



Communication Services

The Newspaper Publishing Industry in the US

The newspaper industry in the United States has faced some incredible challenges in the last decade as a response to the rapid change in consumer behaviour. No industry has had to adapt as quickly as the newspaper industry has in the last two years. With the rise of digital media, many predict the downfall of printed newspaper. This paper will dive into the history of this industry, dating back to the 1800s. The pandemic and the introduction of the internet, television and radio has complicated the newspaper industry's future and has instead filled it with uncertainties. What was once an industry that had thousands of local newspapers generating revenue has now only seen the bigger newspapers company survive during this adjustment. Furthermore, they are mostly surviving because they can afford advertising fees and can rely on their online medium to compensate for their lack of printed newspaper subscriptions. Unfortunately for these companies, the future does not get easier and they will have to learn to better adapt to their changing environment in order to maintain in this industry. Key examples further demonstrate such claim, with Lee Enterprises, the New York Times' key financials being discussed. However, is there an exception to the general negative trend of the newspaper industry? This paper at its conclusion explores the possibility of niche publications having the only chance at survival.

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Industry Overview

Industry History

Although the first newspaper that was published was the Publick Occurrences Both Forreign and Domestick in Boston in 1690, the rise of the newspaper industry in the United States began in the 1800s. The 19th Century saw the US go through drastic changes in their transportation and communication systems, and hence, these changes saw the demand and supply of newspapers increase. In 1800, there were 200 newspapers published in the US, and by 1860, that number had increased to 3,000. Journalism also saw a transformation during that century. In the 1800s, newspapers were mainly catered to “elite readers”, however, 20-30 years later, the target audience had expanded to a diverse group of individuals including men, women, immigrants, and different religious groups. This change was facilitated with the introduction of the penny paper, a one-cut daily newspaper introduced in the 1830s that allowed newspapers to gain a whole new audience (University of Illinois).

Figure 1: The First Published Newspaper in 1690



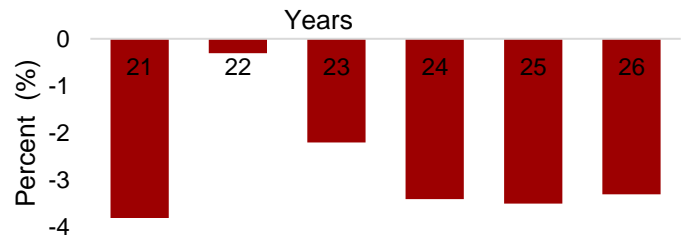
In the 1900s, newspapers were at its peak in popularity. They had yet to face the competition they have to face today with commercial radio, television and the internet. Newspaper publishers and editors were society’s biggest political and social influence. By the 1900s, there was more than 20 thousand different types of newspapers published in the United States. The newspaper industry was booming in the times where it was people’s only method of obtaining the world’s news. By the 2000s, with the rise of other forms of media, the newspaper industry is facing a new reality, one where they will have to fight to maintain their importance.

Sources: IBISWorld, Forbes

Today’s Outlook:

The newspaper’s industry biggest challenge in the last decade has been adjusting to the changing consumer habits, mostly notably, the shift to electronic media consumption. As there has been increase in competition in the digital space, many companies have altered their focus from their paper publishing operations to their digital platforms. Hence, in 2021, the industry revenue in the United States fell by 3.9% and stands at \$20.9 billion. In a five-year projection, the industry revenue is expected to decrease at an annualized rate of 2.6% and to \$18.4 billion. Furthermore, as reported by Forbes, in 2020 the circulation of newspaper was of 24.3 million (print and digital) and for Sunday newspapers it was of 25.8 million. As a contrast, in 1990, the respective reported numbers were of 63.2 million and 62.6 million (Adgate). Although it is projected to decrease in the coming years, market researchers expect the industry revenue to eventually plateau (Rose).

