

ENDERS|ANALYSIS

Competitive pressures on the press
Presentation to the Leveson Inquiry

Claire Enders

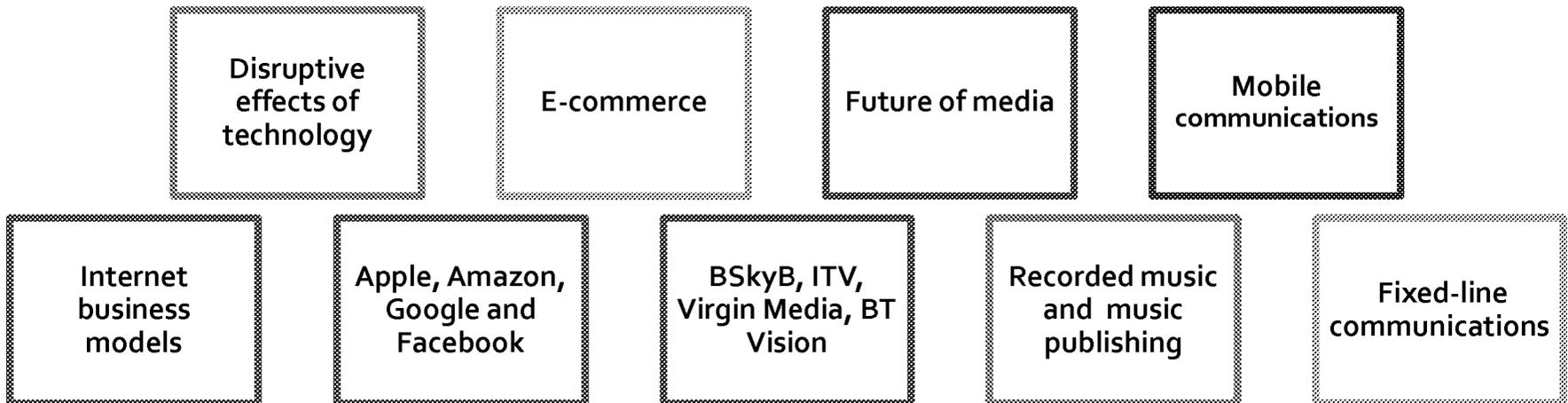
6 October 2011

MOD400001231

About Enders Analysis

- Claire Enders founded Enders Analysis in 1997 and leads a team of highly experienced analysts
- Enders Analysis is an independent research and consultancy supplier serving 150 corporate, financial and government subscribers
- We supply publications and projects on technology, media and telecommunications in the UK and Europe
- Enders Analysis supports a number of charities in the UK, including the NSPCC and Natural History Museum

Our research agenda



Clients of Enders Analysis include many UK newspaper publishers

Press:

Archant
D C Thomson
DMGT
Guardian Media Group
Hachette UK
Haymarket Media Group
IPC Media
Johnston Press
London Evening Standard & Independent
Menzies Distribution
National Magazines Company
News International
Newsquest
Pearson
Telegraph Media Group
Trinity Mirror
Yell

Advertising/Marketing:

Publicis, WCRS, WPP

Music/Radio:

Bauer Media, EMI, PRS for Music, RadioCentre, Universal Music Group

Film/Television:

Arqiva , BBC, BSkyB, Canal+ Channel 4, Digital UK
Discovery Communications Europe, Freesat, Freeview
IMG Media, ITV
LOVEFiLM.com , MTV, NBC Universal International, News Corporation, Sony Pictures Entertainment, stv, TF1
Turner Broadcasting, UKTV
UTV, Virgin Media, Vivendi
Walt Disney, Warner Bros UK
YouView

Retail:

Post Office

Internet:

AOL, Google, Microsoft
Sling Media, Yahoo!

Telecommunications:

Alcatel-Lucent, BT
Everything Everywhere
FT-Orange, H3G, Huawei
Iliad, Nokia, O2, Qualcomm, SFR
TalkTalk, Tesco
Virgin, Vodafone, Vonage

Professional Services:

Accenture, Booz & Co , Boston Consulting Group, Cognizant
Capgemini , Deloitte, KPMG
McKinsey, OC&C, PwC

Public Sector:

DCMS UK, European Commission
Ofcom

Fund Managers:

Aberdeen Asset Management
Alliance Trust, Baillie Gifford
Cedar Rock Capital,, F&C Asset Management, Fidelity International, Highfields Capital Management, Martin Currie Investment Management
Morgan Stanley Investment Management, Odey Asset Management, USS

Investment Banks:

