Competitive pressures on the press

Presentation to the Leveson Inquiry

Claire Enders
6 October 2011
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• 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

- Disruptive effects of technology
- E-commerce
- Future of media
- Mobile communications
- Internet business models
- Apple, Amazon, Google and Facebook
- BSkyB, ITV, Virgin Media, BT Vision
- Recorded music and music publishing
- Fixed-line communications
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:

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

Fund Managers:
Aberdeen Asset Management
Alliance Trust, Baillie Gifford
Investment Management
Morgan Stanley Investment Management, Odey Asset Management, USS

Investment Banks:
Allen & Co, Barclays Capital BNP Paribas, Citigroup
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Cinven, Doughty Hanson, KKR
Permira Advisors, Providence Equity

Competitive pressures on the press: presentation to the Leveson Inquiry
Press in context: TV and internet have recovered from the recession, not press

UK revenues by media (£bn)

Note: TV total includes advertising, pay-TV and the portion of the license fee allocated to TV; press total includes copy sales revenue and advertising expenditure

[Source: Enders Analysis estimates based on ABC, AA/WARC, Newspaper Society, Ofcom and company reports]
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

<table>
<thead>
<tr>
<th>Publisher newspaper division</th>
<th>FY 2010 revenues (£m)</th>
<th>2005-10 change in revenues (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National newspapers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>News International* (News Corporation)</td>
<td>1,047</td>
<td>-2%</td>
</tr>
<tr>
<td>Associated (DMGT)</td>
<td>850</td>
<td>-3%</td>
</tr>
<tr>
<td>Trinity Mirror national division</td>
<td>430</td>
<td>-14%</td>
</tr>
<tr>
<td>FT Group (Pearson)**</td>
<td>403</td>
<td>21%</td>
</tr>
<tr>
<td>Telegraph Media Group</td>
<td>324</td>
<td>0%</td>
</tr>
<tr>
<td>Guardian News and Media (GMG)</td>
<td>221</td>
<td>-5%</td>
</tr>
<tr>
<td>Express Newspapers (Northern &amp; Shell)</td>
<td>214</td>
<td>-26%</td>
</tr>
<tr>
<td><strong>Regional newspapers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johnston Press</td>
<td>398</td>
<td>-23%</td>
</tr>
<tr>
<td>Trinity Mirror regional division†</td>
<td>331</td>
<td>-48%</td>
</tr>
<tr>
<td>Northcliffe (DMGT)</td>
<td>294</td>
<td>-43%</td>
</tr>
<tr>
<td>Newsquest (Gannett) ††</td>
<td>344</td>
<td>-53%</td>
</tr>
</tbody>
</table>

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
Circulation (volumes) decline has accelerated since 2005

UK annual press circulation (m)

| 5 year CAGRs | -0.9% (1990) | -1.4% (1995) | -1.7% (2000) | -1.6% (2005) | -4.3% (2010) | -8.7% (2015f) |

UK dial-up internet launches

34% broadband household (HH) penetration

68% broadband HH; mobile internet takes off

75% smartphone penetration

Dashed line: 5 year CAGRs:
- 0.9% (1990)
- 1.4% (1995)
- 1.7% (2000)
- 1.6% (2005)
- 4.3% (2010)
- 8.7% (2015f)

[Source: Enders Analysis estimates based on ABC and Newspaper Society]
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

<table>
<thead>
<tr>
<th></th>
<th>Quality</th>
<th>Mid-market</th>
<th>Popular</th>
<th>Regional</th>
</tr>
</thead>
<tbody>
<tr>
<td>News</td>
<td>5%</td>
<td>11%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Opinion</td>
<td>23%</td>
<td>21%</td>
<td>18%</td>
<td>22%</td>
</tr>
<tr>
<td>Entertainment and lifestyle</td>
<td>29%</td>
<td>22%</td>
<td>41%</td>
<td>21%</td>
</tr>
<tr>
<td>Sports (and betting)</td>
<td>18%</td>
<td>23%</td>
<td>2%</td>
<td>10%</td>
</tr>
<tr>
<td>Advertisement</td>
<td>7%</td>
<td>19%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Other (incl TV, puzzles &amp; comics)</td>
<td>19%</td>
<td>19%</td>
<td>36%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Note: Page count taken for the Daily Telegraph, the Times, the Guardian, Daily Mail, Daily Express, the Sun, the Daily Mirror and the Daily Star on Monday 19 September, and a selection of regional newspapers in the same week

[Source: Enders Analysis]
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)

- TV, 45%
- Internet, 22%
- Print media, 7%
- Radio, 14%
- Other Audio, 5%
- Voice/SMS, 7%

Young people 16 to 24 (% of time)

- TV, 32%
- Internet, 30%
- Other Video, 4%
- Other Audio, 10%
- Print media, 4%
- Voice & SMS, 15%

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)

39m UK unique users visited news and information sites in August, spending an average of 2 mins 20 seconds per day.

Note: We have excluded comScore categories promotional servers, corporate presence, services and portals.

[Source: Enders Analysis based on comScore]

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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 (£)

<table>
<thead>
<tr>
<th></th>
<th>Copy sales revenue</th>
<th>Advertising expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Times iPad</td>
<td>84</td>
<td>39</td>
</tr>
<tr>
<td>WSJ online</td>
<td>65</td>
<td>59</td>
</tr>
<tr>
<td>Times online</td>
<td>104</td>
<td>30</td>
</tr>
<tr>
<td>WSJ iPad</td>
<td>91</td>
<td>79</td>
</tr>
<tr>
<td>FT online</td>
<td>197</td>
<td>79</td>
</tr>
<tr>
<td>Popular daily</td>
<td>138</td>
<td>90</td>
</tr>
<tr>
<td>Quality daily</td>
<td>241</td>
<td>221</td>
</tr>
<tr>
<td>(e.g. The Times)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[Source: Enders Analysis estimates based on AA/WARC and company data]
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)

Note: Includes both PC and mobile advertising

[Source: Enders Analysis based on IABUK/PwC]
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)

[Source: Enders Analysis based on AA/WARC]
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

Note: Internet classified (lead generation) includes search (does not exist in print) and classifieds (exists in print); excludes direct mail

[Source: Enders Analysis estimates]
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

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

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

<table>
<thead>
<tr>
<th></th>
<th>Print media</th>
<th>Online</th>
<th>Online as share of spend, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005 (£m)</td>
<td>2010 (£m)</td>
<td>CAGR 2005-10</td>
</tr>
<tr>
<td>Recruitment</td>
<td>1,341</td>
<td>346</td>
<td>-24%</td>
</tr>
<tr>
<td>Property</td>
<td>551</td>
<td>254</td>
<td>-14%</td>
</tr>
<tr>
<td>Auto</td>
<td>462</td>
<td>226</td>
<td>-13%</td>
</tr>
<tr>
<td>Directories</td>
<td>1,005</td>
<td>490</td>
<td>-13%</td>
</tr>
<tr>
<td>All classified</td>
<td>4,106</td>
<td>1,851</td>
<td>-15%</td>
</tr>
</tbody>
</table>

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

[Source: Enders Analysis estimates based on company data]
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