Figure 2: Industry Outlook 2021-2026



Online Media’s Impact on Newspapers:

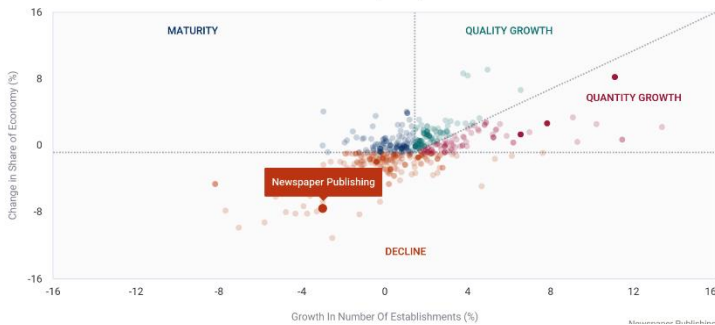
The most impacted companies of publishing newspaper remain local papers that do not have the resources that bigger ones do to shift their business model to cater to the changing consumer trends. For example, the New York Times can compensate for their loss in revenue by focusing on their website, however, smaller newspapers do not have the opportunity to do so. Often, these publications are printed weekly or biweekly. With online media gaining popularity, it unfortunately decreases the value that these local newspaper offer their community as by the time of publishing the news has become dated (Rose). For bigger newspaper journals, many of them have focused on developing their online news offerings. In June 2021, The Wall Street Journal reported 2.63 million digital only subscribers, with 3.5 million overall subscribers. This means that out of 3.5 million subscribers, only 870 thousand are subscribers of their printed copy, showing the increasing trend in online news consumptions (Adgate).

Industry Overview

Newspaper Publishing Biggest Challenge

Another revenue stream for the newspaper industry was through advertising. Many advertisers were looking at specific local newspapers to reach niche audiences. However, with the rise of online media and increase access to niche markets through the internet, the advertising value that local newspapers once brought to companies have been diminished. As reported by Adgate from Forbes, in 2005 the newspaper industry had generated a record of \$49.4 billion in ad revenue, in 2020, this number stood at \$8.8 billion. Furthermore, the lack of alternate revenue stream for local newspapers have ultimately forced them to face further pressure on their revenue and costs. As a consequence, in the United States, industry operators are expected to decrease by 2.5% this year, or more specifically 3,680 companies (Rose).

Figure 3: Newspaper Industry Life Cycle

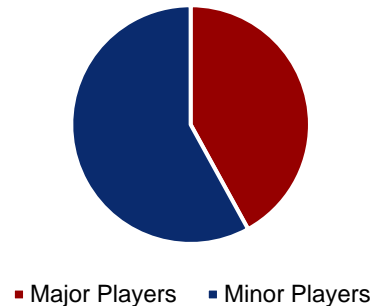


Another challenge to the newspaper publishing industry is the availability of their content on different mediums which include TV and the radio. The radio is much more accessible to many, they can listen to the news in the car on their way to work every morning as opposed to purchasing a newspaper daily. The newspaper publishing industry faces a challenge when it comes to the accessibility of other mediums. As a result, some newspaper publishers have tried to compete with online mediums by creating their own Youtube videos to attract followers and ultimately boost their own subscription sales and thus generating more revenue (Rose).

Newspaper Industry Competition

Although the newspaper industry is declining, the competition in the industry is still stable. Many papers compete for revenue opportunity which include advertising opportunities, and potential readers.

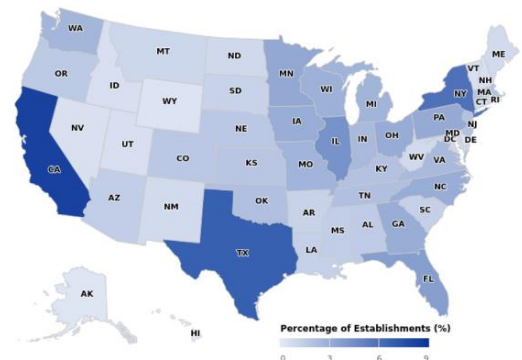
Figure 4: Market Share



As the industry continues to struggle, the internal competition between newspapers increase. Respective newspapers create competitive advantage by introducing new games, competitions and premium content to attract new readers. In addition, one of the biggest differentiators between newspaper is pricing. If prices are too high, newspapers will lose subscribers easily. Additionally, bigger newspaper companies may own other media such as magazines and websites which allows them to offer exclusive bundles to selected subscribers.

