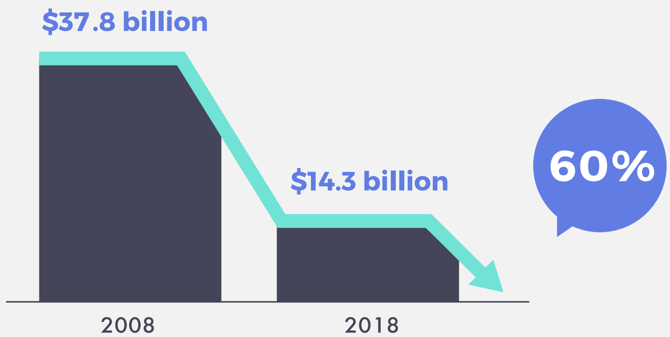
Vulture Capitalism and the News:

HOW HEDGE FUNDS AND PRIVATE EQUITY FIRMS GET RICH MISMANAGING AMERICA'S NEWSPAPERS

THE LAST TWO DECADES HAVE NOT BEEN KIND TO NEWSPAPERS.
Since the Great Recession, advertising revenue has **plummeted by more than 60%,** falling from $37.8 billion in 2008 to $14.3 billion in 2018.



As revenue has gone down, so too has circulation: In 1940, the earliest year with records available, weekday circulation for daily and weekly newspapers in the United States stood at 133 million. By 2018, the figure had **fallen by 40% to only 73 million** — even though the country's population had grown by around 200 million people between 1940 and 2018. The coronavirus **pandemic has exacerbated the revenue crunch**, in part, because many small businesses stopped running print advertisements in newspapers after Covid-related restrictions halted business activity, helping to lead to a new **spike in newspaper layoffs in 2020.**

Despite the decline in revenue and circulation, newspaper journalism continues to drive significant amounts of advertising revenue — just not all for media companies. **Imposing self-serving rules that disadvantage news outlets, Google and Facebook have effectively locked down huge swaths of the digital ad market:**

Google and Facebook — the dominant players in the search, browser, and social media markets — use their market power to impose unfair rules that result in news publishers getting underpaid for their content. The uneven playing field that Big Tech has created means that even newspapers that have invested heavily in digital content and operations continue to struggle to match the print advertising revenue figures of previous decades.

Seeing formerly profitable and robust newspaper chains fall on hard times, hedge funds, private equity firms, and other investment companies have moved quickly to **gobble up** a **great number** of **newspapers** in recent years. These firms are constantly on the lookout for "distressed" companies that they can **acquire at "bargain-basement rates."** Post-acquisition, they will typically move to squeeze out as much profit as possible by ruthlessly cutting costs, hiking subscription and advertising rates, and selling off assets.

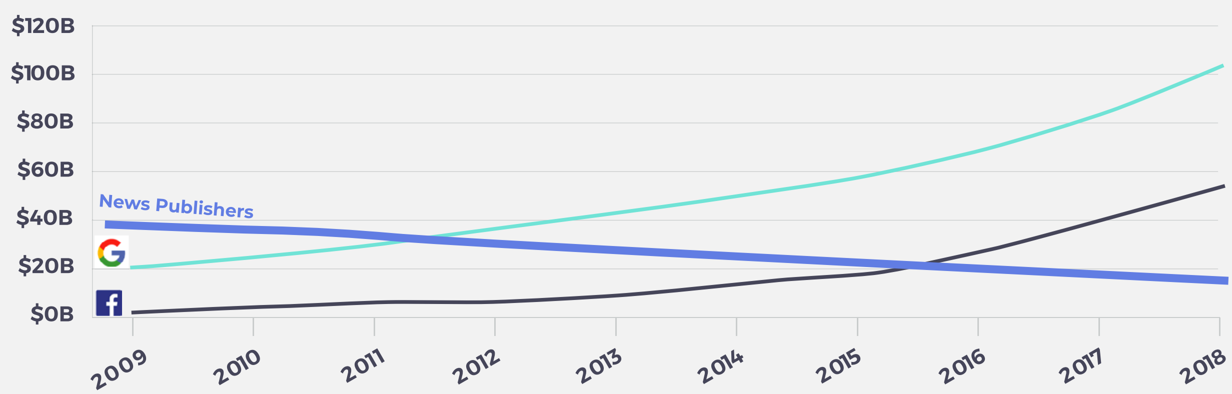
The result has been a hollowing out of America's newspapers. The 71,000 journalists and other newsroom employees employed before the Great Recession has shrunk to 35,000 nationwide — a **51% decline.**

