Newspaper Acquisitions

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What's Inside

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You can never get all the facts from just one newspaper, and unless you have all the facts, you cannot make proper judgments about what is going on.

-Harry S. Truman

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Family Owners Primary Sellers in Q1

Majority of transactions are independent owners exiting the business

The sale of family-owned newspapers represented the bulk of the deals in the first quarter of 2017, with four of the six announced daily newspaper transactions involving a complete exit from the industry by the owner.

The Dix family in Ohio, Crosbie family in Connecticut, Batdorff family in Michigan and Randall family in Maryland sold or agreed to sell all of their newspaper holdings in the first part of the year. A fifth family owner, Bliss Communications, sold a portion of its properties.

The buyers generally were newspaper owners with operations in the region seeking to benefit from increased scale.

The sales are a continuation of a trend in 2016 in which a number of prominent independent owners, including the Simons family in Lawrence, Kansas, and the Waters family in Columbia, Missouri, decided to sell their newspapers.

New Media Grows in Ohio

New Media Investment Group expanded its footprint in Ohio with the acquisition of five daily newspapers, related publications and printing operations from Dix Communications. The Dix family had been newspaper publishers in Ohio since the late 1800s.

The transaction enhances New Media's presence in the state, which includes the state capital newspaper Columbus Dispatch, the Canton Repository, the Dover Times-Reporter and the Massillon Independent. The five Dix dailies are in Wooster, Kent, Alliance, Ashland and Cambridge.

Dix Communications started in 1893 when Emmitt C. Dix had a failed venture in the Ohio newspaper business. Five years later, he and his father bought the Wooster Daily Record, which proved to be successful. At one time, Dix owned eight dailies in Ohio and Kentucky.

The Dix family had earlier divested its broadcast television stations. It will continue to operate an ad agency and some radio operations.

Family to Family in CT

The Crosbie family agreed to sell the daily Willimantic Chronicle in eastern Connecticut to New England publisher Michael Schroeder and his family, owner of the New Britain Herald and the Bristol Press in Connecticut and the Block Island Times in Rhode Island.

The Chronicle has the distinction of being the daily newspaper with the longest ownership by the same family in New England – 140 years. The family started the paper five generations ago.

Schroeder's company, Central Connecticut Communications, bought the New Britain and Bristol newspapers eight years ago from Journal Register Co. Schroeder acquired the Block Island Times in 2015.

The Willimantic Chronicle was started in 1877 by John MacDonald. Four generations followed with his son George A. Bartlett, grandson G. Donald Bartlett, great granddaughter Lucy Bartlett Crosbie and great-great grandson Kevin Bartlett Crosbie. Patrice Crosbie, widow of Kevin Crosbie, is the current publisher.

