShareProgress helps progressive organizations use data and tech to engage audiences.

DailyKos: Progressive media metrics platform which are paying annual dividends to investors.

Knight Enterprise Fund Portfolio

Gimlet Media: Acquired by Spotify. Produce podcasts, primarily nonfiction, and includes some content for African Americans, but also have productions for general population (not targeting any ethnically specific populations).

V. CONCLUSION

This analysis is among the first to examine the infrastructure, capacity-building, and investor pain points that serve as barriers to catalyzing greater and better-aligned capital in support of equitable media — in particular news outlets and projects led by members of communities historically and currently underserved by journalism. As we noted in the introduction, the field is changing due to COVID-19, a global economic downturn, and a renewed focus on structural racism. However, our initial central questions and recommendations can help provide a blueprint for those in the field seeking to take actionable and concrete steps to supporting local news and diverse media ecosystems that are sustainable. We also hope that our findings stress that in the need to activate more capital, both philanthropy and private capital have a mutual role to explore and resolve as it holds the potential for catalyzing greater and better-aligned capital in support of equitable and diverse media. It is between this currently fragmented juncture, that we hope new thinking, innovation, and experimentation can take place to help build new and much needed bridges between these two capital ecosystems. Our analysis suggests that the lack of capital is more a symptom of underlying structural issues for the media, rather than the most salient cause. Therefore, it is important that the excitement about using capital to support equitable media does not detract from the necessary public and philanthropic support.

Appendix A

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Appendix B

NON-EXHAUSTIVE LIST OF ADJACENT INVESTORS.

Investor	Type	Type of Investments	Focus
Accelerators/Incubators			
Acronym	Incubator (also a Media Entrepreneur)	Grants, Mentorship	Progressive Media (Invests in Courier Newsroom)
Camelback Ventures	Accelerator	Grants, Seed, Mentorship	DEI, Equity, Social Impact
Evolve Entertainment Fund	Incubator	Grants, Seed	DEI, Media/Entertainment
FastForward	Accelerator	Grants, Seed	Tech + Social Impact
Gener8tor	Accelerator	Seed & Angel, Convertible Note	Creative Economies (Artists, Musicians, etc)
Halcyon Incubator (Arts Fellowship Program)	Incubator	Grants, Seed Round	Social Entrepeneurs
Information Accelerator	Accelerator	Grants, Mentorship	Journalism
Melissa Bradley's Project 500/1863	Accelerator	Grants, Mentorship	Women, DEI, Social Impact
NewMe Accelerator	Accelerator	Seed	DEI, Tech
Points Of Light Civic Accelerator [Civicx]	Accelerator	Grants, Seed	Social Impact/Ventures
Purpose Ventures	Accelerator	Mentorship, Alternative Financing	Social Impact/Ventures
RobinHood Catalyst	Incubator	Early stage, Incubators	Tech + Social Impact/Ventures
Tech Stars-Comcast NBCUniversal LIFT Labs Accelerator	Accelerator	Seed	Media, Tech
The New Enterprise Fund for StoryMakers (AIR)	Incubator	Grant	Independent Media
UnCharted	Accelerator	Mentorship	Social Impact/Ventures
ZooLabs	Accelerator	Grants, Mentorship	Media, Music, Film
Foundations			
Artemis Rising Foundation	Foundation	Grants, Seed	Journalism, Documentary, Media, Education
Arthur Blank Foundation	Foundation	Grants, PRIs	
BeeSpace	Foundation/Incubator	Seed grants	Social Impact/Ventures
Borealis	Foundation	Grants	Media Equity
Craig Newmark Philanthropies	Foundation	Grants	Journalism, Media, DEI
Democracy Fund	Foundation	Grants	Journalism, Media, DEI, Equity
Emma Bowen Foundation	Foundation	Grants	Media Equity
Ford Foundation	Foundation	Grants, PRIs	Independent Media, Media Equity
Gates Family Foundation	Foundation	Grants	News just focused on Colorado

