ADDRESSING NEWSPAPER CHALLENGES

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Newspaper status report, North America

There are more than 1,400 Daily newspapers, plus almost 7,000 non-dailies - in the United States. The circulation of the 1,400 daily newspapers is approximately 49 million. According to WAN World Press Trends (WPT) 2010, the figure is even lower: paid circulation nationwide at about 43,500,000 daily and 45,600,000 for Sunday editions - plus 45 milliion non-dailies. The high water mark for circulation of daily newspapers was in the year 1980 when circulation was approximately 65 million. Revenue for today's newspapers is about 24 billion. High water mark was in 2000 at 46 billion. The majority of circulation for the daily newspapers published in the U.S. is held by media companies such as Gannett, New York Times, Tribune Publishing, Dow Jones, and others

There are approximately 150 daily newspapers in Canada. The circulation of those 150 newspapers is approximately 4.6 million (5.7 million according to WPT). The majority of newspaper circulation is held by several media companies such as Torstar, Transcontinental, Quebecor Media, Black, and others.

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What is happening to newspapers in NA? What are they thinking and doing?

It's not a nice story. Readership declines started in earnest with the "modern family" taking hold in the 1980's – as the hours per day increased at the office, commutes got longer, cable news displaced readers. And young people today simply won't replace the baby boom generation's tendency to enjoy newspapers.

On the revenue side, newspapers failed to deal with competing advertising stealers like Craigslist and refused to charge for content of their product for online product applications.

In newspaper's weakened state, they seem even less emboldened to innovate. Consequently their current business model seems to be dysfunctional and their product continues to be less and less interesting to the younger reader and even the seasoned reader. Their cost cutting measures have in most cases reached the limit of what current owners are willing and able to tolerate. They have cut staffing to the point where their ability to provide a news worthy product is in question.

While newspapers still generate very nice cash flow, their capital intensive print distribution model, relatively high labor costs, decreased readership, and decreased revenue stream have resulted in most newspapers earning smaller profit margins of 5% compared to the 35% and 40% darlings of the 1990's.

Consequently, the capital investment model practiced by newspaper media companies has changed dramatically.

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The approach of modernizing print operations and improving print quality through press replacement and Greenfield print facilities has been replaced by Brownfield (existing) facilities and repurposing / reconfiguring existing equipment.

As newspapers continue to lack the appetite to innovate their product, they seem to be content to get out of the business of printing and distributing their product.

An example of this is Gannett. Today they own approximately 80 daily newspapers and yet they only print at about 42 locations. They have consolidated their operations internally or contracted externally to have other newspapers (with geographic proximity) print and distribute their newspapers.

This consolidation behavior will continue to escalate in the coming years. Regional (mega) print sites will be formed that provide economy of scale for print and distribution of several newspapers from one common site.

These regional print centers will be shared across media companies. An example of one of these regional print sites is the recent announcement that the Wolfe family's Columbus Dispatch will print Gannett's Cincinnati Enquirer. Even though the two entities are separated by approximately 100 miles, the drive to lower production costs and the willingness to consider alternative distribution methods and deadlines makes such partnership possible.

This consolidation scenario is playing out all over the U.S. as partnerships are being formed and contracts written between neighboring newspapers. The newspaper with the best assets and best geography finds that they are sought out to print others products.

Other examples are Journal Register's Exton print facility and Paddock's Daily Herald. Chicago Tribune recently announced that they will print cross town tabloid rival The Chicago Sun and adds that print contract to a stable of contract printing work including USA Today and The Wall Street Journal.

Many newspaper companies have indicated that print and distribution of their product is too expensive and they are looking for solution to outsource print it.

Ownership trend

If one follows the recent string of press releases you can put together a trend of investment by financial parties outside of the newspaper and media industry.

Perhaps as high as20% of the ownership of major Newspaper group's is now in the hands of hedge fund investment companies such as Alden and Angelo Gordon. If this trend continues, it is hard to imagine that this will positively impact the investment appetite for new press equipment.