Reduced to a fraction of their former size, many newsrooms are simply unable to adequately cover the news. Gaps emerge and important stories go untold. As quality goes, so too does readership and advertisers, triggering a death spiral that has claimed **1,800 newspapers** — **roughly a quarter of the country's newspapers** — since 2004.

THE NEWSPAPER BUSINESS MODEL IS BROKEN – AND BIG TECH BROKE IT

The advertising-centric traditional business model that sustained and grew America's newspapers in the 20thCentury is **broken.** Digital advertising revenue, although growing in recent years, **falls way short of filling the hole** left by the collapse in print advertising revenue. This is in large part due to Google and Facebook's dominance in digital advertising. The two companies account for 58% of digital advertising revenue nationally. Google, in particular, has **used its dominance to siphon off advertising** revenue that used to go to news publishers.

While news publishers' advertising revenue dropped by nearly 50 percent over the last seven years, to $14.3 billion, Google's has nearly tripled to $116.3 billion.

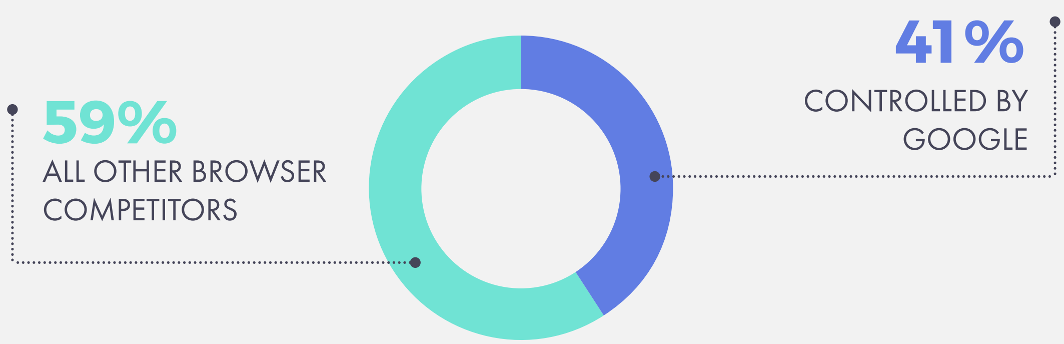


While their national dominance is impressive with respect to local markets **Google and Facebook truly dominate, capturing 77% of local advertising revenue.** In other words, **local news outlets are squeezed even more** than national news outlets by Google and Facebook's cornering of the digital advertising market.

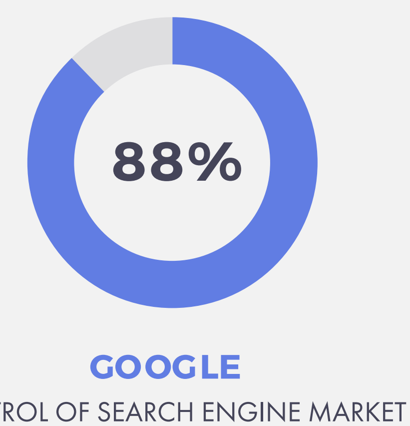
While devastating much of the economy, the COVID-19 pandemic has actually been good for certain industries—profits for **video conferencing platforms**, **big tech companies**, and **supermarket chains** all boomed in 2020. **A massive surge in traffic to news sites in 2020** should have led to a massive boost in newspaper profits, given that newspapers are fueled by advertising. Unfortunately, the **opposite occurred.** Boxed in by Big Tech, news outlets were unable to capitalize on the increased traffic and actually saw a decrease in advertising revenue when compared to 2019.