Externally, the newspaper publishing industry's biggest competitor is the online market which continuously provide newspaper companies with a challenge to keep pace with online medias' offerings.

Figure 5: Concentration of Business in the US

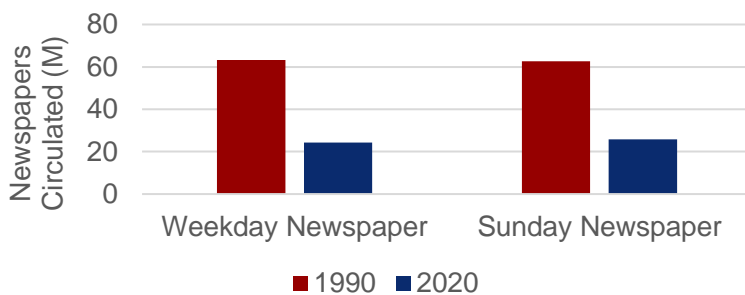


Key Trends, Part 1

The Pandemic's Effect on the Industry

The newspaper industry has been on a steady decline for the past couple of years, which has only been further exacerbated with the onslaught of the pandemic. The decline in the newspaper industry has been triggered by a loss of readers and ad revenue, which has mostly shifted over to the digital media space. The pandemic and its negative effect on the economy impacted many of the main newspaper advertisers like retail, movies and the promotion of community events, who had to cut down on their marketing budgets and experienced various shutdowns on their business.

Figure [5]: 1990 vs 2020 Newspaper Circulation



With the economy in shambles and most retail stores and community events shut down, newspaper ad revenue declined quickly in 2020. They were down almost 30% from 2019 revenue of \$12.45 billion, to \$8.8 billion. Comparing this to the record high revenue generation of \$49.4 billion in 2005, we can clearly see the downwards trend of the newspaper industry, and how this was further pushed by the pandemic. This challenge facing the newspaper industry has led to the various newspaper shutting down across the country. With the pandemic, over 85 local newsrooms were permanently shut down (Forbes). With more newspapers shutting down, more news deserts have emerged across the US. News deserts are areas in which community members have no local newspaper to supply them with the news. This results in a diminished accessibility to reliable and up-to-date news and information that is crucial in a grassroots democracy. Of the 3,143 counties in the US, 200 of them don't have access to a daily or weekly newspaper (Forbes)

This impacts at least 3.2 million people across the country. Another 1,449 counties only have one newspaper, while 2,000 other counties go without a daily newspaper. The population of these counties is usually made up of older, poorer and less educated residents. This loss means a loss in important news and information that is needed in such a polarized political landscape.

The Impact of M&A Trends on the Industry

Today, the 25 largest publishers control an average of one-third of all of the newspapers in circulation in the US. This is an increase of 20% from 2004, and includes more than two-third of all daily newspapers. More than 50% of all US newspapers have had changes in their ownership in the past fifteen years. Furthermore, the ten largest newspaper owners own and control half of the daily papers in the US. This loss of independence takes away the importance that local community newspapers have in their respective communities. It is important to note the emerging trend of hedge funds and private equity funds as new owners of newspapers across the United States. Together, they own approximately one-half of daily newspapers. A notable transaction details The Alden Global Capital acquiring Tribune Publishing for \$633 million. Alden has now become the second largest newspaper publisher after Gannett.