These investors seem to be single minded about their ownership role – maximize their investment by cutting additional costs, hold for as short as possible, and sell when they can maximize their investment. It seems that the last thing on their list of "To do's" would be to invest in press equipment – even when it could lead to more cost cutting measures and lower operating costs through consolidation and efficiency. These investors do not seem interested in improving the quality of the newspaper product as their focus seems to be on improving their investment through continued cost cutting and they seem to view the print and distribution of the newspaper product as a necessary evil. Newspaper executives advise that the ROI thresh hold for investment in their properties faces a significantly higher hurdle rate than even 3-4 years ago.

Consolidation & Cost-Cutting

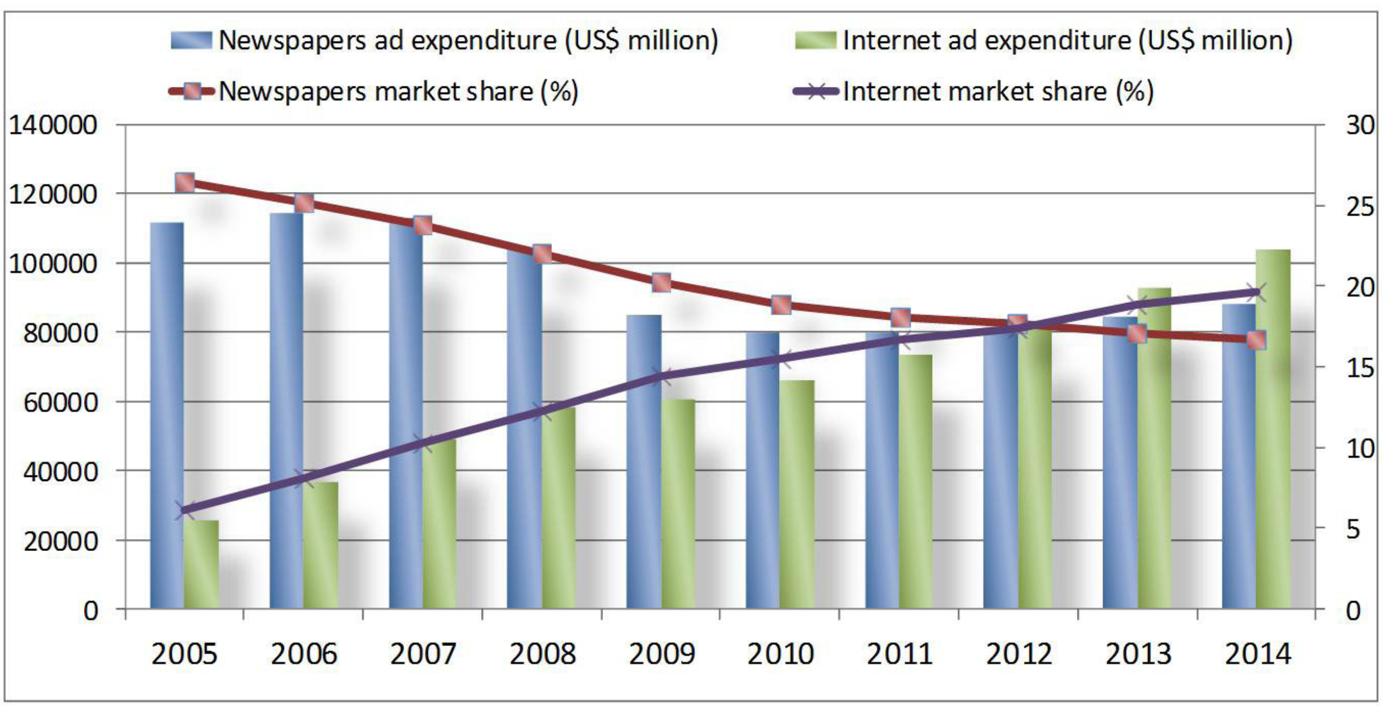
We should not despair! Today still a full 85 to 90% of newspaper revenues are derived from their printed products. The issue facing newspaper publishers is that they can not forecast how long the existing print model will last. In the meantime, they will likely continue to take as much cost out of their operations as possible by consolidating and downsizing their product.

These consolidation moves to regional print sites will likely lead to repurposing of existing print and distribution facilities as presses will need to be reconfigured and potentially upgraded to accommodate different print schedules, formats, and paging and color requirements. There are likely two avenues that consolidations will follow and in both cases the owner/operators will be looking for lowest cost solutions.