Ogden Moves into Maryland

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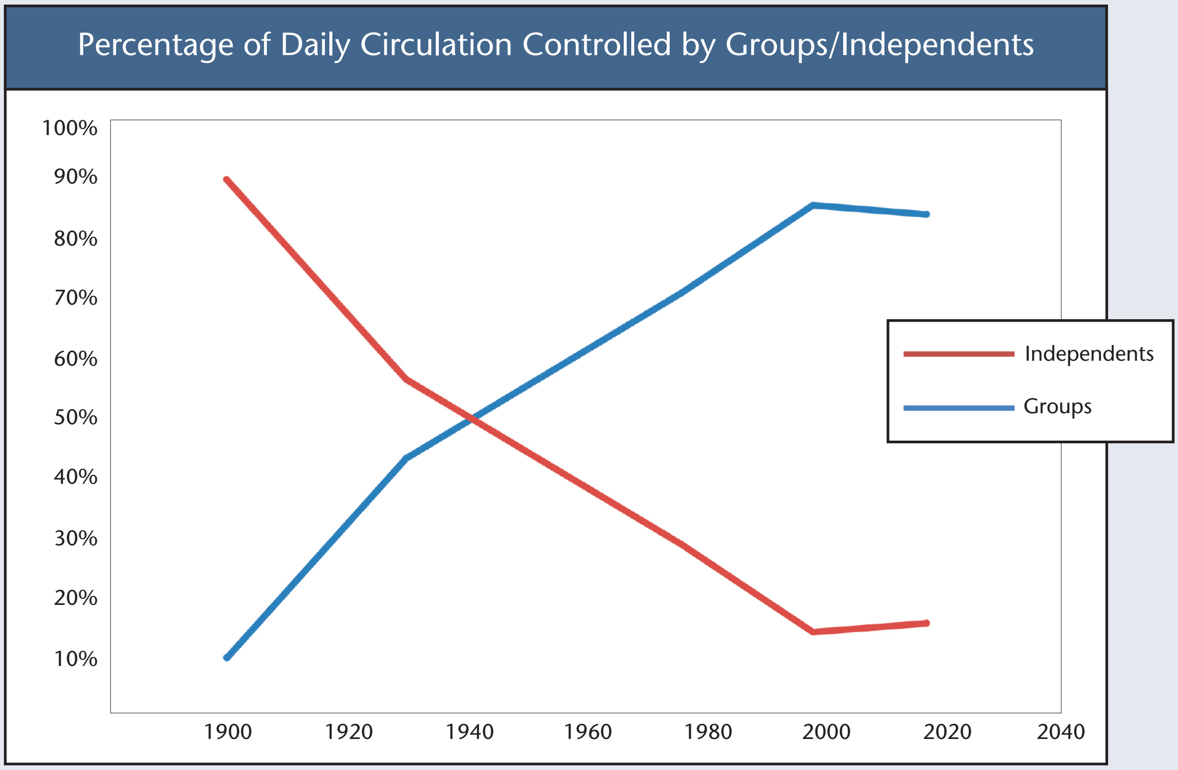
History of Ownership Consolidation

More than 85% of daily circulation currently owned by groups

In 1900, 90% of daily newspaper circulation was under the control of independent owners – that is, publishers operating a single newspaper. Today that trend has nearly reversed, with roughly 85% of daily newspaper circulation under the control of a group owning two or more dailies.



Source: Dirks, Van Essen & Murray

Consolidation of ownership is not unique to the newspaper industry but occurs in nearly every business sector over the course of its maturation. Typically, indeed, it occurs much more rapidly than it has in the newspaper industry. Think of the independently-owned corner drug stores, shoe stores, supermarkets and banks that once dominated main streets across the country. These types of businesses have almost vanished today due to rapid ownership consolidation. In their place are retail establishments that are owned by companies based elsewhere.

In comparison to retail, one might argue, the newspaper industry has seen relatively slow consolidation. There are 108 group owners of newspapers in the U.S. today and still 199 independent newspaper owners. Of the nation's nearly 1,400 daily newspapers, 15% are still controlled by independent owners.

Consolidation is also more evenly distributed across the newspaper industry than other industries. Whereas the top six electronic media companies, companies like Comcast, Disney and Time Warner, control the vast majority of media in the U.S. – up to 90% by some estimates – the 10 largest newspaper companies control only 38.5% of U.S. daily newspaper circulation. Gannett – the largest newspaper group by daily circulation – reaches just 4.8% of U.S. households. Its aggregate daily circulation represents 15.3% of the total daily circulation in the country.

In the early 20th century, most cities had multiple daily newspapers. As group ownership of newspapers began to take root, however, consolidation also escalated within individual markets. In the 1920s, 500 U.S. cities had two or more daily newspapers. Not surprisingly given the fierce competition, most newspapers in this era were not very profitable. The Great Depression of the early 1930s wiped many of these struggling companies out, significantly reducing the number of cities with competing daily newspapers – and that number has only continued to drop. Today, there are only 10 cities in the U.S. with two or more competing dailies.