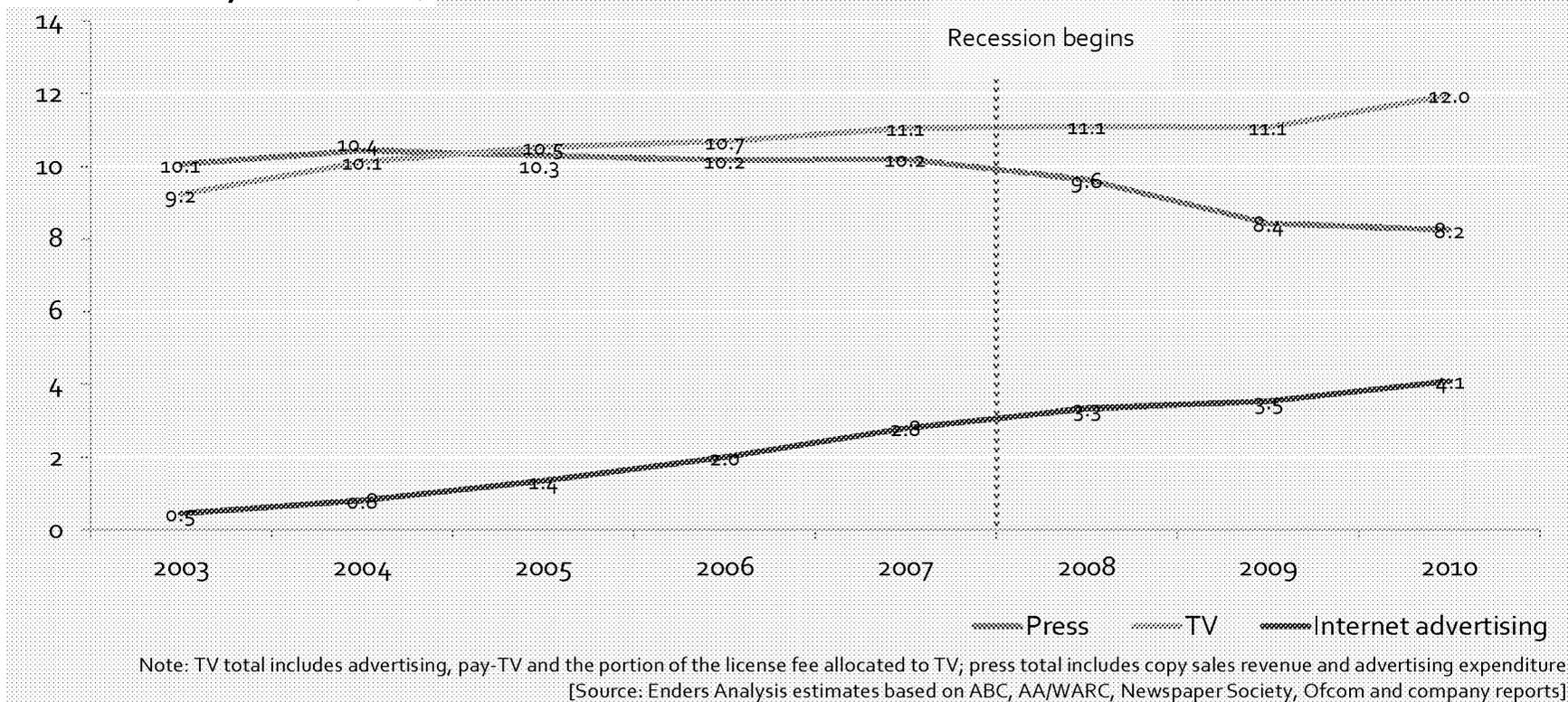
Allen & Co, Barclays Capital
BNP Paribas, Citigroup
J Goodwin & Co, J P Morgan
Moelis & Co , N.M. Rothschild

Private Equity:

Apax Partners, Bain Capital
Cinven , Doughty Hanson, KKR
Permira Advisors, Providence Equity

Press in context: TV and internet have recovered from the recession, not press

UK revenues by media (£bn)



Revenues from news are down at most publishers

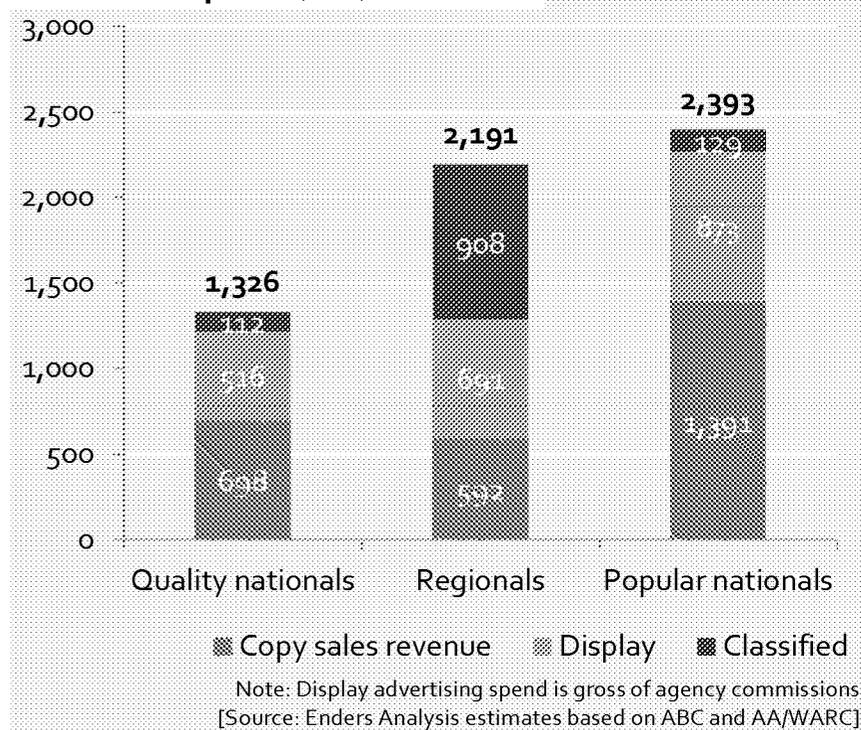
- A diverse industry of publishers, titles and business models
 - Publishers are a mix: some are private (Telegraph Media Group, Express Newspapers); the Scott Trust is a charity (Guardian News and Media); others respond to shareholders (News International, Trinity Mirror, FT Publishing)
 - The prominence of national titles obscures the 1,200 regional and local titles that serve the UK's cities and towns, where they are part of the fabric of the local economy. Trinity Mirror and DMGT publish both national and regional/local titles
 - Publishers adopt highly divergent business models: The Guardian is operated at a loss; The Sun operates at a profit and The Times titles at a loss; etc.
 - Publishers have irreversible print revenue decline in common, and are cutting costs to manage the print decline
 - Digital revenue growth has failed to offset print decline and added to costs
 - The FT's global business model has made it more insulated
- **Pressures on titles are the same, but the impact is different**

