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Tuesday, 5 July 2011 / 11 comments

# SMH and Age will 'cease to exist' within decade: analyst

by Andrew Crook

The *Sydney Morning Herald* and *The Age* will cease to physically exist within the next decade and two-thirds of metropolitan journoes will need to be sacked to keep their employer alive, according to a devastating assessment of Fairfax's future by a leading market analyst.

New research by Roger Colman from CCZ Equities, obtained by *Crikey*, says Fairfax's metropolitan titles are "uneconomic" following the collapse of the company's traditional classified revenue model and that after the papers are palmed off the company will continue on, but only as a shadow of its former self.

"The death of *The SMH* and *The Age* as profitable papers will occur this decade, and for FXJ it depends on how many years management decides to carry on against the grain with losses, and give up on a title established in 1851," Coleman wrote.

The earnings outlook for the two papers is 90% lower than when the so-called "rivers of gold" flowed strong 10 years ago, Colman says.

Colman says that in the best case scenario, were *The SMH* to introduce a paywall and slash journalist numbers from the current 265 to 100, earnings would flatline at an anemic \$13.5 million. But if the company were to persist with its current newsprint model it could expect "peanuts".

According to the report, a halving of editorial staff would reduce the company's cost base but would also mean spare cash would be spent on redundancies (the recent sacking of subs on *The Age* and *The SMH* cost the company \$25 million to save just \$15 million a year). And as the cross subsidisation of online content with the newspaper dwindles, the firm could expect a dramatic decline in unique browsers.

In a 100% "online world", without print editions, aggregate newspaper profits would plunge to about \$64 million from the

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current peak between 2005 and 2009 of \$580 million. Before tax company earnings in 2015 would be just \$142 million.

In May, Fairfax announced significant earnings downgrades, blaming a weak advertising market. But Colman says the problem with the company is structural, not seasonal.

“We think management will persist [with its current strategy] for a number of years as ... they will not be able to initially differentiate between cycle and structural effects,” he said.

Excluding revenue from the community business, losses for the metropolitan newspapers would expand to \$40.6 million in 2013 and \$85 million by 2014, driven by the online shift from classifieds, a fall in display volumes and advertising rates. Advertising accounts for 80% of metro revenues, the vast majority of which is display ads. Twenty-five percent of revenue would evaporate if the artificially high print advertising rates were to crack.

The scathing assessment also notes skyrocketing print and distribution costs, despite Fairfax’s apparent approach this year to defray some of the costs with News Limited by sharing a Chullora printing press.

“The concept of 4-10 tonne trucks leaving at 2am from Sydney and driving to Armidale for example with a small pile of *SMH*’s in the back is akin to a pony express,” Colman writes, noting that the proportion of costs tied up in the print cycle was about “50%” and largely fixed.

Many of the report’s insights echo those of Macquarie analyst Alex Pollak, who also suggested last year that Fairfax [junk its hard copies](#) to boost earnings.

According to Colman, the only real succour is on the regional front with mastheads including *The Land* and the *Canberra Times* — which address minuscule populations — contributing as much to EBIT in 2010 as *The Age* or the *SMH* which average about \$24 million each. The total profit contribution of the regional and suburbans was about \$150 million.

He also accuses the company of muddying the waters on its reporting, claiming that during the last financial year it “threw in suburbans and online classifieds to keep profits and revenues afloat” to hide the true picture of decline.

The online side of the business is often touted by Fairfax management as the company’s saving grace but as Colman notes, much of the content for [theage.com.au](#) and [smh.com.au](#) is still sourced from the “print cycle” and uploaded at midnight.

He says the cancer inside Fairfax has spread all the way to its editorial line. In what the foremost Fairfax authority calls a spectacular “own” goal, *The Australian*’s savvy shift to the right under Chris Mitchell is yet to be countered by the *Sydney Morning Herald* and *The Age*, which both continue to lean leftwards. Unfortunately for the bean counters, only 25% of the 20 richest Sydney and Melbourne electorates preferred a Labor or Greens MP.



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“These two cities are FXJ’s Stalingrad,” Colman thunders. “How long will FXJ operate loss-making dailies established in 1851 (*SMH*) and 1854 (*Age*)?”

Media analyst Peter Cox, whose curveball questions at an investor briefing last year arguably expedited former CEO Brian McCarthy’s imminent demise, agreed that business smarts among senior executives were lacking:

*“The performance of the Board and the executive team has been just atrocious. I know you gave Greg Hywood a good run when he was appointed but I had a look at Greg’s results when he was chief of Tourism Victoria and tourists actually fell.*

*“So here we go again. Do they have the expertise to build the business for the future? Fairfax doesn’t need another editorial guy in charge.”*

Cox also noted that the migration of classifieds to Realestate.com.au and Seek could be traced to historical management snafus. Embarrassingly for Fairfax, two weeks ago Seek, which controls 70% of the online jobs market, exceeded Fairfax’s total market capitalisation for the first time — despite repeated opportunities over the years to purchase it for a fraction of its current value.

By contrast Fairfax’s online classifieds business has seen revenue growth tumble 5%.

According to Colman, the overall picture for Fairfax remains grim. Its net debt, an estimated \$1.36 billion in 2010, will weigh on the bottom line, with “the race between debt pay down and declining earning” meaning that key assets would need to be sold off.

