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How Can *The New York Times* Be Worth So Little?

The huge slowdown in ad dollars has hit the *Times* hard, and the parent company's stock is worth about half what it was a year ago

by Jay Yarow and Jon Fine

On Wednesday, New York Times Co. ([NYT](#)) reported disappointing second-quarter earnings, and on Thursday the stock continued in its steep descent. At the end of trading it stood at 12.48, or virtually half the price it commanded one year ago.

This part of the story is unsurprising, given how the Street is slamming any newspaper stock. What's startling is something else: If you back out much of the rest of the company's portfolio, you arrive at a surprisingly teeny valuation for the vaunted *New York Times* itself, despite all the respect the brand commands.

At its current \$12.48 stock price—down 46.3% from a year ago—Times Co. has a \$1.79 billion market cap. To put this in perspective, CBS recently acquired tech publisher CNET, a much weaker media brand, for \$1.8 billion. Add in the company's \$1.1 billion of debt, subtract \$42 million for its cash on hand, and the company's total enterprise value—a valuation measure that totals up those items in such a fashion—is just \$2.85 billion.

In a research note published on July 9, Lehman Brothers ([LEH](#)) analyst Craig Huber estimated the *Boston Globe* and the 14 regional newspapers the company owns could be sold for \$575 million after taxes. Huber valued the 17% stake in the Boston Red Sox, after taxes, at \$152 million and the Times's portion of its new headquarters building in midtown Manhattan at \$750 million after taxes. The company paid \$410 million three years ago for Web property About.com; according to an estimate by tech blog Silicon Alley Insider, that could be sold for approximately \$600 million today. That sounds low to us, since About has consistently reported increasing revenues. Let's conservatively kick that up to \$700 million and assume a 20% tax bite on the Times's \$290 million gains in that sale, which is \$58 million. So \$642 million, aftertax, for About.com.

Totaling up those figures gets you to just over \$2.1 billion. Subtract that from the enterprise value, and you get \$750 million for the company's remaining assets.

SURPRISING NUMBERS

Does anyone really believe that Times Co.'s other assets—*The New York Times*, the *International Herald Tribune*, and its New York City radio station—could be worth only \$750 million?

For that matter, does anyone believe *The New York Times* alone, given its august news franchise and extraordinarily well-trafficked Web site, is only worth \$750 million? Remember that in May, Tribune Co. sold Long Island's *Newsday*—a respectable paper with a circulation less than half that of the *Times*—to Cablevision in a deal worth \$650 million.

"Valuations have fallen to unprecedented levels that have no relationship to reality," says Edward Atorino, media analyst for [Benchmark Capital](#). "Wall Street is saying there is no future to a lot of media companies." Atorino happens to disagree: "The *Times* isn't going away for a long, long time.... I think [its valuation] is overly negative. All it's going to take is advertising bouncing back." However, he's in the minority. Most media analysts are less sanguine that the *Times* will be able to regain lost advertising dollars, and for the foreseeable future newspaper companies are bracing for revenue drops

at least as bad as the double-digit losses they've suffered through this year. A Times spokeswoman declined to comment.

In the company's July 23 earnings release, Times CEO Janet Robinson blamed the sliding revenues and earnings on the economic slowdown as well as "secular forces playing out across the media industry." That release was followed a few hours later by a ratings downgrade, in which Standard & Poor's (which, like *BusinessWeek*, is owned by The McGraw-Hill Companies) warned it may cut its rating on Times Co. to junk. If this happens, the interest expense on Times's debt will rise.

DIVIDEND CONCERNS

There are a multitude of reasons why selling off major parts of the company don't necessarily make sense. In his note, Huber speculates that the building and the Red Sox stake will appreciate in price, "so what would be the rush to sell these assets? To get a one-day or one-week pop in the stock price?" Selling so much of the assets would also whack the company's earnings before interest, taxes, depreciation, and amortization—EBITDA—a standard cash flow measure. This would endanger the juicy dividend that many in its controlling Sulzberger family live on, and scare off dividend-driven investors.

Currently, the company pays a fat dividend yield over 7%, which costs it \$133 million annually. On Mar. 22, 2007, Times Co. jacked its quarterly dividend by a staggering 31%—looking to put a floor on its slumping stock price. "This dividend increase, which is another important step in creating value for our shareholders, puts our dividend yield and payout ratio significantly above that of the S&P 500 and others in our industry," said Arthur Sulzberger Jr., chairman of the company at the time. The stock has since been cut in half.

Cut the dividend, and you shore up finances. But then the stock would fall further.

That would place even more pressure on the Sulzberger family, which has supervoting shares that allow it to control the company. That control is exercised by eight family trustees. In order to change the terms of Times Co.'s governing trust, a supermajority of six trustees must agree. While there are no signs that will happen anytime soon, or ever, the Times has shown it's not wholly immune to outside pressures. In response to a sizable minority stake amassed earlier this year by Harbinger Capital Partners, it agreed to allot the hedge fund two board seats.

In case you're keeping track, the stock price has sunk 30% since then.

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