Publisher newspaper division	FY 2010 revenues (£m)	2005-10 change in revenues (%)
National newspapers		
News International* (News Corporation)	1,047	-2%
Associated (DMGT)	850	-3%
Trinity Mirror national division	430	-14%
FT Group (Pearson)**	403	21%
Telegraph Media Group	324	0%
Guardian News and Media (GMG)	221	-5%
Express Newspapers (Northern & Shell)	214	-26%
Regional newspapers		
Johnston Press	398	-23%
Trinity Mirror regional division†	331	-48%
Northcliffe (DMGT)	294	-43%
Newsquest (Gannett) ††	344	-53%
Notes:		
Unless otherwise stated, 2005-10 change in revenues is not like-for-like		
*News International includes News Group Newspapers Ltd and Times Newspapers Ltd		
**FT Group 2005-10 change like-for-like: 2005 revenue excl. IDC, reported in 2006 annual report		
†TM regional division 2005-10 change like-for-like: 2010 revenues excl. GMG Regional Media		
††Newsquest revenues converted to sterling using exchange rate stated in annual report		
[Source: Enders Analysis based on company reports]		

Key competitive pressures are on copy sales revenues and advertiser spend

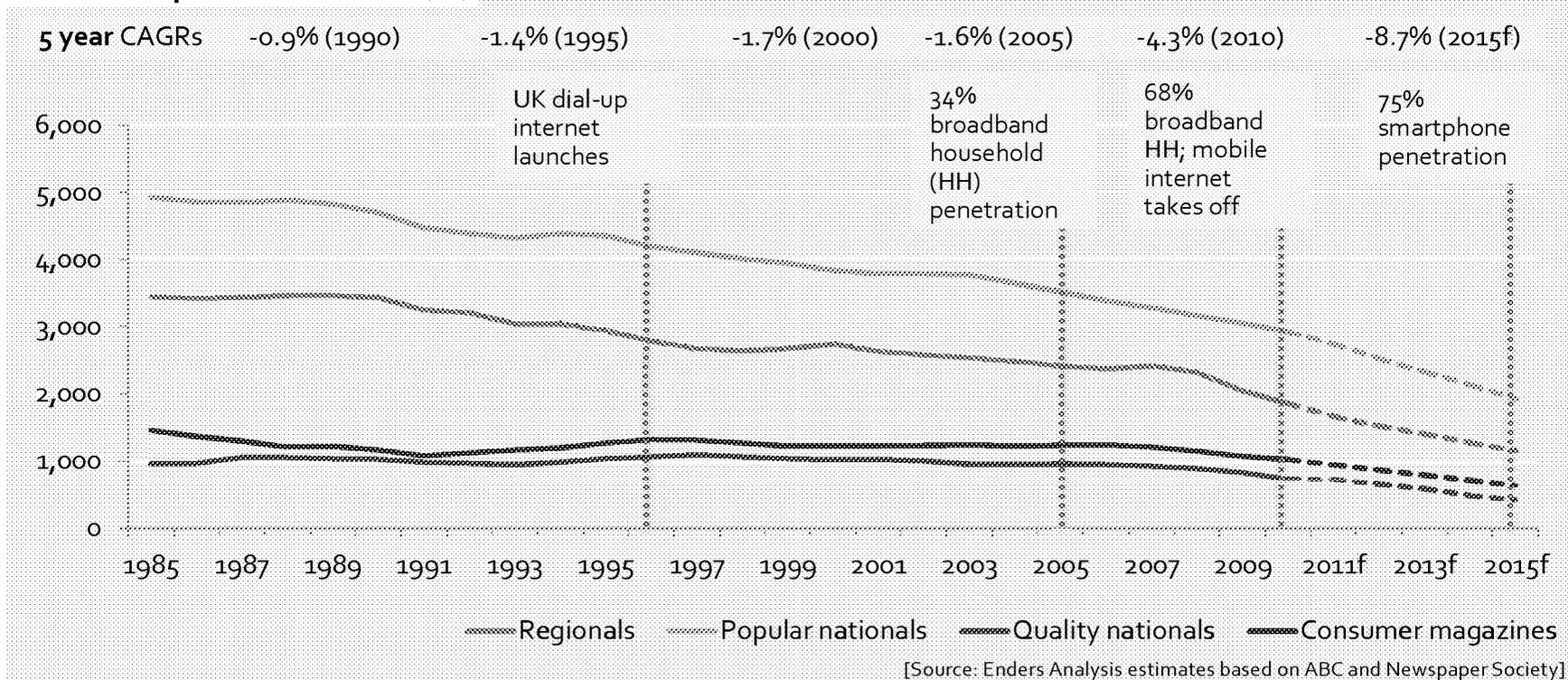
- Two key revenue sources for the print editions:
 - Copy sales revenue (sales at retail and subscriptions)
 - Display (carried in editorial pages) and classified advertising (on listing pages)
 - Both revenue lines are under pressure
- Copy sales revenue:
 - Circulation is in long term decline, which has accelerated since 2005
 - Cover price increases have been cautiously implemented
- Competing for advertisers:
 - Display has not been healthy due to the economy
 - Internet search is a new option for display advertisers
 - Print classified listings spend has plummeted as spend migrates online; high exposure of regionals

2010 UK copy sales revenue and advertiser spend (£m)



Circulation (volumes) decline has accelerated since 2005

UK annual press circulation (m)



