

# The Old Media/New Media Newsletter

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Reports about the death of the newspaper industry are in the press almost every week. Several developments in the last month have helped Wall St. divide the winners from the losers. Companies which have newspaper properties but have diversified beyond these into areas like broadcasting fall into a very different group than the corporations which have papers in place like California and Florida where the economies are in recession.

Of all the newspaper companies which are likely to fail, Journal Register (JRC) has to be at the top of the list. The company's stock trades at \$.85 down from a 52-week high of over \$7. JRC revenue run rate per year is over \$400 million but its market cap is a mere \$33 million. The stock has a huge short position, which is a good place for investors to be. Journal Register has almost \$650 million in long-term debt. With its ad revenue falling at 7% to 9% a year, the company can barely make its debt service. Odds are very good that the company will be broken into pieces and auctioned off. Investors are likely to get zero.

McClatchy (MNI) is another company in very deep trouble and its stock is probably an excellent short. The company's debt is on credit watch which means that it could be downgraded making borrowing much more expensive. After a \$1.7 billion write-down in the third quarter of 2007, McClatchy says that it needs to take an additional \$1.47 billion write-down for Q4. Although they are not cash charges the action certainly represents that opinion of the company's accounts that the value of the firm is dropping rapidly. McClatchy shares are below \$9, down from a 52-week high of over \$35. In January, consolidated revenue fell almost 15% pushed by weak ad sales. With almost \$2.5 billion in debt, MNI is a short-seller's dream.

A little company which could have a rebound is Journal News (JRN). Its sales dipped only 3% in January. It has broadcast properties where revenue was flat for the period. While its stock is at \$6.48, down from a 52-week high of \$14, debt is fairly modest at under \$150 million. Interest expense is under \$2 million and net income is in the \$14 million range per quarter. If newspaper shares stage a modest rally, JRN could jump 20% or 30%.

The largest newspaper company in the US is Gannett (GCI). Its operations are a combination of papers and broadcast stations. It owns the country's largest paper, USA

today. Gannett's stock has been hurt as much as most in the industry, trading at just under \$29 off a 52-week high of \$61.68. In the last quarter, Gannett generated \$1.86 billion in revenue. Interest expense was \$57 million and net income \$245 million. While Gannett had a rough January, it was much better than for some of its peers. Revenue fell 7.5%, but national advertising actually moved up 6% because of a 7% increase at USA Today. Gannett has an important edge in taking its newspapers and putting them into online form. The revenue for internet content sites is, in most cases, growing. USA Today.com is one of the largest news sites in the US. According to comScore, Gannett websites had almost 23 million unique visitors in January. That puts it on a level close to CBS and Comcast online properties. If Gannett can exploit its vast amount of content at its websites, its stock should recover.

The Washington Post (WPO) made a brilliant move when it bought education service Kaplan. While the company's newspapers and Newsweek are not doing well, Kaplan and related properties owned by the Post are in outstanding positions. WPO trades near a 52-week low at just under \$700, down from a 52-week high of \$885.23. Last year, revenue at the company's education business moved up 21% to over \$2 billion. Operating income was almost \$150 million for the period. Sales at the WPO newspaper fell 7% to \$889 million. Revenue at the firm's cable TV operations is moving up over 10% and hit \$626 million in 2007. The Washington Post looks like a newspaper company, but it isn't. A recession may slow its education operation's earnings, but as the economy bounces back, so should that sector.

The New York Times (NYT) is a sucker play. Several funds have bought almost 20% of the company's non-voting stock, but the founding Sulzberger family has firm control over the company. Revenue is falling, and some of the company's big properties like The Boston Globe are probably losing money. NYT has a modest online company called About.com, but it is not big enough so that its revenue will offset falling revenue at the newspapers. News of investors trying to take board seats took the stock from \$14 to \$17.28. But, if the company's management keeps these funds off of its board of directors, the shares are likely to move right back to \$14.

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