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Ownership Consolidation

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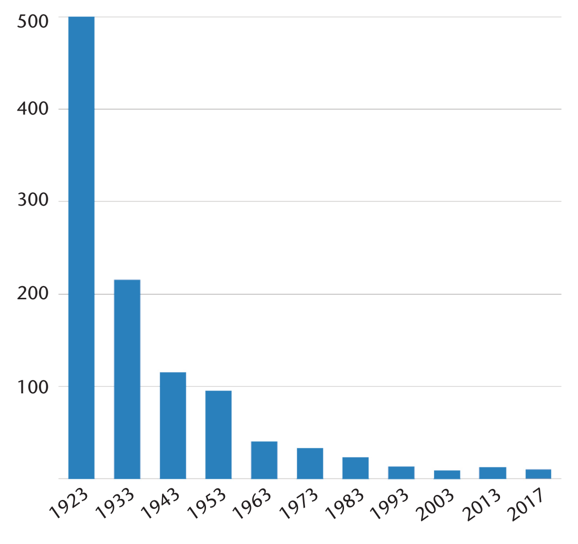
Number of Cities With Competing Dailies



Source: Dirks, Van Essen & Murray

Consolidation within markets further escalated the growth of newspaper groups. As competing newspapers were either consolidated or driven out of business, the financial returns of surviving newspapers began to improve dramatically. As their resources grew, more and more operators chose to add additional newspapers to their holdings. Companies began to recognize that they could bring economies of scale to their newly acquired newspapers and significantly improve operating margins.

The number of groups owning two or more dailies rose sharply in the wake of World War II, an expansion that continued for 20 years. Not coincidentally, the retail sector also grew rapidly throughout this era, as returning service men bought homes and started families. The new consumer culture ushered in a greater demand for advertising, which fueled a new level of prosperity for newspapers, attracting investment capital and further stimulating interest in group ownership.

One of the fastest-growing companies throughout this period was Gannett, which completed 60 daily newspaper transactions between 1945 and 1980. Another important player was Jack Knight, who parlayed his ownership of the Depression-weary, debt-ridden Akron (OH) Beacon Journal into a chain of newspapers that he would merge with Ridder Publications in 1974. By 1978, Knight-Ridder was the largest newspaper group in the U.S.

Several families also made the decision to build newspaper groups. Cowles Media, Gaylord Publishing, Harris Enterprises, Booth Newspapers, Stauffer Communications, Scripps, Ridder and Copley all got their start prior to the Great Depression and began adding newspapers as the nation's economy recovered.

Thomson, Ottaway, Knight, Pulliam and Cox also built groups around this time. In 1963, Dow Jones became the first newspaper company to move to public ownership. Seven more companies followed in the 1960s, in large part to gain access to the capital required to fuel an acquisition strategy.

Move to Public Ownership

Dow Jones	1963
Times Mirror	1964
Thomson Newspapers	1965
Media General	1966
Gannett Co.	1967
New York Times Co.	1968

The total number of groups peaked in 1975, at 176. That year, 59% of the nearly 1,800 daily newspapers published in the U.S. were owned by groups. It should be noted that many of these groups were quite small; 67 of them owned only two daily newspapers. In many cases, these small groups were the result of a family enterprise expanding in the region as some new opportunity arose. Since 1975, the total number of groups has steadily declined, though not yet to pre-1955 levels.

While most of the acquisitions up through the peak involved groups buying independently-owned dailies, a new trend emerged in the 1970s of groups acquiring other groups. One of the earliest of these – and the largest newspaper deal ever at the time – was the acquisition of the Brush-Moore Newspapers by Thomson Newspapers for $72 million in 1967. Advance Publications, owned by Samuel I. Newhouse and family, set another high when it acquired Booth Newspapers for $305 million in 1976. In the late 1970s, Gannett acquired multiple newspapers in two transactions when it bought Combined Communications and Spiedel Newspapers. Lee Enterprises grew rapidly around this time with its acquisition of a group known as Lindsay-Schaub.