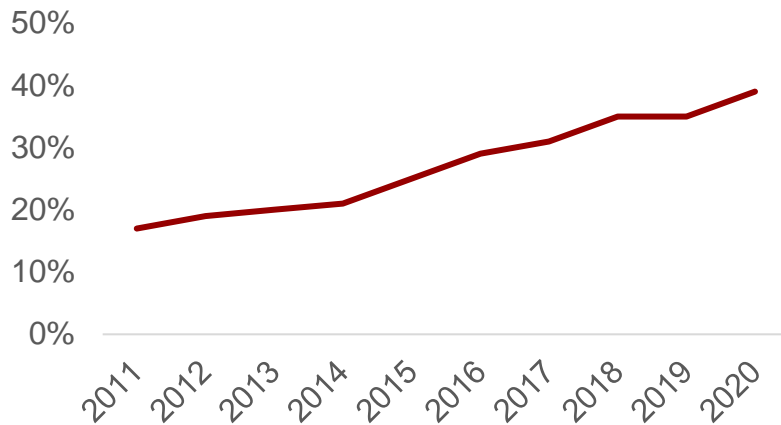
A bright light at the end of the tunnel: there's a newer trend of returning the smaller acquired newspaper back to their local owners. In November 2019 Gannett and Gatehouse merged into one company with over 100 publications spread across 34 states. Since then, Gannett has sold 23 of its smaller newspapers back to the original local owners. The value of these local newspapers is also being recognized on Capitol Hill, where the Local Journalism Sustainability Act was introduced in the House and in the Senate. The act would provide local newspapers, as well as their subscribers and local advertisers with a series of tax credit benefits.

Key Trends, Part 2

The Digital Transformation of the Industry

The shift to digital isn't something new. It's something that is happening across the world and in any industry we can think of. Therefore, it is no surprise that a digital transformation is taking hold of the newspaper industry. Anyone reading this line right now is in some way contributing to the shift to digital for the newspaper industry. Most publishers have launched online options of their papers so as to better compete with online-only news databases. As the general customer moves over to using their screen to access news and content, advertisers have followed them as well, moving away from print ads to online ads. This has resulted in a strong revenue decline that has adversely affected the

Figure [6]: Advertising Revenue From Digital Advertising



Change is Coming

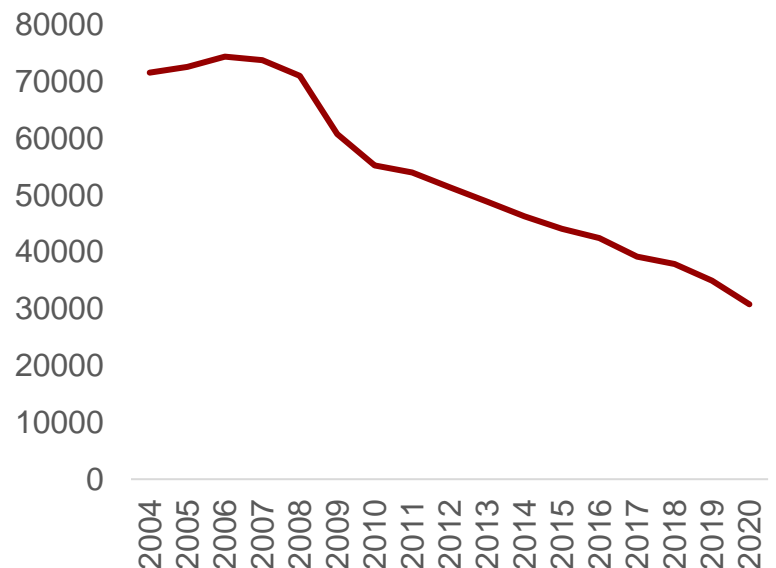
In only 2016, there were already 11.7 million unique monthly visitors to the websites of the top 50 US newspapers. That number had increased 21% from the year before. If that was six years ago, then we can already tell how much of an impact the digital shift has had on the newspaper industry. The shift in digital hasn't only been to online newspapers, but also to different online sources, such as social media websites like Twitter, Facebook, Instagram and more. This usage of social media isn't only among young users but Americans above 50 years old also report using social media to obtain their news. The movement of readers from print to online has been mirrored by advertisers. This has resulted in changes to the revenue makeup of newspapers. Where before the bulk of their revenue was made up of companies taking out advertising in their print publications,

as opposed to the subscription revenue, now, these advertisers have moved on to the online world to spend their marketing budgets. The industry has been adapting by developing new applications to make newspapers more accessible across digital platforms, and in that, hoping to boost their advertising revenue from those customers that shifted online. The future of newsprint is likely to continue to shift to an online presence. Most have already developed a hybrid presence, where they still distribute their print newspaper, but also offer an online subscription.