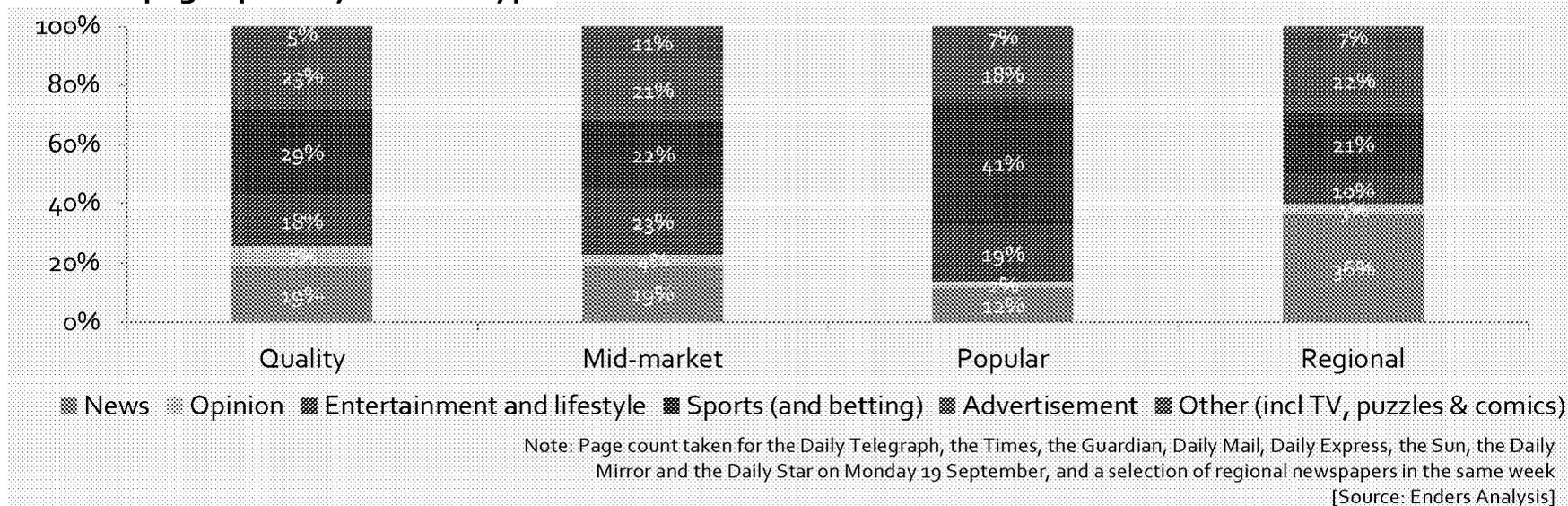
Factors behind the acceleration of circulation decline since 2005

- Circulation has been in long term decline for decades, roughly coinciding with new types of media for people to enjoy, such as TV, radio and internet
 - Cover prices have been raised to sustain copy sales revenues, but the strategy has a natural limit and cannot fully replace lost copy volumes
 - Salient factors affecting press copy volume sales between 2005 and 2010:
 - PC-based internet/broadband adoption leapt from 34% to 68% of UK households
 - A deep recession in 2009, from which the consumer has yet to fully recover
 - Lack of engagement with print news media by young adults
 - The circulation decline between 2005 and 2010 has been a consistent feature of all press categories:
 - Larger at the quality nationals (-24%), which have lost national market share
 - Lower at the popular nationals (-17%), which have then gained national market share
 - High at the regionals (-23%), lower for consumer magazines (-17%)
 - The circulation decline has continued into 2011 based on first-half data
 - Looking ahead, we expect mobile internet adoption will further accelerate copy sales decline:
 - By 2015, we estimate that 75% of UK adults will have purchased smartphones (iPhone, Android handsets)
 - Tablet penetration, although much lower, is also enabling mobile internet activities, including news apps
- **Competition between newspaper titles for market share will become more aggressive**

Titles compete for buyers through brands and content bundles

- Newspapers have much more than 'hard' news on offer; content includes editorial comment, sports, entertainment and lifestyle
- 'Hard' news makes up about 36% of page space at regional and local titles, 19% of page space at quality and mid-market nationals, and just 12% at popular (tabloids)
- Regional titles focus mainly on local news, national titles on news of national interest

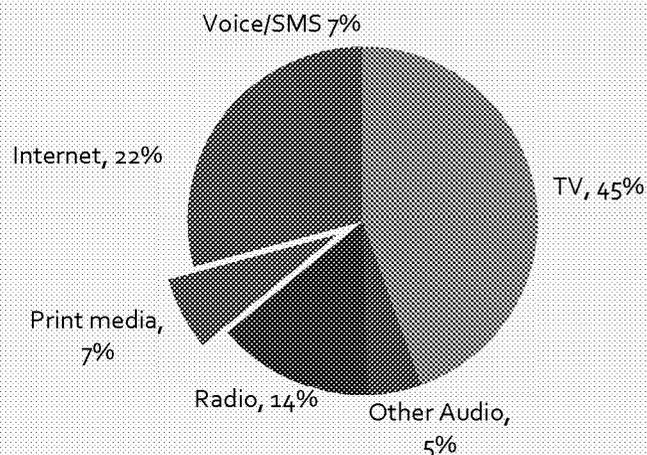
Share of page space by content type



Young people are less engaged with print media than all UK adults

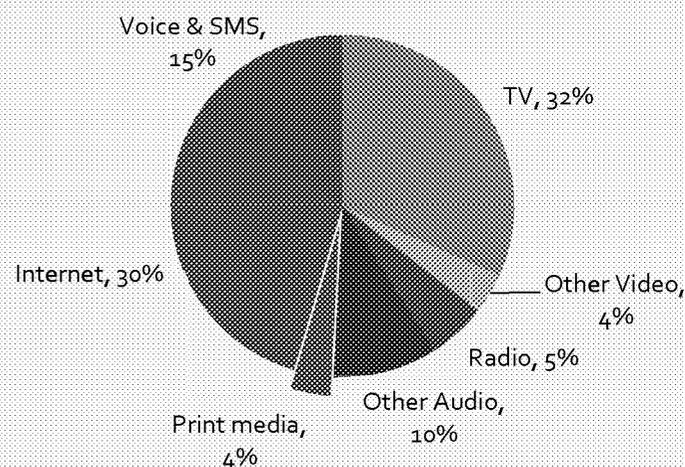
- UK adults have many choices to allocate their leisure time, and print media must compete with other media
- Among UK adults, TV is the #1 medium (45% of time spent), and the internet is the #2 medium (22% of time spent)
- Young adults spend more time on the internet (30%) and less time on TV (32%) than adults as a whole, and multitask as well
- Buyers and readers of print media are aging, whilst the digitally engaged lose interest in print products

All UK adults (% of time)



Note: Survey conducted in April-May 2010
 [Source: Ofcom Communications Market Report 2010]