Hewlett Foundation	Foundation	Grants	
Independence Public Media Foundation	Foundation	Grants	Independent Media
Jonathan Logan Family Foundation	Foundation	Grants	Investigative Journalism
Kavli Foundation	Foundation	Grants	Journalism, News
Knight Foundation	Foundation	Grants, PRIs	Journalism, Media, Arts, Equity
Libra Foundation	Foundation	Grants, Series A	Social Justice, Media
Luminate	Foundation	Grants, PRIs	Progressive Infrastructure, Media
MacArthur Foundation	Foundation	Grants, PRIs	Independent Media, Equity
Omidyar	Foundation	Grants, PRIs	Media, Journalism, Equity
Open Society Foundation	Foundation	Grants, PRIs	Media and Tech Equity
Panta Rhea Foundation	Foundation	PRIs	Media, Equity
Robert R. McCormick Foundation	Foundation	Grants	
Surdna Foundation	Foundation	PRIs, Grants	Media Equity
The Deutsche Bank Americas Foundation	Foundation	Grants, PRIs	Media, Journalism, Equity
The Kaiser Family Foundation	Foundation	Grants	Journalism, News
W.K. Kellogg Foundation	Foundation	Grants, PRIs	Journalism, Independent Media, DEI, Equity
Wallace Global Fund	Foundation	Grants, PRIs, Impact Investing	Independent Media
Wikimedia Foundation	Foundation	Grants, Seed	Journalism

Individual Angel Investors and Angel Groups

37 Angels	Angel Group	Seed & Angel	Women
500 Women	Angel Group	Seed & Angel	Women
Astia	Angel Group	Angel & Seed, Convertible Note, Debt Financing, Series A & B, Venture Round	Women
Baron Davis Enterprises	Individual Angel Investor	Series A	Media, DEI
Broadway Angels	Angel Group	Angel & Seed, Series A-E, Venture Round	Women
Digitalundivided	Angel Group	Seed	DEI, Equity
Gina's Collective	Angel Group	Seed & Angel, Mentorship	Technology, Media, Social Impact
Golden Seeds	Angel Group	Angel & Seed, Series A-D	Women
Jacki Zehner	Individual Angel Investor	Angel	Women
Jonathan Z. Larsen	Individual Angel Investor	Angel & Seed	Media, Journalism
Neil Barsky	Individual Angel Investor	Angel & Seed	Media, Journalism

Pipeline Angels	Angel Group	Seed & Angel, Convertible Note, Series A	Women, Non-Binary Women
Ruth Ann Harnisch	Individual Angel Investor	Angel & Seed	Media, Journalism, Women
ShondaLand	Individual Angel Investor	Angel & Seed	
TopStone Angels	Angel Group	Seed & Angel	
Zoe Saldana	Individual Angel Investor	Angel & Seed	Latin(x), DEI, Women, News, Media

Philanthropic Hybrids

Arnold Ventures	Philanthropic Hybrid	Grants, PRIs, Seed	Education, Social Justice, Media
Chan Zuckerberg Initiative	Philanthropic Hybrid	Grants, PRIs, Series A-C, Venture Round	Technology
Democracy Fund	Philanthropic Hybrid	Grants, Seed	Independent Media
Emerson Collective	Philanthropic Hybrid	Grants, PRIs	Media & Journalism
New Media Ventures	Philanthropic Hybrid	Grants, Angel & Seed, Series A, Convertible Note, Venture Round	Media, Progressive Tech/Infrastructure, Equity
Omidyar Networks	Philanthropic Hybrid	Seed, Series A-G, Venture Round	Tech, Equity, Media
Pivotal Ventures	Philanthropic Hybrid/ Incubator	Grants, Seed, Series A	Women, DEI, Equity, LGBTQ
Propel Capital	Philanthropic Hybrid	Seed Round, Series A, Grants	Progressive Infrastructure,Equity
Rita Allen Foundation	Philanthropic Hybrid	Venture Round, Grants	Social Impact/Ventures
Schooner Foundation/Schooner Capital	Philanthropic Hybrid	Grants, Seed, Series A & B, Venture Round	Investigative Journalism, Social Justice
Voqal	Philanthropic Hybrid	Grants, Seed, Convertible Notes	Progressive Media