Big Tech's enormous power to corner the digital advertising market and to define the rules of the game have made it nearly impossible for newspapers to chart a path forward in the digital age. Largely by acquiring smaller firms, Google has become the dominant player at every stage of the digital advertising process.

Google also controls the most popular internet browser in the world – 41% of internet users or around 3.3 billion people use Google Chrome and, according to one study, the browser accounts for 67 percent of the global desktop internet browser market.



Google has used this market power to strongarm newspapers into doing what it wants. To take one brazen example: When The Wall Street Journal opted out of Google's "first click free" program, online traffic to the newspaper from Google **dropped a full 44 percent**. The CEO of News Corp, which owns The Wall Street Journal, observed that if news publishers "don't sign up for 'first click free', you virtually disappear from a search." Being cut off from Google Search, which accounts for 88 percent of the search engine market, is a death sentence for a news outlet.



Its dominance in the ad-tech space and massive market share in both the browser and search engine markets has also given Google the ability to set rules that disadvantage competitors and **harm website publishers**, such as **newspapers** — and that is **exactly what the company has done:**

- In order to rank highly in search results on Google's ubiquitous search engine, Google forces news outlets to use its Accelerated Mobile Pages (AMP), which **gives more user data to Google and produces less revenue for news outlets.**
- Google has undermined struggling newspapers trying to monetize journalism by **making it easier for users to evade newspaper paywalls.**
- Google reportedly ran a secret program to **rig advertising auctions** in its favor.

Most recently, Google has signaled that it plans to phase out third-party cookies and cross-site tracking capabilities on Chrome, but Google will **continue to allow its own advertising business** to use and monetize cookies and other customer data. If implemented, advertisers wishing to leverage cookies and other data for more personalized ads would **be forced to work with Google's ad tech platform and no one else.**

Things may get even worse if Google proceeds with its plan to eliminate third-party cookies in its Chrome browser — **according to Google, eliminating** third-party cookies will reduce ad revenue for news publishers by an average of 62%. Such a dramatic reduction in advertising revenue will have a devastating impact on America's newspapers, and no doubt lead to many falling prey to the **vulture capitalists**.

THE "CUT, CUT, CUT" MODEL WORKS – FOR THE HEDGE FUNDS, BUT IT ULTIMATELY KILLS JOURNALISM

By 2020 at least **one-third** of American newspapers were controlled by hedge funds and other investment companies, including three-quarters of the top 200 newspapers by circulation. A year later, after hedge fund Alden Global Capital completed its acquisition of Tribune, owner of the Chicago Tribune, New York Daily News, and other papers, **nearly half of daily local newspapers in the U.S. are controlled by hedge funds** and other investment companies.

Unlike previous newspaper owners, these **"new media barons"** are unsentimental about the news, approaching the business of journalism as they would any other, and ignoring the critical role they play in society. Few have any experience running a media company or working with journalists and most are completely disconnected from the local community served by the papers that they own. For example, Gannett, which after a 2019 merger **owns one in five newspapers** in the United States, is controlled by the private equity firm Fortress Investment Group, which is in turn owned by the Japanese conglomerate SoftBank.

Boosters for the hedge fund and private equity industries like to argue that the firms are "turnaround specialists" that take **a hands-on approach to help right the corporate ship**. There may be some truth to this in some cases, but the devastation in the journalism industry wrought by investment companies reflects a less

Destroying Flagship Newspapers

Colorado's flagship newspaper and the preeminent paper in the region, the *Denver Post*, became the poster child of hedge fund rapaciousness in 2018. In multiple rounds of layoffs, **hedge fund Alden Global Capital cut the paper's newsroom to around 70** by March 2018, down from an earlier high of around 300 journalists.

Protests by *Denver Post* reporters in 2018 succeeded in bringing global attention to the damage hedge funds and private equity firms have inflicted on America's newspapers. In an unprecedented move, the April 8, savory truth: Unlike previous newspaper owners, hedge funds and private equity firms are rarely "in it" for the long term and instead simply seek to **"siphon off the assets and profits, then dispose of what little remains"** as part of "a **pure liquidation strategy** — which is, 'no new investment and sell off what you can while you can.'"