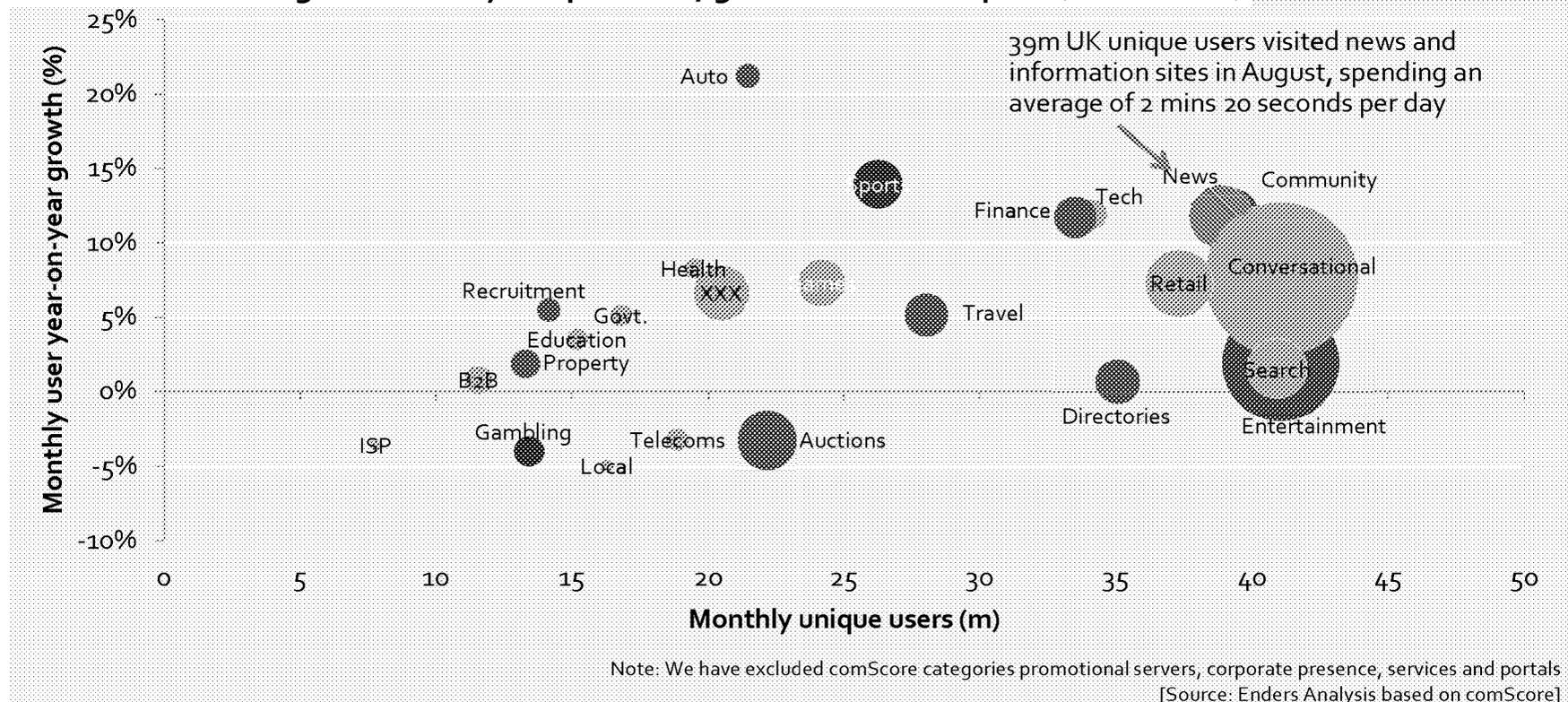
Young people 16 to 24 (% of time)



Note: Survey conducted in April-May 2010
 [Source: Ofcom Communications Market Report 2010]

Many digital news options and a fragmented online media marketplace

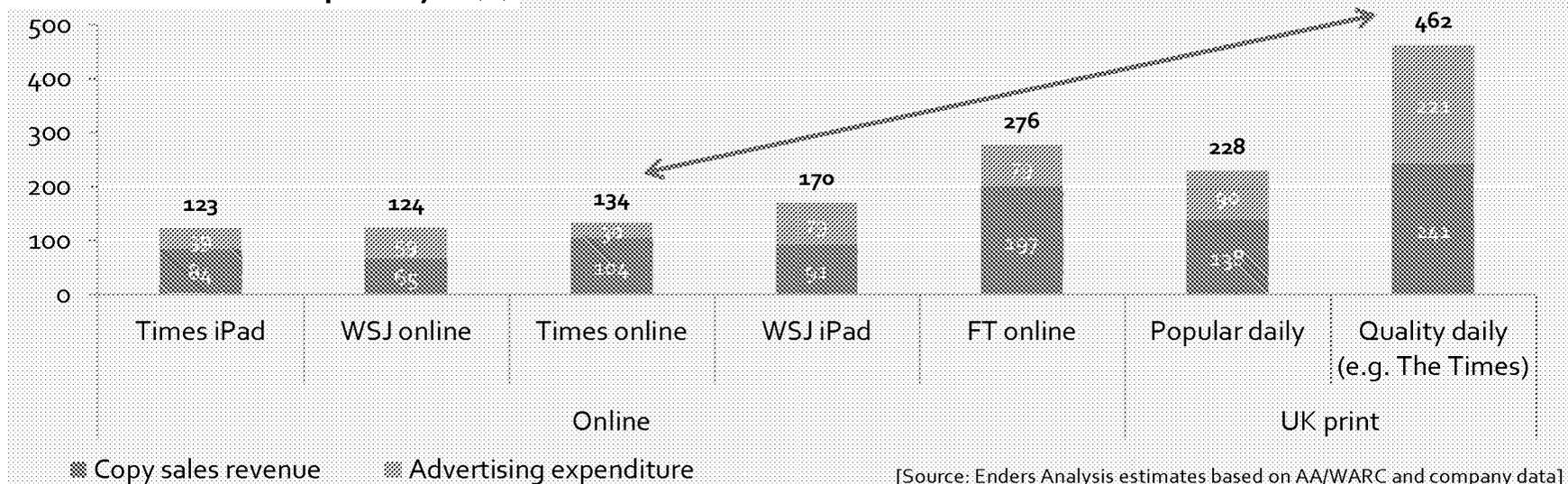
UK internet use Aug-11: monthly unique users, growth and time spent (bubble size)



