Smart money scoops up US newspapers for bargain prices

By Anton Harber

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It was no great surprise that the New York Times (NYT) company sold the Boston Globe recently]], though one might not have expected how much financial pain they took from the deal. Having paid US$1,1bn for the 141-year-old paper in 1993, they sold it for just US$70m - that is 7% of the original price.

The NYT clearly wants to focus on the strength of its core international brand. The company's latest results suggest that its move to charge for its online content has at least stemmed its decline of revenue, though it is still running on the spot. The NYT family no doubt wants to use its reserves to turn around their flagship and not carry losses in secondary investments.

The buyer is a private equity billionaire, John Henry, who also owns the Red Sox baseball team and Liverpool football club. To put the price in perspective, Henry a few years ago paid US$12m more than this for a new pitcher for the Red Sox - and that was just for a five-year contract. And to add to the pain, he left the NYT with the Globe's pension fund shortfall of about US$400m.

Part of a pattern

The sale is part of a pattern of big newspaper ownership in the US moving from large listed groups back to wealthy local individuals, who pick them up for next-to-nothing, often the value of the building that houses the paper. The world's most famous investor, Warren Buffet, has bought 28 medium-sized, local newspapers. The rightwing Koch brothers have been looking at buying the Tribune group, which includes another once-venerable paper, the Los Angeles Times. And there is talk that Michael Blumberg will make an offer for the NYT when he leaves the mayor's office next year.

Newspapers in America, it seems, are becoming like sport teams - status symbols for the super-rich, which is a lot like what they were in the US about a century ago.

More surprising this week was Jeff Bezos of Amazon buying the venerable Washington Post. This was a move from ownership by the Graham family, who have been highly respected owners of the Washington title for decades, to a symbol of the new digital economy. The WashPost has a highly popular website, but has seen a 44% decline in revenue in the past six years.

Again, the billionaire snapped up a bargain at US$250m. This is in sharp contrast to the inflated prices being paid for internet assets.

Deep pockets

But see this: Only last year Bezos said in an interview with a German newspaper that no one would bother to pay for news online and print would be dead in 20 years. So what is he doing investing in one?

Bezos is an innovator and a patient long-term strategist who has shown brilliance at remodelling old fashioned business for the digital age. He seems to have an uncanny knack of anticipating customer needs and wants.

His approach is to throw lots of money to gain dominance in a sector, with little fear of the risks. At Amazon, he has swallowed years of losses to grow the business.

One can speculate on whether he plans to do something with the Kindle, the device that has helped him get a fierce grip on the international e-book market. Or use his extensive distribution system, as he is building warehouses across the US to allow for same-day delivery of all the other goods he sells.

Perhaps the smart money was just playing a waiting game

But none of this quite adds up, especially since this purchase was done in his personal capacity, and not through Amazon.

It does seem, though, that these ownership changes might signal a shift in the fortunes of the news business, away from the relentless demands of huge listed companies chasing high margins and short-term profits. Both Bezos and Buffett have made it clear that they value the news business and think the current owners have messed it up.

Maybe the smart money was just waiting to get these assets at the right prices. Maybe they are watching the NY Times turnaround, showing that if you stick with quality content, then people are prepared to pay for it.

Maybe this is a shift from the cost-cutters - who have trimmed, according to a recent report, 18,000 of the 56,000 editorial jobs in print in recent years - to the smart investors.

ABOUT ANTON HARBER

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