Submission of Dr Marc Edge – Sustainability of local journalism

I am a recently-retired journalism lecturer now living in Canada. I am in the final stages of writing a book for Routledge Research titled *Re-examining the UK Newspaper Industry*. It will be based on my 2019 *Journal of Media Business Studies* article titled 'Are UK newspapers really dying? A financial analysis of newspaper companies', which is available for download at this link. I submitted a draft to the Cairncross review which was quoted on the report's opening page. I am also author of the 2014 book *Greatly Exaggerated: The Myth of the Death of Newspapers*, which examined the finances of newspaper companies in the U.S. and Canada. It is available for download at this link.

My research method is to examine the annual financial statements of newspaper companies and convert their operating earnings as reported to the standardised measure of EBITDA – earnings before interest, taxes, depreciation and amortisation. This controls for differences in corporate accounting policy and also importantly excludes non-recurring and extraordinary expenses, which can run to millions in losses incurred only on paper as a writedown of asset value. Using this method, I found that no publicly-traded newspaper company in North America incurred an annual loss from 2006-2013 despite drops in revenue of about half in the U.S. and a quarter in Canada. I concluded that newspapers will continue to publish in print because they have a robust business model that is arcane but highly scalable. A key to their sustainability has been the paywall now erected around the online content of most North American newspapers.

My findings on UK newspaper finances are more varied but no less hopeful. My study has been aided greatly by your Companies House online registry, which allows for download of the annual financial statements which all UK companies, public or private, are required to file. This has enabled me to draw a portrait of UK newspaper finances which is granular in detail. While I could only examine the finances of publicly-traded newspaper companies in North America, which comprise about 40 percent in the U.S. and about 75 percent in Canada, the data provided by Companies House arguably exceeds 100 percent coverage. This is due to its requirement that both holding companies and subsidiaries report separate financials. For example, while my 2014 study could not untangle News Corp's U.S. newspapers from its Australian and UK titles because they were lumped together in a division with its book publishing companies, its *Sun* and *Times* newspapers are held in separate UK subsidiaries which must file their own financials with Companies House.

I include as appendices to this submission the latest data I have compiled. The bulk of my remarks will deal with the sustainability of local journalism, but I would also like to share some conclusions I am drawing from the latest data on national newspapers. The number of publishers in this field has fallen from nine to six since 2016 with the *Independent*'s move to online-only publication and sale of the *Express* group and the commuter tabloid *i* to Reach. According to calculations by the Media Reform Coalition, a group of academics and activists headquartered at the University of London, this has brought ownership concentration of national newspapers, as measured by circulation, to a startling 89.8 percent by the three largest groups.

National newspaper weekly circulation (2020)

	Circulation	Share %	Cumulative
DMG Media	11,986,008	38.3	38.3%
News UK	10,074,305	32.1	70.4%
Reach	6,083,609	19.4	89.8%
Telegraph	1,689,993	5.4	95.2%

Guardian	842,691	2.7	97.9%
Financial Times	652,851	2.1	100%
	31,329,457		

Source: Media Reform Coalition, *Who Owns the UK media?* (2021)

When the *Independent* went online-only in 2016, many saw this as further evidence of the inevitable death of newspapers. The *Independent* has enjoyed surprising success in its second life online, however, and is now comfortably profitable. This has raised the possibility that digital news publications of sufficient quality could be economically viable. All of the other national newspaper publishers seem to be finding their own way to profitably in the brave new online world.

- DGMT's *Daily Mail* passed the *Sun* as the UK's best-selling daily in 2020. Its open access MailOnline has become the most widely-read English language news site in the world by focusing on celebrity news and other clickbait. Majority DMGT shareholder Lord Rothermere bought out minority shareholders late last year with an offer which valued the company at £3 billion.
- News UK's Times Newspapers turned from years of loss before erecting its paywall in 2010 to profitability in 2014. It has doubled its annual profits each of its last two years to reach £52.5 million in 2021. The *Sun*, which is held in the subsidiary News Group Newspapers, has not done as well partly because it had to drop its paywall after people would not pay to read its content.
- Reach plc, which was known as Trinity Mirror until 2018, owns both national and provincial titles. Its national newspapers include the *Mirror*, the *Sunday Mirror*, the *Daily Star*, and the *Daily Star Sunday*. It added the *Express* and the *Sunday Express* in 2018 when it bought Northern & Shell. Its profits top 20 percent annually and are increasing.
- The *Telegraph* was the UK's most profitable national newspaper for most of the 21st century until 2016, when its earnings began to drop. They have since recovered, however, and have doubled each of the past two years. The *Telegraph* relies heavily on so-called native advertising and has vacillated on its paywall strategies.
- The *Guardian* has kept its website free but provides quality journalism in quantity by asking readers to contribute as 'members'. More than 1 million now do, making the *Guardian* profitable for the first time in 2021 after decades of being subsidised by its owning Scott Trust.
- The *Financial Times*, which pioneered the 'metered' paywall in 2007 and now has more than 1 million online subscribers, was bought by Japanese company Nikkei in 2015 for £844 million. Its reported earnings immediately went down by half, perhaps as a result of charges by the parent company.