Digital news supply is a further burden on the press operating model

- Newspapers offer online buyers sites and mobile apps. Free online news (BBC, Mail Online, Guardian) preclude pay-walls for all but the premium content propositions. Free-to-the-user sites only generate revenues from online display advertising
- For a quality title, a pay-wall subscriber is worth at best a quarter to a third of a print buyer
- Costs of digital news supply are on top of costs of print, leading to dual costs in the print-to-digital transition (see Appendix)

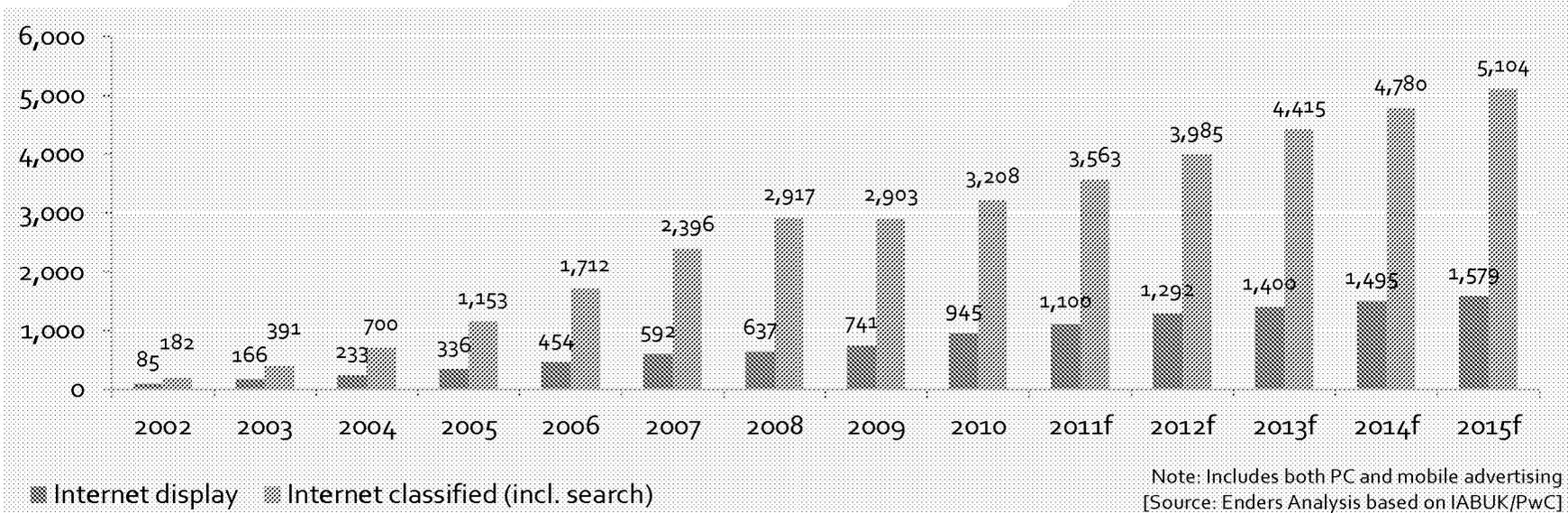
2010 annual revenue per buyer (£)



Digital news supply generates low revenues from display advertising

- Revenue from internet classifieds have risen faster and higher than display: direct response, not display, has flourished online
- Online display revenues of news sites are low: cost-per-thousand page views (CPT) is a fraction of print due to the vast inventory
- BBC news sites (20m monthly UK unique users in August 2011, according to comScore) are supported by a share of licence fee; Mail Online (12m UK unique users), earned just £12m in 2010 (£8m in H1 2011); Guardian.co.uk (10m UK unique users) does not disclose

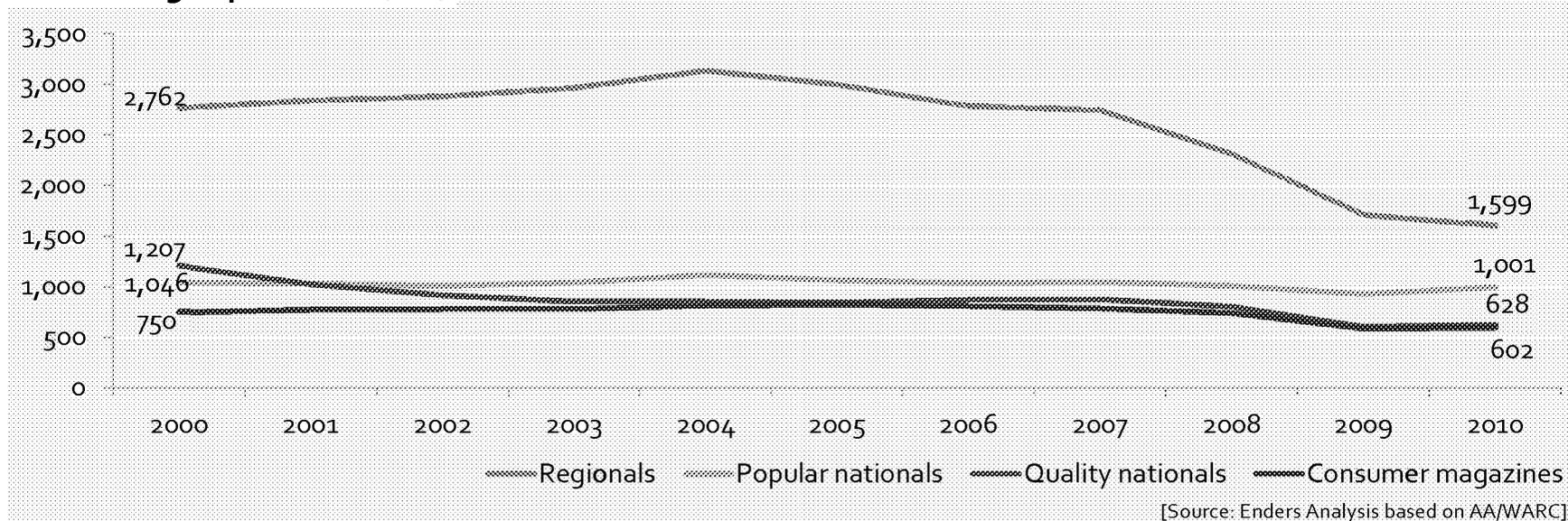
Internet advertising by format (£m): display and classified (incl. search)