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The "turnaround" myth suggests that when these firms buy newspapers they will bring a fresh, innovative approach involving creative solutions informed by extensive experience helping other struggling companies to modernize and eventually thrive.

2018 edition of the paper's Sunday Perspective section was dedicated entirely to the importance of local news. Under the banner **"News Matters,"** the journalists penned a scathing **front page editorial** declaring that Alden Global Capital (which owns the Denver Post) had "embarked on a cynical strategy of constantly reducing the amount and quality of its offerings, while steadily increasing its subscription rate."

Alden's drive to reduce costs wreaked havoc on the newsroom of another once-great newspaper, the *San Jose Mercury News*, which the hedge fund reduced from **400 to around 40 reporters and other newsroom staff**. Having been reduced to a tenth of its peak size, the *Mercury News* is a hollowed-out shell of what it once was, despite being the paper of record for one of the most politically and economically powerful areas on the planet—Silicon Valley. [BB1]

The truth, at least in the newspaper business, is somewhat different. Rather than innovate, the investment companies tend to follow the same rote approach newspaper after newspaper after newspaper: **"cut, cut, cut, cut."** When cutting ceases to be enough, the firms try to "harvest" profit by divesting valuable real estate and other assets in order to **"pull out cash, whether there's an operating profit or not."**

In a **2016 report** detailing the rise of the "new media barons," Penelope Muse Abernathy, Knight Chair in Journalism and Digital Media Economics at the University of North Carolina, notes:

> *The large investment groups tend to employ a standard formula in managing their newspapers — aggressive cost cutting paired with revenue increases and financial restructuring, including bankruptcy.*

To date, most notable newspaper bankruptcies have been the result of mismanagement by traditional newspaper owners rather than hedge funds, allowing investment companies to snap up the struggling properties for pennies on the dollar. But the trajectory for many hedge fund papers indicates that Professor Abernathy is wise to raise the likelihood that many hedge fund-owned dailies will ultimately find themselves in bankruptcy court. In any case, the prospects for a hedge fund-owned paper that escapes this fate may not be much better — investment companies have repeatedly demonstrated an eagerness to aggressively merge and/or close papers.

In the end, even if the investment companies utterly and completely fail to revive a once profitable newspaper, management fees, self-serving debt payments, and the proceeds of any "asset harvesting" ensure that hedge fund and private equity **managers (and their investor clients) come out ahead each and every time.**