Local and regional newspapers

To answer your question about how the Government could support local news outlets to develop sustainable business models, I believe that they need no assistance in this regard. The largest provincial chains are very good at making money. The problem has been that as their revenues have fallen due to the ongoing flight of advertising online, the chains have cut back sharply on journalism in order to keep their earnings as high as possible. Perhaps this is an inherent flaw in the for-profit system of news media, as the largest chains are publicly-traded companies whose directors hold a fiduciary duty to shareholders to maximize profits. But part of the problem is also a lack of competition between the entrenched chains, which a century ago (in earlier corporate forms) carved up the country between them. The newspaper wars of the 1920s fought between press lords like

Northcliffe, Kemsley, Camrose, and Rothmere resulted in collusive agreements which proved hugely profitable by creating local and regional monopolies. A trilogy of Royal Commissions on the Press in the thirty years following World War II failed to either recognise or deal with the problem. A frenzy of consolidation ensued in the final decades of the 20th Century which saw the chains buy up as many independent newspapers as they could and then begin to devour each other.

What was once a Big Four of provincial newspaper chains is now a Big Three which just this month got bigger. Instead of press lords, however, the chains are now owned by faceless corporations and even 'vulture capitalists', as private equity firms or hedge funds are often called. I have adapted the latest count by the Media Reform Coalition to reflect the recent purchase by Newsquest of Archant, which was the fourth-largest chain. It raised concentration of ownership by the three largest chains, as measured by number of titles, from 62 percent to 69 percent.

Local newspapers by publisher (2022)

	Titles	Share %	Cumulative
Newsquest	308	30.3	30.3
Reach	211	20.7	51.0
JPIMedia	183	18.0	69.0
Tindle	79	7.8	76.8
Iliffe Media	71	7.0	83.8
Remaining 50 Publishers	166	19.1	100.00
Total	1018		

Source: Media Reform Coalition, Who Owns the UK media? (2021)

Newsquest is owned by Gannett, which is the largest U.S. chain and was taken over in 2019 by a hedge fund. Newsquest has grown to more than 300 titles from 186 in 2013. In 2009, it fired all 250 journalists and publishing staff at its Herald and Times subsidiary in Scotland and then invited them to reapply for their jobs with the promise to re-hire only 220 who agreed to wage cuts. In 2015, the London Assembly passed a motion urging then-mayor Boris Johnson to protest to Newsquest its staff cutbacks and the relocation of jobs outside London. Newsquest filings with Companies House became less forthcoming after its 2014 annual report showed that severing 228 staff resulted in £69.1 million in earnings, made at a profit margin of 24.8 percent, and that it had paid its CEO more than £400,000 and its directors more than £1 million. Strikes ensued at Newsquest titles across the UK to protest job cuts and poor pay, including one at its London and south-east operations that lasted 10 days. Newsquest discontinued reporting group results after that, but recently has been consolidating its subsidiaries into Newsquest Media Group Limited, the profit margin for which has increased each of the past three years.

Reach is a publicly-traded company held mostly by large institutional investors. It was known until 2018 as Trinity Mirror, which was formed in 1999 through the merger of Trinity International Holdings, publisher of the *Liverpool Echo* and other provincial newspapers, and Mirror Group Newspapers. It is the largest UK newspaper chain since it owns about 20 percent of both the national (*Mirror*, *Express*, *Star*) and provincial markets. Its subsidiary Media Wales has been criticised for regional dominance and for operating profit margins which hit 38 percent in 2005 through steep job cuts. My calculations show that the EBITDA margin of Media Wales that year was 49.2 percent. Trinity Mirror reported results separately for its nationals and its provincial titles in its corporate annual reports until 2011, when they were combined. Like Newsquest, however, it has recently been consolidating its many subsidiaries into Reach Regionals Media Limited, results for which are filed with Companies House.