Advertising revenues of regionals have fallen the most from print classifieds decline

- Print classified declines (see Appendix) have reduced regional and local title advertising spend by half between 2004 and 2010. Consolidation of local titles is needed to prevent closure (note dissuasive OFT local media merger regime)
- The Guardian has also been adversely impacted by the loss of print classified recruitment spend
- Display spend has held up better at popular nationals than qualities as advertisers focus on titles with the largest reach

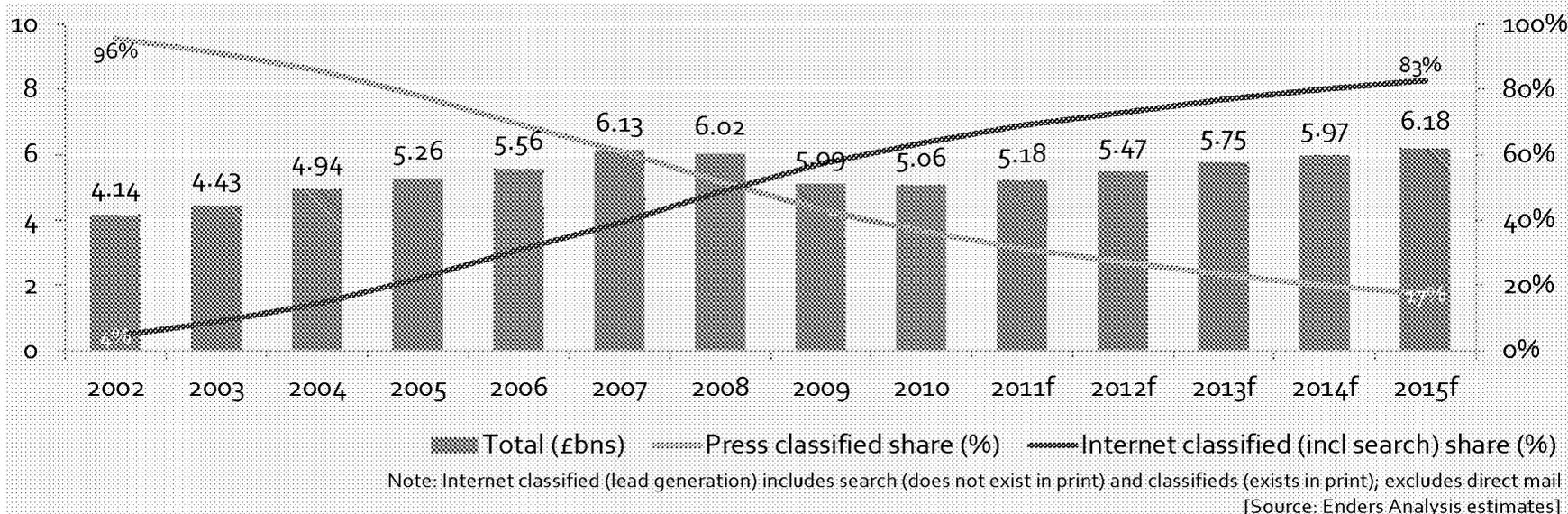
Advertising expenditure (£m)



Internet has disrupted the print classified model

- Internet classified revenue (including search) crossed over print classified revenue in 2008, after just six years
- Online classifieds offer the widest reach at a fraction of the cost of print. Since the onset of recession in mid-2008, volumes of transactions in key verticals (recruitment, property and autos) have reduced
- The outcome is a classified marketplace that has downsized in relation to the peak in 2007

Press and internet (incl. search) classified revenue (£bn) and respective shares



Appendix

Definitions and data sources

- **Annual circulation:** average circulation (volumes of copies) per issue multiplied by approximate frequency per year, assuming daily newspapers are published 312 per year and Sunday newspapers 52 times
- **Classified advertising:** the distinction between classified and display advertising is not always as clear-cut as sometimes implied, with print advertising at some publishers effectively collated by sector ('property') rather than style or objective
- **Classified advertising expenditure:** the final value of campaign commitments to classified inventory directly transacted by media owners. For newspaper and magazines we use data reported by the Advertising Association/WARC Expenditure Report (AA/WARC); for directories and internet, we estimate classified expenditure based on AA/WARC, market leader company data and our ongoing conversations with leading industry players
- **Company data:** newspaper publisher revenues are sourced from annual reports by fiscal year (FY). News International: FY ends June/July; DMGT, Trinity Mirror, Pearson (FT Group), Telegraph Media Group, Express Newspapers, Johnston Press and Gannet (Newsquest): FY ends December/January; Guardian Media Group: FY ends March/April
- **Copy sales revenue:** the value of copy sales, i.e. UK circulation multiplied by basic cover price. We then factor in discounting, free distribution and subscription pricing. Our estimates are based on ABC data for recent years; we use Newspaper Society data to extrapolate back to 1985
- **Display advertising expenditure:** reported by AA/WARC as the final value of campaign commitments to display (non-classified) inventory, gross of agency commissions
- **Forecasts:** all forecasts are constructed by Enders Analysis, based on our research and analysis of underlying market conditions and directions, unless otherwise stated

