The Old Media/New Media Newsletter

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Week beginning November 26, 2007

1. Martha Stewart (MSO) These shares closed last week at $10.22 after hitting a 52-week low of $9.70. It would be hard to find a company where there is as much going wrong as at Martha Stewart. The company is in a lawsuit with Sears Canada over royalty payments. The company reported a smaller loss last quarter than it had a year ago, but moved its guidance down. For the third quarter, MSA reporting a 13% increase in revenue to $69.3 million. Operating loss for the third quarter was $(4.9) million, compared to $(7.9) million for the third quarter of 2006. Like most media companies Martha Stewart will need a robust internet operation as advertising in print continues its long-term decline. MSO does not have the income to demonstrate that it has any real web operations. Online revenue in Q3 was $3.3 million, up from $2.8 million the year before. That is next to nothing for a company this size. With a fixed cost base of about $70 million a quarter and probably not a great deal that can be taken out of that, broadcasting and magazines cannot carry the company to sustainable profits on their own. And, online revenue is not going to hit $10 million a quarter overnight.

2. McGraw-Hill (MHP) In an ironic move, Moody's downgraded MHP debt a couple of weeks ago. Moody's biggest competitor is Standard & Poor's which is owned by McGraw-Hill. Moody's is concerned that the big publisher is taking on too much debt to buy back shares. But, that may not be the core of McGraw-Hill's problems. The company publishes BusinessWeek and several other magazines. These are being hurt by the downturn in overall print advertising, and it does not appear that the online versions of these publications are taking up the slack. But, the company is much more than magazines. In the third quarter, net income grew by 18.2% to $452.0 million. Revenue for the period increased 9.8% to $2.2 billion. McGraw-Hill's old line education book publishing business is still doing well, but the star of the company is financial services information, lead by revenue at S&P. Revenue in these businesses moved up almost 13% last quarter to $760 million and operating income jumped 18% to $347 million. Nice margins. Wall St. is concerned that S&P and Moody's may face regulatory or legal actions for not being aggressive enough in downgrading fixed income and pools of capital tied to mortgage-related securities. While that possibility has not gone away, nothing has happened. MHP trades at $48.18, very near its 52-week low and way down from its $72.50 high for the period. A lot would have to go wrong to do any real harm to S&P earnings. McGraw-Hill is cheap at these levels.

3. Cablevision (CVC). Is this company still a private equity target? Could be. The founding Dolan family tried to take it private but Mario Gabelli and other institutional investors blocked that. Many investors thought that shareholders should have taken the Dolan money. Cable stocks are out of fashion now that satellite TV and telecom fiber products for consumers are taking their customers. But, Cablevision turned in better results than most. Third quarter consolidated net revenue grew 9.4% to $1.512 billion. The company's VoIP and digital cable businesses did well as did that firm's programming division. Operating income for CVC moved up to $202 million from $127 million in the same period a year ago. A loss on investments and income tax factors made the net income comparison look worse. But Cablevision's shares have fallen to $25.35, near their 52-week low and down from a period high of $39.75. Gabelli said the shares were worth $50. The Dolans had bid $36.26. Now that the deal has been voted down, the Dolans may come back with another offer, certainly one well above the current share price. Or the institutions who blocked the buy-out may find a bidder of their own. With the stock down this much, they have also lost a lot of money and look like fools for not taking a "bird in the hand". For investors who have a stomach for it, Cablevision may still be a private equity target. That could be worth $10 a share on the upside.

4. Gatehouse Media (GHS) Investors are bound to point out that some of the newspaper stocks are going to get cheap enough to buy. Since some of these stocks are down over 60% over the last year, stockholders who decided to get in "cheap" have been burned, in some cases to a crisp. McClatchy (MNI) and Journal Register (JRC) have been particularly troubled holdings. And, it appears that Gatehouse can be added to that group. The stock is just above $8, down from a 52-week high of $22.18. The management at Gatehouse has taken an especially dangerous approach to its business. The company still pays a huge dividend that puts its yield over 20%. That has not helped the stock at all, but it may be hurting the balance sheet. The company has bought and sold several properties so they do their calculations on an "adjusted basis" just to make the P&L as complicated as possible. The company reported As Adjusted Revenues of $171.8 million, operating income of $12.5 million, a net loss of $8.8 million. Total revenues for the GHS decreased 1.7% on a same-store basis over the third quarter 2006. As Adjusted EBITDA decreased $0.5 million or 1.1% on a same-store basis. The terms management uses may seem odd, but it is hardly good news. One thing that is easy to understand is that interest payments for the last quarter were $22.3 million. Long-term debt is now nearly $1.2 billion. And operating income was only $12.5 million. The result of all of that addition and subtraction has to be troubling. And, then there is that big cash drain from the dividend.

5. Motorola (MOT) With the handset business booming, Motorola just has to be doing well, right? But, it isn't. The company hit a 52-week low last week at $15.11. The stock was above $26 back in October 2006. Recent earnings were just enough better than bad to make the stock move up. But it still appears that the lion's share of improving cell phone sales is going to Nokia (NOK), Samsung, and Sony Ericsson. That may not be the worst of it. Motorola has made a big bet on WiMax deployment in the US, even investing in battered IPO Clearwire (CLWR). With Clearwire and Sprint (S) having trouble getting their networks financed and built, the benefits for Motorola are beginning to look thin. And, outside of the handset business, Motorola has two units which build broadband and

telecom infrastructure and design and deploy mobile solutions for government and private enterprises. With the handset unit losing money, the other segments have taken on more importance. But, results from companies in related businesses including Nortel (NT) and Alcatel-Lucent (ALU) would indicate that the market for supplying equipment for communications deployments is soft. Telephone and cable companies are probably being cautious about capital spending. Motorola needs those markets to be strong while it tries to fix its broken cell phone business. For MOT, all the signals are weak now.

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Douglas A. McIntyre
douglasamcintyre@247wallst.com

Company Contact:
24/7 Wall St., LLC
16 East 90th Street
New York, NY 10128
Tel (212) 203-0673
Fax (888) 633-0673
WWW.247WALLST.COM

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