Change in Personnel

The digital transformation has been great for companies like YouTube, Snapchat and Twitter, which are all adding new staff for news collection and distribution. However, it has not been to great to the newspaper industry, which has been consistently cutting staff over the years. This is especially happening in local papers, as news is increasingly coming from services like AP, resulting in the same stories appearing in various newspapers offline and online. Furthermore, some newspaper publishers are dabbling in the chatbot technology, which provides reading customers with personal headline article recommendation based on the key topics that the individual reads. Online newspapers have also become much more interactive with their readers, allowing them to comment, share and converse in real time on stories.

Figure [7]: Number of Newsroom Employees



Sources: Company financial documents and Wall Street Journal

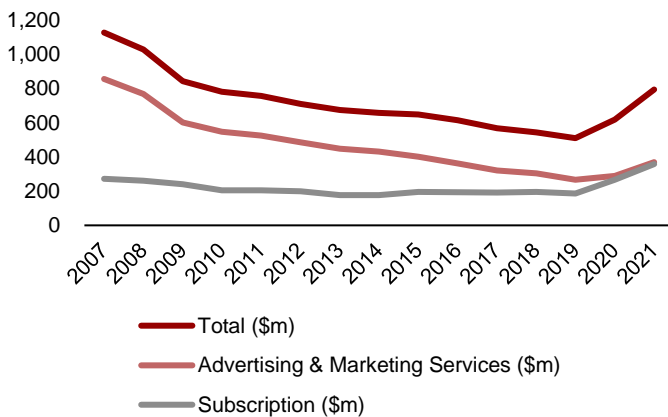
Case Studies, Part 1

Lee Enterprises (NASDAQ:LEE)

Lee Enterprises (Lee) was founded in 1890. The company publishes regional newspapers and niche publications. Some of the company's most iconic publications include the St. Louis Post Dispatch, the Buffalo News, and the Omaha World Herald.

Starting 15 years ago, the company's revenue began a free fall, as seen on figure [8]. Between 2007 and 2019, total revenues fell by 6.4% annualized, leading to a total decrease of 54.8%. This decrease was driven by a decrease in advertising & marketing services (A&M) of 68.9% and a decrease in subscription revenue of 31.4%.

Figure [8]: LEE Historical Revenues



Digital Transformation

In an attempt to increase the subscription rate to the digital edition of its publishing, Lee rolled out its first full-access subscription in 2017, which gives access to both the printed and digital editions of their publications. However, Lee is trying to promote its digital-only subscription as much as possible in order to adapt to current industry trends. Reporting only 91,000 digital-only subscribers in 2019, that number increased to 402,000 in 2021 after the acquisition of BH Media Group. However, in 2021, there are still about one million customer who receive the printed editions. Revenue-wise, 26.8% of publishing revenues were from digital subscriptions, up from 13.9% the year before. The segment grew 26% excluding acquisitions in FY 2021 and 49.3% the year before.

Another key driver behind the revenue increase of this segment is the trend toward an increase in the pricing of digital subscription. Rough estimates indicate that the average digital subscription sold for 20% less than the average print subscription in 2020. However, as Lee realized that the value of the content provided is similar regardless of the delivery method, the company increased the pricing of its digital-only and full-access subscription by 65% in 2021. Rough estimates indicate that the price of digital subscription is now sold at a 10% discount to the average print subscription.

Increase in Ads Effectiveness

While the company generates about half of its revenues from subscriptions, it generates the other half from advertising and marketing revenues. In 2021, 37.6% of this segment's revenues were generated from digital advertising. However, due to increase in advertising efficiency derived from digital ads in comparison to traditional ads, the company's printed-edition A&M revenues to subscription revenues declined from 3.1x to 0.9x. However, the same ratio for could be somewhere between 2.0x to 3.0x for the digital A&M. In other words, for the A&M segment, a digital-edition customer is much more valuable than a print-edition customer. As a result, as the company attempts to convert its customers from printed products to digital products, the A&M segment revenue is likely to increase.

M&A

The industry is currently going through a consolidation phase. The company acquired in FY 2021 BH Media Group for \$140M, or 3.5x the annual cashflow Lee generated during the previous year. The acquisition added an additional \$197M in revenue to Lee in FY 2021. However, the company has also been the potential target of an acquisition Alden Global Capital, a hedge fund based in New York city which is now the second largest owner of newspaper in the United States.