National and regional newspaper company operating profits

Publisher newspaper division	FY 2005 operating profits (£m)	FY 2010 operating profits (£m)	FY 2010 operating margin (%)	FY 2010 parent group operating margin (%)
National newspapers				
Associated (DMGT)	95	95	11%	16%
Trinity Mirror national division*	91	86	20%	16%
Telegraph Media Group	-12	60	19%	19%
FT Group (Pearson)**	21	60	15%	15%
Express Newspapers (Northern & Shell)	15	0	0%	7%
News International (News Corporation)†	17	-24	-2%	-
Guardian News and Media (GMG) ††	-19	-31	-14%	-19%
Regional newspapers				
Johnston Press	180	72	18%	18%
Trinity Mirror regional division	151	52	16%	16%
<i>Excluding GMG Regional acquisition</i>	151	46	16%	-
Northcliffe (DMGT)	102	30	10%	16%
Newsquest (Gannett)‡	-	-	-	22%

Notes:

Unless otherwise stated, we have calculated operating margin based on reported operating profit and revenue

*Trinity Mirror group operating margin reported, based on adjusted results (incl. non-recurring items and amortisation)

**FT Group 2005 operating profit excl. IDC, reported in 2006 annual report

†News International includes News Group Newspapers Ltd and Times Newspapers Ltd

††GMG parent group operating margin excl. joint ventures

‡Newsquest does not report operating profit for Gannett

[Source: Enders Analysis based on company data]

The transition from print to online by classified category

- Each sector is migrating from print to online media at different rates
- Property is lagging behind in the growth of online share:
 - Agents still rely on print for its premium display characteristics, but this model will come under severe pressure with the proliferation of tablets offering similar display environments
 - Property addresses an older demographic than other verticals, giving regional and local press effective reach
- Digital revenue growth in the classified sectors will increasingly rely on non-listings activities, such as display, data-driven lead solutions, enhanced listings and so on
- Unfortunately for print media, such developments will make it still harder to develop print advertising in these categories, though great display platforms will have an important place for the foreseeable future, particularly in property

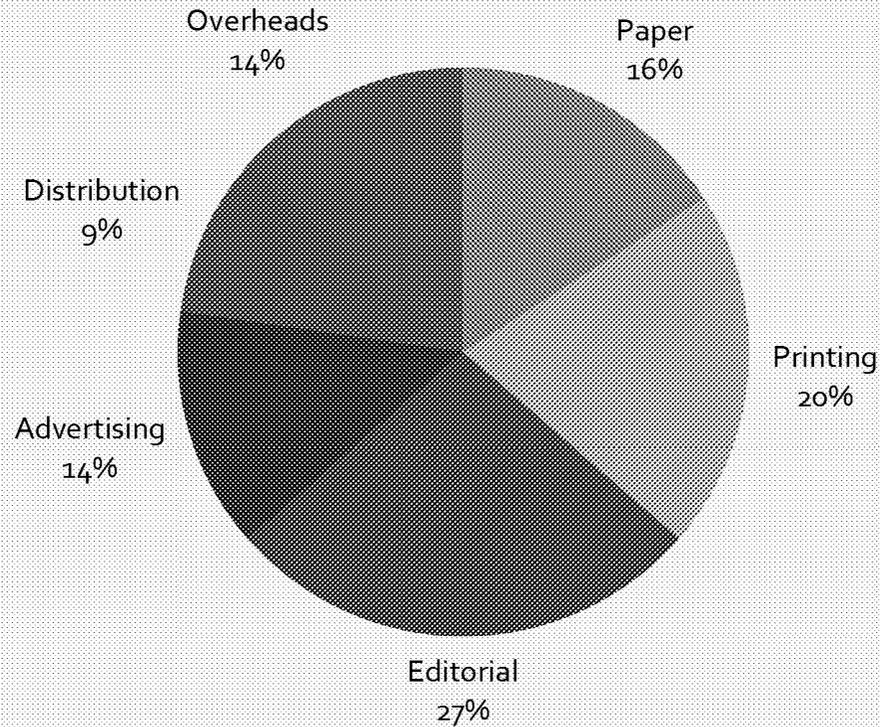
Estimated print and online classified advertising revenue (£m), 2005-10

	Print media			Online			Online as share of spend, 2010
	2005 (£m)	2010 (£m)	CAGR 2005-10	2005 (£m)	2010 (£m)	CAGR 2005-10	
Recruitment	1,341	346	-24%	158	233	8%	40%
Property	551	254	-14%	35	131	30%	34%
Auto	462	226	-13%	42	129	25%	36%
Directories	1,005	490	-13%	123	342	23%	41%
All classified	4,106	1,851	-15%	384	910	19%	33%

Note: Excludes search and direct mail [Source: Enders Analysis estimates based on AA/WARC and IAB/PwC data]

Newspaper cost structure

Newspaper costs structure



[Source: Enders Analysis estimates based on company data]

Disclaimer

Important notice: By accepting this research note, the recipient agrees to be bound by the following terms of use. This research note has been prepared by Enders Analysis Limited and published solely for guidance and general informational purposes. It may contain the personal opinions of research analysts' based on research undertaken. This note has no regard to any specific recipient, including but not limited to any specific investment objectives, and should not be relied on by any recipient for investment or any other purposes. Enders Analysis Limited gives no undertaking to provide the recipient with access to any additional information or to update or keep current any information or opinions contained herein. The information and any opinions contained herein are based on sources believed to be reliable but the information relied on has not been independently verified. Enders Analysis Limited, its officers, employees and agents make no warranties or representations, express or implied, as to the accuracy or completeness of information and opinions contained herein and exclude all liability to the fullest extent permitted by law for any direct or indirect loss or damage or any other costs or expenses of any kind which may arise directly or indirectly out of the use of this note, including but not limited to anything caused by any viruses or any failures in computer transmission. The recipient hereby indemnifies Enders Analysis Limited, its officers, employees and agents and any entity which directly or indirectly controls, is controlled by, or is under direct or indirect common control with Enders Analysis Limited from time to time, against any direct or indirect loss or damage or any other costs or expenses of any kind which they may incur directly or indirectly as a result of the recipient's use of this note.

© 2011 Enders Analysis Limited. All rights reserved. No part of this note may be reproduced or distributed in any manner including, but not limited to, via the internet, without the prior permission of Enders Analysis Limited. If you have not received this note directly from Enders Analysis Limited, your receipt is unauthorised. Please return this note to Enders Analysis Limited immediately.