THE HEDGE FUND AND PRIVATE EQUITY LOVE AFFAIR WITH LAYOFFS AND OUTSOURCING

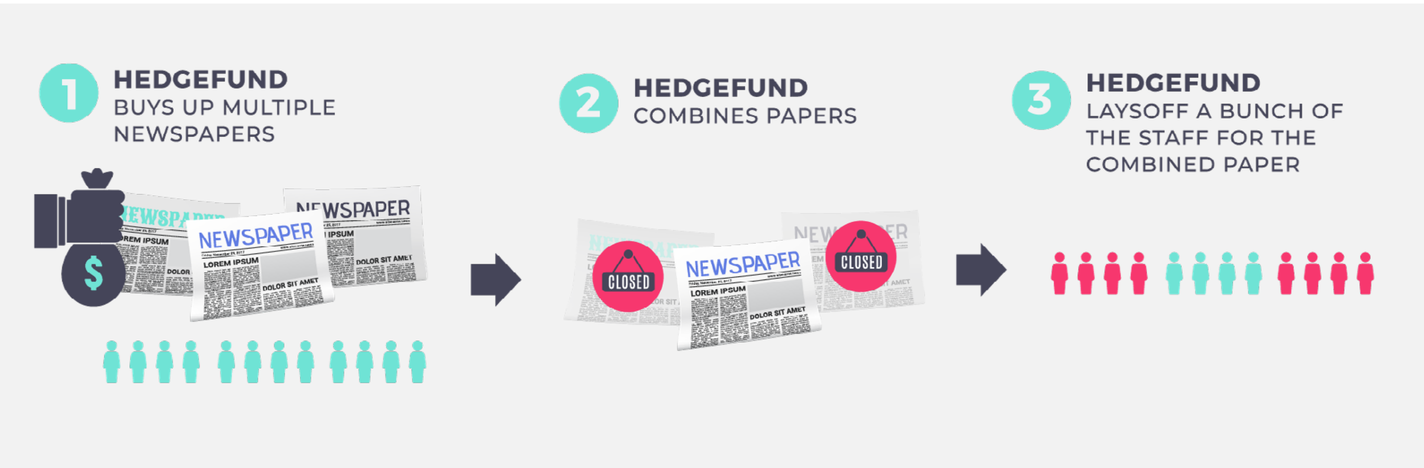
Investment companies rely heavily on layoffs to reduce costs. While many newspapers have been forced to make painful cuts to newsroom staff in recent years, the scale and intensity of layoffs at papers owned by hedge funds and other investment companies is **markedly higher and more frequent.** Remarkably, making a profit is not enough to stave off newsroom layoffs. Alden Global Capital, for instance, has consistently delivered double-digit profits for the fund and its investors. And yet, between 2012 and 2019, **Alden-owned papers with unionized newsrooms cut 71% of jobs.** In addition to layoffs, investment companies often offer employee buyouts, freeze wages, and/or reduce benefits, all of which helps to further decrease a paper's headcount.

Even when investment companies pledge to not reduce newsrooms, layoff notices usually follow within a few weeks of any merger or acquisition. For example, although private equity-backed GateHouse Media had **indicated it would not seriously reduce newsroom staff** after merging with Gannett, the new Gannett, now the largest newspaper chain in the country, began issuing **layoff notices** within a few weeks. Staff reductions at Gannett papers (buyouts and layoffs) **picked up again in 2020 during the pandemic.** Both GateHouse and Gannett had a **history of laying off journalists** to achieve cost savings, so the layoffs were occurring at papers that had already experienced rounds of cuts. In the 15 years before the merger, GateHouse **had closed five daily newspapers** and merged dozens of weeklies. Legacy Gannett, for its part, had **reduced its staff by one-fifth** in the two years preceding the merger.
Aggressive newsroom layoffs do not just shrink payroll, they also impact who is in the room when reporting and editorial decisions are made. Between 1997 and 2013, the number of black journalists at U.S. daily newspapers **declined by a full 40%,** a much greater decline than for white, Hispanic, and Asian journalists during the same period. As newspaper chains reduce the number of commentary and opinion writers on staff in favor of running the same content across multiple outlets, **Black opinion writers have also been cut disproportionately.**

While most of the vacant newsroom positions go permanently unfilled—forcing comically small newsrooms to cover entire metropolitan areas or multiple sprawling counties, many investment companies have shifted proofreading, copy editing, page design, production, and printing activity to centralized **regional hubs** with responsibility for multiple newspapers.

Seeking to achieve benefits of scale (i.e., the ability to eliminate "redundant" positions in the combined enterprise), investment companies have embraced the **long running trend towards media**

consolidation. For example, after snapping up a number of Bay Area newspapers, hedge fund Alden Global Capital pushed for the consolidation of several Bay Area papers, including Oakland Tribune, Contra Costa Times, and Daily Review, into the East Bay Times. Once the papers were consolidated, the hedge fund began **shrinking the staff.**



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At least one investment company has gone a step further and **outsourced news design and other tasks to workers overseas.** In fact, by the end of 2019, the front pages of more than 40 weekly newspapers in California were being designed in the Philippines. Gannett is poised to follow suit, confirming at the end of 2020 that it was **outsourcing nearly 500 U.S.-based jobs** to India.