One of the most acquisition-minded of this new generation of large newspaper companies was MediaNews Group, founded by Dean Singleton and Richard Scudder in 1983. Under Singleton's lead, MediaNews would go on to acquire 150 daily and 150 weekly newspapers with an aggregate value of more than $6 billion before merging with 21st Century Media to become Digital First Media in 2013, when Singleton retired. At one point, MediaNews was the 10th largest newspaper company in the country by circulation size.

Another notably acquisitive group was American Publishing Company, operated by Conrad Black and David Radler. The

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Ownership Consolidation

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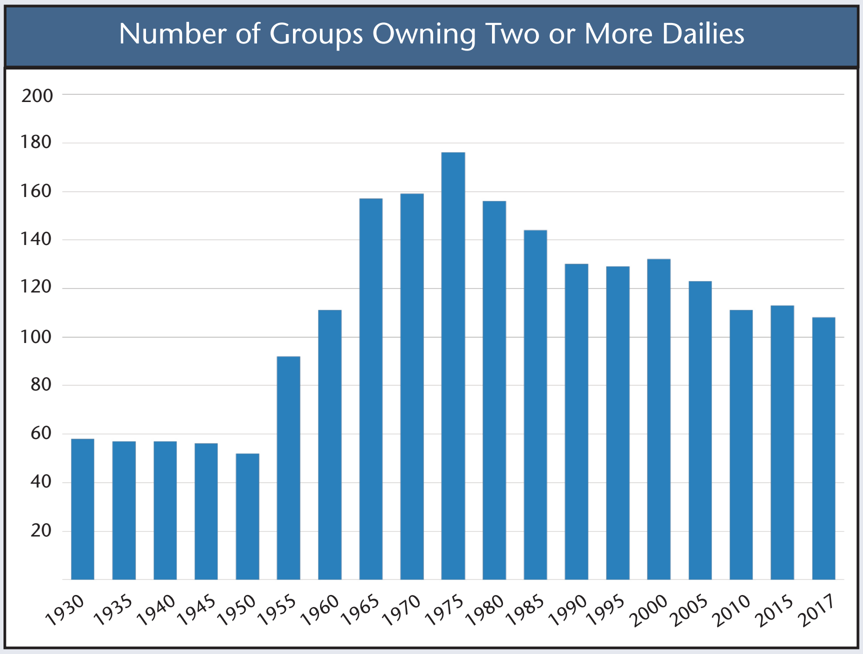
company entered the scene in 1986 with a $75 million acquisition of eight dailies and went on to make more than 50 different newspaper acquisitions. At one time, American Publishing owned more daily newspapers than any other company. It sold off most of its American properties by 2000.

Community Newspaper Holdings, another major group in this later era, was founded in 1997. A very rapid buying spree, including the acquisition of 28 dailies from American Publishing in 1999, propelled the company into the position of owning more dailies newspapers than any other company by the following year.



Source: Dirks, Van Essen & Murray

That year, 2000, proved a watershed for changes in newspaper ownership. The value of daily newspaper transaction activity set an all-time high of $14.3 billion, more than doubling the previous mark, thanks to several of the largest deals in the history of the newspaper industry. The Tribune Company's acquisition of Times Mirror accounted for a little more than half of this total. The divestiture of all of the Thomson Corporation's U.S. newspapers in several deals was another major factor, as was the sale of Central Newspapers to Gannett. All in all, 135 dailies traded hands in 2000, in 53 different transactions.

In 2006, another significant year for acquisitions, total transactional volume exceeded $10 billion, second only to the 2000 level. Also, publicly-owned companies made significant divestitures, shedding 60 of the 76 dailies that were sold that year. Of these, more than half (32 dailies) came from the sale of Knight Ridder to The McClatchy Company.

The following year set a record that is unlikely to ever be surpassed. Transaction volume for daily newspapers topped $20 billion in 2007, driven in large part by the sale of two venerable public companies: Tribune Company and Dow Jones. Since then, volume has fluctuated between $200 million and $2 billion.