Venture Capital

2020 Vision Ventures	Venture Capital	Seed & Angel, Series A	Media, Technology
500 Startup	Venture Capital/Accelerator	Seed, Series A-B, Venture Round, Convertible Note, Debt Financing	DEI
Backstage Capital	Venture Capital	Seed & Angel, Convertible Note, Series A	DEI, Equity
Base Ventures	Venture Capital	Seed, Series A, Venture Round	Tech, Media
Bright Eye VC	Venture Capital	Series A-C, Seed, Venture Round	Tech, Education
Chingona Ventures	Venture Capital	Early Stage	Women
Chloe Capital"	Venture Capital/Accelerator	Convertible Note, Ange & Seed	Women, Tech
CV Catalyst Fund (part of Comcast Ventures)	Venture Capital / Corporate VC	Seed, Series A	DEI, media, and technology
Essence Ventures	Venture Capital	Series B, Seed	Media, Women of Color
Female Founders Fund	Venture Capital	Seed, Series A-C, Venture Round	Women , Tech

GingerBread Capital	Venture Capital	Seed, Series A-C, Venture Round	Women
Halogen Ventures	Venture Capital	Seed, Series A, Venture Round	Women, Tech
Harlem Capital Partners	Venture Capital	Seed, Series A	Women, DEI
Higher Grounds Labs	Venture Capital	Seed, Series A	Progressive Tech
Homebrew Ventures	Venture Capital	Pre-Seed, Seed, Series A-C	Mission-driven, social enterprises
Impact America Fund	Venture Capital	Series A, Seed	Tech, Equity, Social Impact
Indie.vc	Venture Capital	Revenue-based	Tech, media
Kapor Capital	Venture Capital	Convertible Note, Debt, Seed & Angel, Series A-C	DEI, Tech
Knight Enterprise Fund	Venture Capital	Seed, Series A & B, Venture Round, Angel	Media, Progressive Tech/Infrastructure, Equity
MaC Venture Capital	Venture Capital	Seed, Series A & B	Media
MDIF	Venture Capital	Debt & Equity Financing, Convertible Note, Venture Round, Grants	Global Independent Media (not US-focused)
Plexo Capital	Venture Capital	Seed, Series A & B	Women, DEI
Plum Alley	Venture Capital	Seed, Series A, Convertible Note, Venture Round	Women, Gender Diversity
Progress Ventures	Venture Capital	Seed & Angel, Series A-E, Venture Round, Debt Financing	Media, Tech
Serena Ventures	Venture Capital	Series A-E, Seed, Venture Round	DEI
Shatter Fund	Venture Capital	Venture Round, Series A	Women, Tech
Signia Venture Partners	Venture Capital	Seed, Series A-C, Venture Round	Sector Agnostic
SoGal Ventures	Venture Capital	Grants (Foundation), Seed, Series A, Venture Round	Women + Gender + DEI
Sound Ventures	Venture Capital	Seed, Series A-F, Venture Round	Technology
The JumpFund	Venture Capital	Seed, Debt Financing, Series A	Women
The New Voices Fund	Venture Capital	Seed, Venture Round, Series A	DEI, Women
The Women's Venture Capital Fund II	Venture Capital	Seed, Series A & B, Venture Round	Women + Gender + DEI
TopStone Angels	Venture Capital	Angel & Seed, Series Round	Women
Village Capital	Venture Capital/Accelerator	Grant, Seed & Angel, Series A, Convertible Note, Debt Financing, Private Equity	Social Enterprises
Y Combinator	Venture Capital	Debt Financing, Seed, Series A-F	Tech