The problem with draconian cuts to staffing, outsourcing and the like, is that the inevitable reduction in quality (eventually) leads to **decreased circulation and advertising revenue.** With fewer journalists, newspapers are forced to publish with less content. Since local companies continue to advertise in hometown newspapers for various reasons, this has led to the emergence of **"ghost papers"** at many hedge fund-owned outlets—"spectral incarnations of once-thick publications able to haul in cash even as they lack the deep reporting that once made them essential to their communities."

The ghost paper phenomenon illustrates how the "cut, cut, cut, cut" approach can eviscerate a newspaper while still turning a profit. But there are limits. With each additional round of layoffs, quality falls further until the newspaper cycles downwards into bankruptcy or outright closure. For many investment companies, this slow but eventual demise is a feature, not a bug. Ken Doctor, who writes on the business of journalism, put it succinctly:

> "There's no long-term strategy other than milking and continuing to cut. . . . Whatever remnants are there [after a few years], they'll try to find a buyer."

SELL EVERYTHING – ESPECIALLY THE BUILDING

As newsrooms shrink due to layoffs and buyouts, and the industry continues to struggle due to falling advertising revenue, **many newspapers have looked to monetize one of their most valuable assets: real estate.** This is not a new trend, **nor is it driven only by hedge funds and private equity firms.** Newspaper companies of all types, from independent papers and small chains to the large news conglomerates, have all sold off news buildings, often **historic buildings in a community's downtown business district**, and moved staff to cheaper (often leased) spaces.

As with layoffs and consolidation, investment companies have **embraced the practice** of divesting historic newspaper buildings and other valuable real estate. However, while previous real estate sales were largely done to help struggling newspapers stay in the black, Alden Global Capital and other investment companies have used real estate sales primarily as a means of extracting additional profit from the newspapers they own by **selling off real estate.** At some papers, such as the Alden-owned Hartford Courant, no alternative space was selected and **journalists were directed to work remotely.**

Reflecting the hedge fund's focus on divesting real estate from the newspapers they acquire, court filings indicate that Alden has set up a **series of affiliated real estate companies** tasked with "efficiently buying, selling, leasing, and redeveloping newspapers' offices and printing plants."

BY SADDLING NEWLY ACQUIRED NEWSPAPERS WITH SIGNIFICANT DEBT, INVESTMENT COMPANIES SET UP THEIR NEWSPAPERS TO FAIL

Even when they promise not to, hedge funds and private equity firms invariably saddle newly acquired newspaper chains with millions and millions of dollars in debt. Although this is debt that the investment company took out to finance the transaction, the burden of paying back the debt falls on the newspaper chain. For instance, after Alden Global Capital acquired Tribune last month, it **transferred $278 million in debt to the chain**—money that Tribune must pay back at a stunningly high interest rate of 13%. Before last month, Tribune reportedly had no debt at all and was sitting on $250 million in cash.

HEDGE FUNDS TAKE OUT DEBT AND THEN TRANSFER IT TO AND WEIGH DOWN THE PAPERS WHILE POCKETING THE PAPERS' PROFITS.

Worse yet, $60 million of the new debt is owed to MediaNews Group, an Alden-owned newspaper company. In other words, **Alden borrowed $60 million from itself** to pay for Tribune and is now forcing its new acquisition to make onerous debt payments at exorbitant interest rates back to an Alden-owned company, all while cutting newspaper staff and operations, effectively creating another means by which Alden can squeeze out profits from Tribune without investing in the newspaper chain's long term success.

Citing increased profitability after their draconian cuts, as well as the dire state of the industry before they entered, defenders of **the hedge fund and private equity owners argue that their tactics have paid off**. However, because they operate on **a short time horizon**, industry analysts note that "for the most part, **profits derived from cost cutting have not been reinvested** to improve their newspapers' journalism, but used instead to pay loans, management fees and shareholder dividends."