JPIMedia has changed hands twice since going into receivership in 2018. Then known as Johnston Press, it was taken over by a consortium of its creditors and bondholders led by U.S. hedge fund GoldenTree Asset Management, which sold it to a new company named National World. Johnston Press did not go bankrupt because it was losing money. It was actually one of the most profitable newspaper chains in the UK, regularly making margins in excess of 20 percent. It went bankrupt because it was deeply in debt as a result of making acquisitions. The Scottish printing company founded in 1764 went public in 1988 with a listing on the London Stock Exchange and grew by 2007 to 315 titles, the most in the UK. It was also £753 million in debt, which it could not service after the 2008-09 recession dropped advertising revenues sharply. It divested divisions to pay off debt, rescheduled loan payments, and issued more shares to raise capital, but in the end it could not outrun its debt. JPI Media remains comfortably profitable under its new ownership.

As you can tell from the data I have compiled, it is a myth that newspapers are unprofitable and will inevitably go extinct or require government financial assistance. The question is whether they can make money online and, if so, whether they will continue to publish in print. National newspapers are highly competitive, which results in some excellent journalism. The local and regional industry is not very competitive, which has had a negative effect on journalism. The recent introduction of so-called 'democracy reporters' with funding from the BBC seems to me an excellent solution to the problem of declining local coverage. It should be bolstered if possible.

I must say that I have been incredibly impressed with the quality of coverage provided by the national press there of its own industry, which is in sharp contrast to what I have found in North America. Misinformation and even disinformation runs rampant here as a result of tight industry control. Hedge funds now own seven of the ten largest U.S. chains and the two largest in Canada. They have been pushing for a system similar to what was recently instituted in Australia, where the government has forced Google and Facebook to pay publishers for content they supposedly 'steal'. I see this as a self-serving cash grab and a blatant misuse of press power. The digital platforms are to my mind instead doing newspapers a favour by promoting their content. I recently made a submission on this subject to the Department of Canadian Heritage which can be found at this link.

If there is any area in which your Government might be able to usefully support local news outlets in developing sustainable business models, it would be online. A recent study by the Reuters Institute found that, of several countries surveyed, the UK had the lowest percentage of newspapers with paywalls. Most publishers now seem to realize that allowing free access to their online content is not a viable business model, but many have been struggling with how best to implement a digital subscription scheme. Many useful suggestions have been made for how governments could assist in this, from offering tax credits for online subscribers, as was recently done in my country, to issuing citizens with vouchers they could use in subscribing to the digital publication of their choice. I believe these ideas deserve further study and that the most viable solution should be adopted.

I would be happy to assist your inquiry in any other way I can, including by providing a copy of my book manuscript when complete. You may contact me by email at mail@marcedge.com or by phone on 1.778.384.1952 (BST -8).

30 March 2022

Appendices

National newspaper companies

DMGT (Associated Newspapers)
(The *Daily Mail*, the *Mail on Sunday*, *Metro*, the *i*)

	Turnover (£m)	EBITDA (£m)	Margin %
2007	822	75.8	9.2
2008	834	63.0	7.5
2009	746	44.9	6.0
2010	726	73.7	10.1
2011	705	34.0	4.9
2012	715	51.1	7.2
2013	688	74.4	10.7
2014	679	51.3	7.1
2015	652	92.5	14.2
2016	650	76.9	11.8
2017	676	103.8	15.4
2018	652	59.6	9.1
2019	656	89.8	13.7
2020	567	64.9	11.4

year ending 30 September

News Group Newspapers Ltd
(The *Sun*, *Sun on Sunday*)

	Turnover (£m)	EBITDA (£m)	Margin %
2007	623	10.7	1.7
2008	626	(18.5)	-2.9
2009	617	(15.5)	-2.5
2010	654	18.2	2.8
2011	654	105.3	16.1
2012*	509	16.2	3.2
2013	514	62.1	12.1
2014	489	35.6	7.3
2015	459	31.3	6.8
2016	446	16.1	3.6
2017	424	18.0	4.2
2018	401	12.8	3.2
2019	420	31.4	7.5
2020	324	2.3	0.7
2021	318	12.9	4.0

year ended 30 June
*closed *The News of the World*

Times Newspapers Ltd
(The *Times*, the *Sunday Times*)

	Turnover (£m)	EBITDA (£m)	Margin %
2007	447	(34.2)	-7.6
2008	445	(42.7)	-9.6
2009	385	(71.9)	-18.6