“As with the *Titanic*, the futures (women and children) are thrown into life rafts — Trade Me and Radio will have to be sold,” he said.

Broadcast assets including Melbourne’s 3AW and Sydney’s 2UE are already on the chopping block with Macquarie Radio topping the list of potential buyers.

Fairfax made a net profit of \$282.1 million on earnings of \$541.1 in 2009-10. Under a conservative debt reduction scenario and steady earnings falls, the report predicts profits will fall to \$251 million by 2015.

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11 Comments



**MOZ**

Posted Tuesday, 5 July 2011 at 1:36 pm | [Permalink](#)

They will last longer than Crikey.



**SUZANNE BLAKE**

Posted Tuesday, 5 July 2011 at 1:43 pm | [Permalink](#)

Damn, how do I start my fire?



**DAVE SAG**

Posted Tuesday, 5 July 2011 at 2:08 pm | [Permalink](#)

My main use for newspapers is as lining for my worm-farm. I've not bought a paper in many years, why would I? If I want to read fiction I go read a novel or some short stories. I can't remember the last time I read a story in the paper that wasn't in some way either fabricated, misquoted or simply the journalist was too stupid or lazy to get their facts right. Either that or the story was an opinion piece posing as news. I'll happily keep up my Crikey subscription though because a) I don't bother to read all of it anyway [I skim headlines until I find something I care about] and b) the writing is, by and large, excellent. So cheers to crikey and boo-hiss to fairfax and newscorp. My \$0.02



**SCOTT GRANT**

Posted Tuesday, 5 July 2011 at 2:27 pm | [Permalink](#)

Rupert has demonstrated that there are more reasons to produce a newspaper than simply to make a profit. If Fairfax could find something else to produce some decent revenue, perhaps they could shut down the SMH and Age and bring back the old National Times newspaper as a kind of Guardian down under. A newspaper with some intellectual credibility. A counter to the influence of the Murdochocracy. Bring back Brian Toohey! And Wendy Bacon! and, and, ... Oh well. One can dream.



**DR SHORTHAIIR**

Posted Tuesday, 5 July 2011 at 2:33 pm | [Permalink](#)

Maybe SEEK will buy Fairfax?



**MICHAEL CROOK**

Posted Tuesday, 5 July 2011 at 2:55 pm | [Permalink](#)

To Dave Sag, it may interest you to know that a great addition to worm farms is domestic dog shit, they just love it, and it stops you from picking it up on your sandals. In light of this revelation you may prefer to use the Australian in your worm farm as it is a lot closer to dog shit than the SMH.



**MALCOLM STREET**

Posted Tuesday, 5 July 2011 at 3:02 pm | [Permalink](#)

"He says the cancer inside Fairfax has spread all the way to its editorial line. In what the foremost Fairfax authority calls a spectacular "own" goal, The Australian's savvy shift to the right under Chris Mitchell is yet to be countered by the Sydney Morning Herald and The Age, which both continue to lean leftwards. Unfortunately for the bean counters, only 25% of the 20 richest Sydney and Melbourne electorates preferred a Labor or Greens MP."

Oh goody, let's turn the Age and SMH, which at least still have some journalistic credibility, into clones of The Australian. Forget reporting the news, what's the most profitable ideological line to take, is that the message?

And how profitable is the Australian again???? How long would the Oz last if it wasn't one of Murdoch's vanity projects like The Times and the New York Post with the resources of News Ltd to cross-subsidise it?

Why doesn't he mention The Financial Review?



**DAVID COLES**

Posted Tuesday, 5 July 2011 at 3:23 pm | [Permalink](#)

The business model doesn't work any more. Tough. If they actually provided a public service then the public might pay enough for papers to maintain them. But they don't provide a service and haven't for a long time. So off they go to join the other dinosaurs.



**AR**

Posted Tuesday, 5 July 2011 at 5:53 pm | [Permalink](#)

Won't someone think of the budgie cages & chip shops? The SMH became a life style throwaway several years ago, what little news content it had would embarrass an inner city yoghurt weaver, parochial beyond even the local free weeklies which exist to provide R/E ads, garage sales & escort services.



**JEREMY WILLIAMS**

Posted Tuesday, 5 July 2011 at 9:06 pm | [Permalink](#)

In my area in Brisbane I have asked 5 shops IGA's newsagent etc to get either smh or the age still hounding and nothing if newslimited takes over the country even more we will get 'leaders' even worse than Abbott

Help support fairfax I say or we may as well hand over the keys to the lodge to rupert



**ROBERTO TEDESCO**

Posted Tuesday, 5 July 2011 at 10:26 pm | Permalink

The SMH leans leftward? The wild west Left epitomised by Gerry "The Pedant" Henderson and Paul "jolly good first 100 days Bazza!" Sheehan, and Ross "was I really the member for Parramatta and Heaven?" Cameron? They have also in recent times topped up the pension fund of the useless Miranda Devine (not a member of the elite, doncha know).

Leftward from the chip-spitting, fossil fuel burning, meanie-gweenie burning "australian" - but otherwise? To think the SMH is left in any sense says more about the dearth of political options in the Australian newspaper landscape. Which is why many are bailing out and going online.

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