The Canadian newspaper chain Postmedia, which is owned by the hedge fund Chatham, provides a stark example of how hedge funds force newspapers to forgo investing in journalism in order to satisfy debt burdens imposed by their hedge fund owner. Between 2018 and 2020, Postmedia posted losses totaling around $40 million in Canadian dollars. During that time, the company invested only C$5.4 million in the business, while spending nearly C$127 million on debt payments. These debt payments ultimately benefit Chatham, as the hedge fund "owns" **two-thirds of Postmedia's long-term debt.** Experts agree that newspapers cannot be viable in the 21st century without truly adapting and transitioning to the digital age — **the number of people reading news online first began outpacing the number that read print newspapers in 2011**. However, doing so may require significant investment over several years—something that is anathema to the model followed by private equity and hedge fund newspaper owners. In fact, during an unsuccessful hostile takeover bid, Alden Global Capital vocally criticized Gannett for poorly serving its shareholders by **investing too much in digital.**

That Alden was rebuffed may reflect, at least in part, that some investors are not convinced about the sustainability and wisdom of squeezing newspapers dry and then leaving them for dead. But as long as hollowed-out newspapers continue to generate significant profits, and they do, it is doubtful that investor pressure will result in the dominant business model changing any time soon.

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THE HOLLOWING OUT OF NEWSPAPERS UNDERMINES DEMOCRACY

Journalism isn't an ordinary industry. Americans rely upon journalists to understand what their national, state, and local elected officials are doing. In moments of crisis, be it a hurricane or a pandemic, they turn to local news outlets to get the essential facts they need to be safe. Hedge funds and private equity owners, however, don't approach the newspaper business from a place of service, nor are they particularly troubled by the **news deserts** their cuts have created. A former executive editor at the San Jose Mercury News **summed up the problem** with the hedge fund owners that bought his paper:

> “*They are good at what they do, which is buy distressed assets and cut costs and sell off properties. This is good for their investors, but it is not necessarily good for the communities these papers serve, or democracy for that matter.*”

Since 2004, **a fifth of all newspapers in the U.S. have shut down or merged** with one or more other papers. Nearly 200 of the nation's 3,143 counties now do not have any local newspaper and **1,449 counties (nearly 1 in 2) have only one newspaper**, usually a weekly rather than a daily paper.

Publications serving minority and rural communities have been hit particularly hard, with **prominent Black legacy newspapers, such as the Amsterdam News or the Chicago Defender, seeing large drops in circulation** and revenue. Residents of news deserts—communities without any local newspapers—are **poorer, older, and less educated** than the average American.

When local newspapers disappear or, short of that, become hollowed-out ghost papers, our democracy suffers. **Voter turnou**t in state and local elections declines. **Fewer candidates** run for local office. Our politics become **more** **polarized.** Local governments report higher borrowing costs.

Despite its importance, the overwhelming majority of **Americans are unaware of the crisis in local news** — a Pew survey found that 71% of Americans thought their local news outlets were doing somewhat or very well financially. One potential reason: **slimmed-down news rooms are not reporting on the deep cuts** to local newsrooms by their investment company owners.

Bell, California is a cautionary tale.

After eliminating their salary caps, municipal officials in the small town dramatically upped their salaries — $450,000 for the police chief and $800,000 for the city manager. These salaries were the highest paid to any government official in the United States. The scheme went undetected for years. One reason why? The city lost its local newspaper in the early 2000s, thereby ending the local news coverage of city business. Without the sunlight of a free press, millions of dollars were stolen from the community—not in private, but at poorly attended public meetings.

TO SAVE JOURNALISM FROM HEDGE FUNDS, ADDRESS THE REASONS WHY NEWSPAPERS HAVE BECOME "DISTRESSED" AND RIPE FOR THE PICKING

The bottom line: hedge funds and private equity are not going to save journalism. **Alternative ownership structures** or **tax credits to incentivize subscriptions** could be one part of the solution, but for newspapers to be successful and thrive in the 21st century, it is essential that the root causes of the current crisis be addressed. First and foremost, this means leveling the playing field for digital advertising.

In light of the pressures on news outlets from Google and Facebook, Australia moved earlier this year to **force the Big Tech companies to pay news publishers** a fair price for content posted on news feeds and search results. Congress should consider a similar approach. Regulators must also hold Big Tech accountable for anticompetitive practices that threaten a lynchpin of our democracy: America's newspapers.

savejournalism.org