And where do these trends stand today? We anticipate a continuation of the shift toward fewer groups, likely due to the groups that remain growing larger. Several of today's most prominent groups are committed to strong acquisition strategies. The most acquisition-minded of late is New Media Investment Group, which has added more than 30 dailies in recent years. Boone Newspapers continues to add dailies. Gannett, Paxton, Hearst, Morris Multimedia and Ogden are all buying as well.

We have also observed a small but notable uptick in independent ownership, often in conjunction with high profile urban dailies. In 2013, the Boston Globe was acquired by local businessman and Boston Red Sox owner, John Henry. The same year, Amazon's Jeff Bezos bought the Washington Post. In 2014, well-known businessman and Minnesota sports team owner Glen Taylor bought the Minneapolis Tribune and Philadelphia philanthropist Gerry Lenfest bought the Philadelphia Inquirer, later gifting it into a foundation. On a smaller scale, three local business people in northwest Massachusetts acquired their hometown Berkshire Eagle and two other nearby dailies in 2016. These transactions and a handful of similar transactions might just indicate the beginnings of a shift in the other direction, back toward independent ownership.

That said, the undeniable trend of decline in the number of independent family owners continues. A number of high profile, long-owned, family newspaper companies have sold their papers in the past few years, including seven that had been held by the same family for more than 100 years. In March, the Randall family announced the sale of the Frederick (MD) News-Post, owned by members of the Randall family since 1883. Despite these departures, however, 82 daily newspapers remain that have been owned for more than 100 years.

Should Private Newspaper Companies Adopt Formal Board Practices?

The Whys and Hows of Effective Board Governance

Mary Elworth
VPoint Group

I am asked regularly whether there is truly a compelling benefit for private companies in adopting structured governance practices for their boards of directors. This question has been asked of me hundreds of times, in fact, over the past 15 years by news publishers serving smaller markets. By now, I have advised nearly a dozen community news businesses in moving toward that outcome, and have served as a board member for several. Observing the motivations, considerations and processes of these companies has helped me to understand what I call the "whys" and "hows" of board organization as a tool of corporate governance, namely:

> Why would a community news business in particular consider formalizing its corporate governance?
>
> How would such a company go about structuring its boards of directors, once convinced that it would be advantageous to do so?

WHY

Most community news businesses are independent closely held companies for which organized corporate governance is elective. They may employ a staff of hundreds and generate many millions of dollars in revenue but remain largely unregulated and not subject to the requirements that public companies must follow regarding oversight and reporting by a board of directors. This is a good thing for smaller businesses because complying with such regulations can be costly and time-consuming. But wholly ignoring structured directorship or resisting organized corporate governance can be expensive as well. Newspaper companies may miss many important strategic opportunities by doing so.

Instead of foregoing structured board operations entirely, many forward-thinking news businesses have adopted "customized" models for active directorship, and are reaping positive results. Most have done so in recent decades, usually beginning with the inclusion of independent directors on their boards. A big part of the motivation has been an interest in using the board as a tool to address the industry-shaking changes to news publishing.

We are already a decade or more into this upheaval for newspapers, yet most companies are still struggling to construct sustainable business models that will ensure their future. They recognize that the development of a new business model may be too much to expect of a single chief executive or a management team that is responsible for ongoing business operations. Thus the need to address unfamiliar challenges can lead often to an interest in composing a board of directors with skill sets complementary to the expertise of the internal company team.

Other motivations may be at work as well, such as:

- Company owners and leadership may recognize the desirability of re-examining long-held assumptions regarding what is essential to success. This can rarely be done objectively by an internal team and frequently results in the adding of independent members to a company board.
- A high-functioning board with independent members acts as a sounding board for the top executive, which is especially valuable during difficult times. It is important that directors exercise care for the concerns of the company leader, without interjecting into levels of management within the organization. The number one job of the board is to hire, direct and measure the performance of the top executive, and this is best done in a supportive relationship.
- More strategically, companies may want or need to elevate the primary role of the board beyond operations reviews, which tend to dominate meeting agendas when there are no independent directors. For example, strategic diversification discussions held exclusively among internal groups may sometimes be limited to incremental steps rather than broader ideas, whereas the inclusion of outsiders may help to generate innovation. I am familiar with newspaper companies that have included directors with technology expertise specifically to help address strategic requirements of their digital lines of business.