- Internal consolidation models – driven by owners of newspapers where a shared print facility can be outfitted to print 2 or more daily newspapers like the Ohio example noted above. This model will be driven by repurposing existing facility assets and reconfiguring / upgrading existing printing equipment to the extent possible. to print and not spend much money.

The Challenge

Newspaper market share vs. Internet market share



Source: "Global advertising spending and market share", PricewaterhouseCoopers LLP, WilkofskyGruen Associates © WAN-IFRA 2010

- External consolidation models: Transcontinental Printing, AFL Printing, and Southwest Offset seem to have very successful business models and excellent proximity to take full advantage of consolidation opportunities in the geographic markets that they serve.

The rest of the world

Emerging markets such as India, China, and Brazil continue to invest in new equipment and facilities. And Europe continues to modernize newspaper print facilities.

The practice of consolidation in Europe and specifically Germany is not a new topic. For years, media companies in Germany have established partnerships to share in the investment of new print facilities that consolidated several regional titles into one regional print site, or to print national titles at different regional printing centers.

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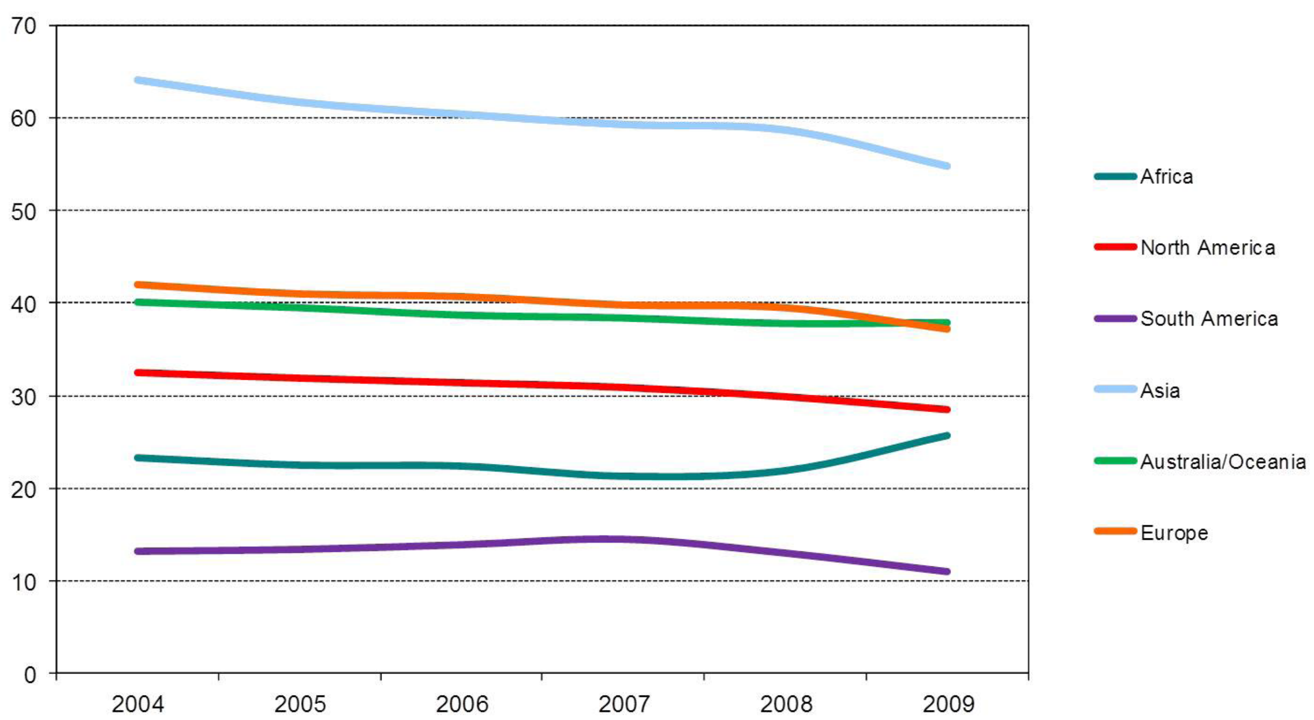
This practice is driven by cultural differences, higher population density, and different depreciation models (shorter) than found in the U.S. But why are emerging markets doing so well? And why are they investing?

