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## Newspapers Edit Down Outlooks

**By Russel Adams**

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Newspaper companies are resetting their advertising expectations after a discouraging first half of the year, a shift that could spur a return to more of the job cuts and other belt-tightening moves that spread through the industry in 2008 and 2009.

A spate of publishers in recent weeks reported that newspaper advertising revenue in the second quarter declined at rates in the mid- to high-single digits because of persistent weakness in print, and executives said they expect similar trends in the third quarter.

"Right now, I'd have a hard time presenting a plan with revenues flattening out," one newspaper executive said in light of the continuing declines.

Some publishers already have turned to layoffs and furloughs, staples of the previous downturn. USA Today publisher Gannett Co. already announced a significant round of new job cuts earlier this summer. Meanwhile, there is renewed momentum to consolidate to shore up newspaper-company finances.

Discussions involving the acquisition by Denver Post publisher MediaNews Group Inc. of the Orange County Register and other papers owned by Freedom Communications Inc. have been going on for months, though talks have stalled over questions about MediaNews's ability to finance the deal, according to people familiar with the matter. Earlier, talks broke down over disagreements about price.

The current picture is a far cry from 2009, when ad-revenue declines hovered near 30% for a number of newspaper companies. In addition, the industry as a whole doesn't have the same balance-sheet problems after shedding much of its debt through reorganization and asset sales. And publishers have moved aggressively in the past couple years to increase digital revenues, in some cases charging online readers and in others branching into new businesses like e-commerce.

But analysts and executives say it will take more time for newspaper companies to cash in on their digital progress, and if current print trends don't abate in the short term, there will be more pain ahead. "If the top line doesn't show signs of decreasing at a diminishing rate, they're facing some rather dire circumstances," said Edward Atorino, an analyst at Benchmark Co.

Some papers with national reach are doing better. News Corp., which owns The Wall Street Journal, the nation's largest paper in circulation, doesn't break out the paper's advertising results, but the company said higher revenue in its publishing segment for its fiscal year ended June 30 was due in part to increases in circulation and advertising revenue at the

Journal. The Journal's total average circulation was 2.1 million as of end of March, according to the Audit Bureau of Circulations.

Total advertising revenue for the fiscal year at Dow Jones, of which the Journal is the primary part, was nearly 12% higher than the year earlier, according to Dow Jones & Co. president Todd Larsen, in a note to staff. Circulation revenue increased more than 13% for the year.

In the segment of the New York Times Co. that consists primarily of the flagship paper, ad revenue declined less than 1% to \$183.9 million in the second quarter.

The cost-cutting scenario that could be facing more newspaper companies already has played out at Gannett, the largest U.S. newspaper publisher by circulation and a bellwether for the industry. In the second quarter, Gannett reported a 23% increase in digital revenue at USA Today and 9% at its U.S. community publishing division, which consists of 80 papers including the Arizona Republic, Cincinnati Enquirer and Indianapolis Star. Yet total publishing ad revenue for the period was down 6.5% to \$646.9 million, following a 7.3% decline in the first quarter, as declines in the more-expensive print ads dragged down results.

In June, citing the slower-than-expected pace of the recovery, Gannett executives announced plans to lay off about 700 employees, or about 2% of its work force, to cut costs in the U.S. community-newspaper unit.

Responding to a question about the outlook for newspapers, Media General Inc. President and Chief Executive Marshall Morton said in a recent call, "Frankly, the trends have not gotten better." Media General publishes the Tampa Tribune and Winston-Salem Journal, among other papers.

The key drag on ad results for a number of these companies was a significant pullback by local retailers, which account for more than half of ad revenue at many local papers. The uneasy economy and the longer-term shift of ad dollars online continue to play a big role, analysts and executives say. Another factor is the emergence of daily-deal sites led by Groupon Inc., which have siphoned at least some ads away from papers, said Craig Huber, a senior analyst at Access 342, an independent stock-research company.

Among the hardest hit in the most recent quarter was the Washington Post Co.'s flagship newspaper, where print advertising declined 12% to \$66.6 million for the quarter. And unlike at many of its peers, the digital business was no help. Ad revenue at the company's online publishing unit, which includes the Post's website and Slate, fell 13% for the quarter.

One problem publishers may face is after the purges of recent years, some are running out of room to cut. Asked in a recent conference call what inning McClatchy Co. was in with respect to cost cuts, company chairman and chief executive Gary Pruitt said "It feels like the 19th inning."

"These companies do need to step it up on the cost cutting front in the back half of this year and into 2012." said Access 342's Mr. Huber. "At the end of the day, that's all they can control."