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Board Governance

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- Boards with independent members can help identify and cultivate upcoming company leaders, whether from within or outside the management team or ownership group. The board works together to provide guidance on succession planning and management changes when those are appropriate. Board meetings should be structured so that key personnel gain visibility and are expected to present well-considered business plans for their areas of authority. Also, members of the board can serve as a professional development resource, with individual directors assigned to mentor high potential employees. If a company is closely held by a family, non-voting "observer" rights can be granted to encourage members of the next generation to become involved.
- Companies may also be motivated to develop a professional board of directors when owner expectations shift, as economic goals diverge from past practices. For example, it may become appropriate to begin tracking return on equity and economic value creation when those financial measures have not historically been considered important. These rarely fall within the expertise of the internal financial team of a smaller business but can be added by engaging a capable director.
- One very important benefit for independent businesses of developing a healthy board is that it can be a way to attract expertise that would not be affordable for the company otherwise. Well-respected leaders who will take a fresh look at company strategy can bring tools that are outside the expertise of internal executives, and will do so at relatively little expense (usually less than the cost of a part-time clerical employee).

With all these potential benefits, some question why any company would resist developing a structured and organized board of directors. The most common objection I hear from owners or executives is a concern about "losing control" of their business. This is best addressed – and avoided – by careful consideration of the manner in which the board is composed, or the "how" of the matter.

HOW

A successful initiative to professionalize a company's board will most often begin with a rigorous examination of the purpose: Are we trying to devise a new strategy? To introduce a new product or service? To diversify outside traditional lines of business? To restructure, recapitalize or exit? Once that purpose is identified, it will be easier to organize a board that supports it. Here are some of the steps that may need to be taken:

- Outline the appropriate structure and composition for the board. These decisions include the number of members, the length of terms, the mix of "interested" and "independent" directors, meeting frequency, compensation and other considerations. Most companies initially decide to include more than one independent director, but keep a majority of inside board members. It is considered optimal to convene the board for quarterly meetings, plus a budget session and an annual board retreat, in order to foster director engagement. Also, companies are learning that structuring longer terms of board service helps to attract candidates who are willing to make the investment of time required.
- Identify prospective directors. Many companies achieve their best outcomes when they begin by itemizing desired skill sets and then match candidates to that wish list. One tactic that works well is to ask for referrals from within a circle of business contacts. For instance, while it's not usually a good practice to ask a company's attorney to be a board member, that attorney may be a good source for recommendations.
- Activate the role of the board chair. This person will be responsible for preparing meeting agendas, focusing the conduct of each meeting, and organizing follow up action. Most frequently, the person who serves in this capacity is the top executive of the business. In some situations, however, it may be a non-management owner representative or even an independent director.
- Establish and implement committees with charters, timelines and authority. This is key to effective board operations because the real work of the directors is performed in these groups, outside of formal meetings. At least three permanent committees are usually established, responsible for governance (including director nomination), finance (including audit) and executive compensation. Ad hoc working groups may also be established for a specific purpose and duration. For instance, I have worked with newspaper companies that established committees to formulate early digital roadmaps, before that skill set was readily available among the company's internal team.
- Formalize shareholder interactions for board election and feedback. If the ownership group is sizeable, the only governance role most shareholders retain is to elect members of the board each year. It is crucial that the owners and their representative directors communicate clearly about expectations for financial return and liquidity, as well as other

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Family Owners Primary Sellers

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West Virginia-based Ogden Newspapers agreed to buy the Frederick (MD) News-Post and related printing operation from the Randall family.