- Higher literacy rates in emerging markets => more newspapers read
- Almost everywhere, circulations per title going down => higher efficiency and fast change-over are goals in new press investments as well as retrofits.
- Ecological demands => lower waste rates and energy consumption, also both for new and retrofit

Even with different trends noted above, the need is the same around the world: to achieve maximum productivity and performance for the best value.

pressupdate is manroland's initiative to address the need of today's newspapers publishers to extend the life of their investment and position their enterprise for the future to accommodate potential consolidation opportunities. With pressupdate, manroland offers five paths to extend the lifecycle and capability of their print facility.

Worldwide Circulation Figures



Source: WAN, World Press Trends 2010 Change: 2004 – 2009 in %

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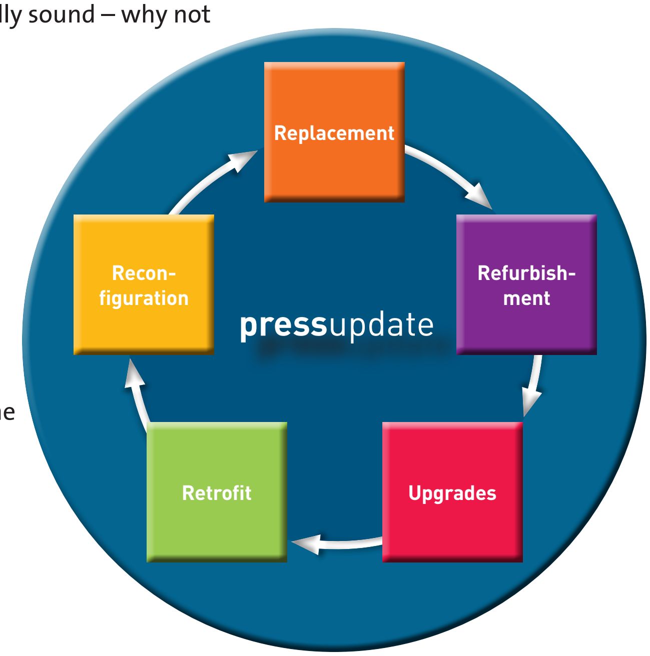
manroland´s response: pressupdate

The newspaper printed product continues to deliver the best value proposition for readers and advertisers of any news and information medium. Today the printed newspaper still delivers on average 90% of their revenues! Newspaper publishers see consolidation of their printing and production into regional print centers as a means to reduce their operating expenses and maintain their position as the source for local news and information. As consolidation options are being considered by potential partners, the best value proposition will win the day. Repurposing of existing facilities and existing infrastructure is not only logical it is environmentally sound – why not reuse what is still perfectly sound!

manroland has the engineering resources and knowhow to lead the way in this important and dynamic time for newspaper publishers. The key to this new approach is based on our strategy of repurposing existing assets to accommodate consolidation opportunities and create regional print sites. We have a solution that can fit the budget for any consolidation model or lifecycle milestone.



Refurbishment. The goal of a refurbishment is to keep up the original printing and production quality of the printing press. The press is thoroughly checked and generally overhauled. Then the lifecycle can start again.

Upgrades. New products and business models can also be realized with existing newspaper printing systems. manroland offers extensive options for upgrades, starting with QuickStart automatic start-up procedures and many more enhancements including plowfolds or dryers in order to keep pace with new developments even during the investment cycle.

Retrofit. In order to raise your efficiency while retaining your printing processes, manroland´s Retrofit is the right choice. In order to ensure efficiency for the years to come, controls can be modernized, new drives built in, and much more.

Reconfiguration. By a mix of old and new components you can reach full-color printing, raise your pagination, or even change the format of your product. You can also build up capacity in order to take in more contract printing. Also, equipment from other suppliers can be combined with new manroland technology.

Replacement. Sometimes, depending on the individual situation and goals of the newspaper house, replacement of existing equipment by totally new presses makes the most sense. manroland´s expertise in automation and production flexibility is the basis for an in-depth analysis of cost and production structures, even up to business modeling.