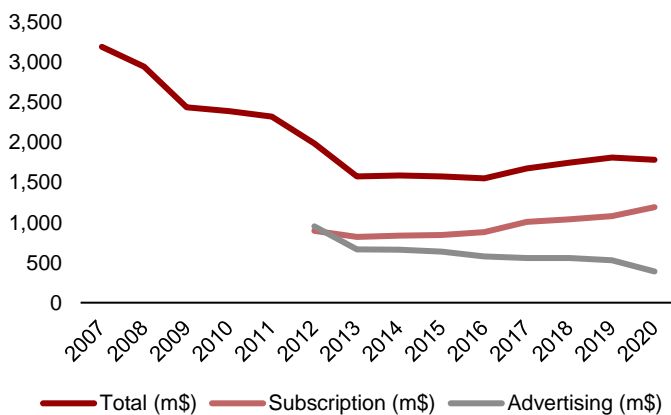
Overall, in this case study, Lee is a good illustration of how regional newspaper operators are doing. If the company did not have the support of its strong M&A in the last two years, the company would still be losing revenues.

Case Studies, Part 2

New York Times Company (NYSE:NYT)

The New York Times (NYT) is somehow similar to Lee Enterprise in terms of actions taken by management to survive the current industry trend. However, in contrast with Lee, NYT is not in the business of managing a portfolio of regional newspaper, but rather in the business of managing one big brand: The New York Times and its corresponding online platform.

Figure [9]: NYT Historical Revenues



Revenue wise, NYT has had trouble with the conversion from print to digital. Similarly to Lee, the lack of customer conversion to digital and probably a significant underpricing of the digital publishing led to a decline in revenue of 51.3% between 2007 and 2017. However, it begun its digital transformation earlier than many of its peers. This resulted in NYT's revenues bottoming way earlier than Lee, whose revenues excluding M&A are still declining. Currently, 50.0% of the company's subscription revenues come from digital subscriptions and 58.3% of the company's advertising revenues come from their digital platform.

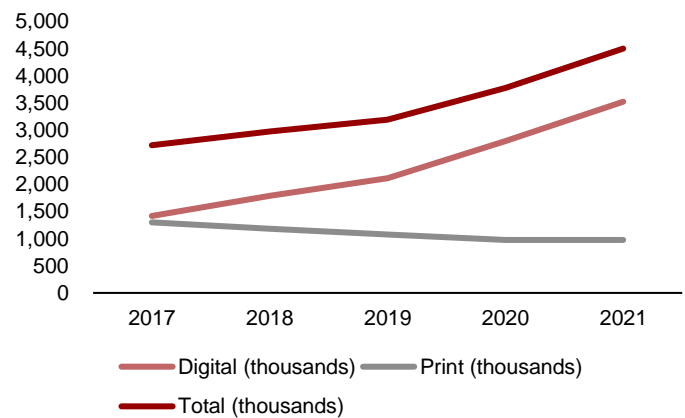
Following industry trends, the company has started increasing the pricing of its digital subscription offering, and announced its first big acquisition (over \$100M of transaction value) since 2012 by attempting to buy The Athletic Media.

News Corporation (NASDAQ:NWS)

News Corporation (CP) is quite different from the two previous examples. For this case study, only CP's News Media is going to be explored. This segment contains a two niche publications part of the finance industry: Barron's and The Wall Street Journal.

The company did not report this segment's revenues individually prior to it FY 2020, but it did publish the number of subscription, which can be observed in figure [10].

Figure [10]: CP News Media's Subscriptions



CP managed to keep growing its total number of subscriptions by 13.4% per year between 2017 and 2019. Even though the company's print subscriptions declined on average by 6.8% each year, its digital subscriptions grew at 25.5% per year. This implies that the company's conversion rate was about 3-6x. In other words, each time a customer unsubscribes from a print subscription, over 3 buy a digital subscription.

The case of CP is highly pertinent because it demonstrates that even though typical newspaper companies are vulnerable to various negative trends, it seems like niche publications can sometimes escape the threats that seem to be inherent to the industry.