The current owners, which include Myron Randall and his son William, bought out members of the Delaplaine family and other shareholders in 2000. They broke ground on a new production facility in 2006.

The Randall and Delaplaine families have owned and operated the newspaper for 134 years and five generations. Ogden Newspapers traces its start to 1890.

The Frederick News-Post will be Ogden's first in Maryland; many of its 40 daily newspapers are located in the Mid-Atlantic region and the upper Midwest. In 2016, Ogden acquired the Lawrence (KS) Journal-World and the Provo (UT) Daily Herald.

Hearst Expands in Michigan

Hearst Newspapers grew its footprint in central Michigan with the acquisition of the Pioneer Group from fourth-generation owners Jack and John Batdorff.

The Pioneer Group includes two daily newspapers – the Pioneer in Big Rapids and the Manistee News Advocate – as well as three weekly newspapers, four shoppers and a digital marketing services business. The Pioneer group was founded in 1862 with a four-page weekly newspaper.

Hearst also owns the Huron Daily Tribune in Bad Axe and the Midland Daily News in central Michigan. In 2016, Hearst acquired the Norwalk (CT) Hour, which is adjacent to other Connecticut newspapers owned by Hearst.

Morris Adds WI Daily

Savannah, Georgia-based Morris Multimedia acquired the Monroe (WI) Times and two free weeklies to complement its non-daily group in southern Wisconsin. Family-owned Bliss Communications, headquartered in nearby Janesville, Wisconsin, had owned the Monroe Times for 28 years.

Morris's non-daily group serves a number of small communities west of Monroe in the southwest corner of Wisconsin. These include Boscobel, Richland Center and Platteville on both sides of the Wisconsin River.

Paging Orson Wells

New Media Investment Group sold its Southern Oregon Media Group to newly formed Rosebud Media LLC, which is owned by New York media owner Steven Saslow.

The group includes the flagship daily Medford Mail Tribune, Ashland Daily Tidings and Nickel shopper publications. New Media acquired the properties as part of a larger transaction in 2013.

The name of the new owner, Rosebud, apparently is a reference to the famous dying word uttered by Orson Welles' newspaper baron character in the movie Citizen Kane.

Other News

Matt Walsh's Sarasota, Florida-based Observer Group added the Financial News & Daily Record to its stable of non-daily publications. The acquired newspaper had been owned by the Bailey family since it was founded 1912.

Observer Group has 10 weeklies in Florida, including the Business Observer. Most are located on Florida's west coast south of Tampa. Two are located on the east coast in Ormond Beach and Palm Coast.

Will Fleet and Ralph Alldredge bought the Chino Champion and Chino Hills Champion in Southern California from Champion Publications, owned primarily by Allen McCombs. McCombs has owned the Chino Champion for 60 years.

Fleet and Alldredge are co-owners of the Tracy Press and related publications in Northern California. ■

Board Governance

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important questions and issues, so the owners' wishes can guide the directors as they exercise their fiduciary obligations.

Numerous other considerations come into play when evaluating whether and how to professionalize a company's board, but if these steps are taken several positive outcomes can be anticipated. These have emerged in virtually every instance in my experience:

- Aspirations for the company's success are raised across the top executive and owner group.
- Effective action is stimulated and sustained at the board and top executive level.
- Management performance is upgraded across levels of the organization.

It has been my experience that all interested parties can expect a permanent impact on the business. In fact, I have never observed a company that made the change to a professional board of directors but later returned to prior practices. I consider this a healthy strategy that produces measurable results – and that, of course, is the biggest "why" of all. ■

Mary Elworth has been in practice as a business advisor, investment banker and corporate director for more than three decades. In 1993, she founded VPoint Group in Chicago and has since been engaged in strategic actions for news and publishing industry clients, as well as industrial and services companies. Her expertise in technology, finance and operations has proven valuable to the success of numerous projects over long-term relationships with privately owned businesses of varying profiles. She can be reached at maryelworth@outlook.com or 312-286-9005.