2010	393	(42.4)	-10.8
2011	402	(9.5)	-2.4
2012	361	(13.4)	-3.7
2013	348	(5.9)	-1.7
2014	347	1.7	0.5
2015	345	21	6.1
2016	342	15.3	4.5
2017	319	7.0	2.2
2018	326	18.2	4.4
2019	330	14.7	5.6
2020	310	26.3	8.5
2021	327	52.5	16.0

year ended 30 June

Reach plc

(The *Mirror*, the *Sunday Mirror*, the *Daily Star*, the *Daily Star Sunday*, the *Express*, the *Sunday Express*)

	Turnover (£m)	EBITDA (£m)	Margin %
2012	616	125.0	20.3
2013	576	118.5	20.6
2014	554	113.5	20.5
2015*	529	114.0	21.5
2016	713	159.7	22.4
2017	623	145.1	23.3
2018**	724	167.9	23.2
2019	702	174.9	21.8
2020	600	161.2	22.3

* acquired Local World chain

** acquired Express group

Telegraph Media Group

	Turnover (£m)	EBITDA (£m)	Margin %
2006	341	32.7	9.6
2007	355	34.3	9.7
2008	343	32.0	9.3
2009	317	41.4	13.0
2010	324	60.1	18.6
2011	331	55.7	16.8
2012	327	58.4	17.8
2013	325	61.2	18.8
2014	318	54.9	17.3
2015	320	61.7	16.1
2016	295	32.2	10.9
2017	278	21.4	7.7
2018	271	7.8	2.9
2019	266	16.1	6.0
2020	235	39.0	16.6

Guardian Media Group plc

(The *Guardian*, the *Observer*)

	Turnover (£m)	EBITDA (£m)	Margin %
2007	245.7	(6.0)	-2.4
2008	261.9	(4.1)	-1.5
2009	253.6	7.5	2.9
2010	221.0	(15.5)	-7.0
2011	198.2	(20.1)	-10.1
2012	196.2	(32.2)	-16.3
2013	208.8	(40.9)	-19.6
2014	210.2	(17.8)	-8.5
2015	214.7	(40.5)	-18.8
2016	209.5	(68.7)	-32.8
2017	214.5	(44.7)	-20.8
2018	217.0	(23.0)	-10.6
2019	224.5	(3.7)	-1.6
2020	223.5	(6.9)	-3.0
2021	225.5	12.4	0.5

*year ending 31 March

Financial Times (Pearson)

	Turnover (£m)	Profit (£m)	Margin %
2006	366	58	15.8
2007	344	56	16.3
2008	390	74	19.0
2009	358	39	10.9
2010	403	62	15.4
2011	427	76	17.8
2012	443	49	11.1
2013	341	29	8.5
2014	334	50	15.0
2015*	312	48	15.4

Source: Pearson plc annual reports

* 11 months

Financial Times Limited (Nikkei)

	Turnover (£m)	EBITDA (£m)	Margin %
2016	310	23.1	7.5
2017	321	22.7	7.1
2018	323	27.7	8.6
2019	345	36.1	10.5
2020	319	10.0	3.1

Local and regional newspaper companies

Newsquest Media Group Limited

	Turnover (£m)	EBITDA (£m)	Margin %
2017	130	21.3	16.2
2018	197	34.5	17.5
2019	187	38.3	20.3
2020	139	32.3	23.1

Trinity Mirror Regionals

	Turnover (£m)	EBITDA(£m)	Margin %
2006	531	118.1	22.2
2007	484	112.6	23.2
2008	396	60.9	15.4
2009	303	28.8	9.5
2010	331	51.7	15.6
2011	294	36.5	12.4

Source: Trinity Mirror plc annual reports

Reach Regionals Media Limited

	Turnover (£m)	EBITDA (£m)	Margin %
2015	16.6	6.4	38.5
2016	108	17.9	16.5
2017	124	24.0	19.3
2018	197	31.4	15.9
2019	178	26.2	14.7
2020	143	29.3	20.5

Source: Companies House filings

Johnston Press

	Turnover (£m)	EBITDA (£m)	Margin %
2006	602	186.8	31.0
2007	607	178.1	29.3
2008	532	128.4	24.1
2009	428	71.8	16.8
2010	398	72.0	18.1
2011	374	64.6	17.3
2012	329	57.0	17.4
2013	292	54.3	18.6
2014	266	55.5	20.9
2015	242	57.3	23.7
2016	222	49.1	22.1
2017	201	40.1	19.9

JPIMedia

	Turnover (£m)	EBITDA (£m)	Margin %
2019	116.4	13.4	11.5
2020	88.2	7.7	8.7
2021*	85.0	9.2	10.8

* company estimate