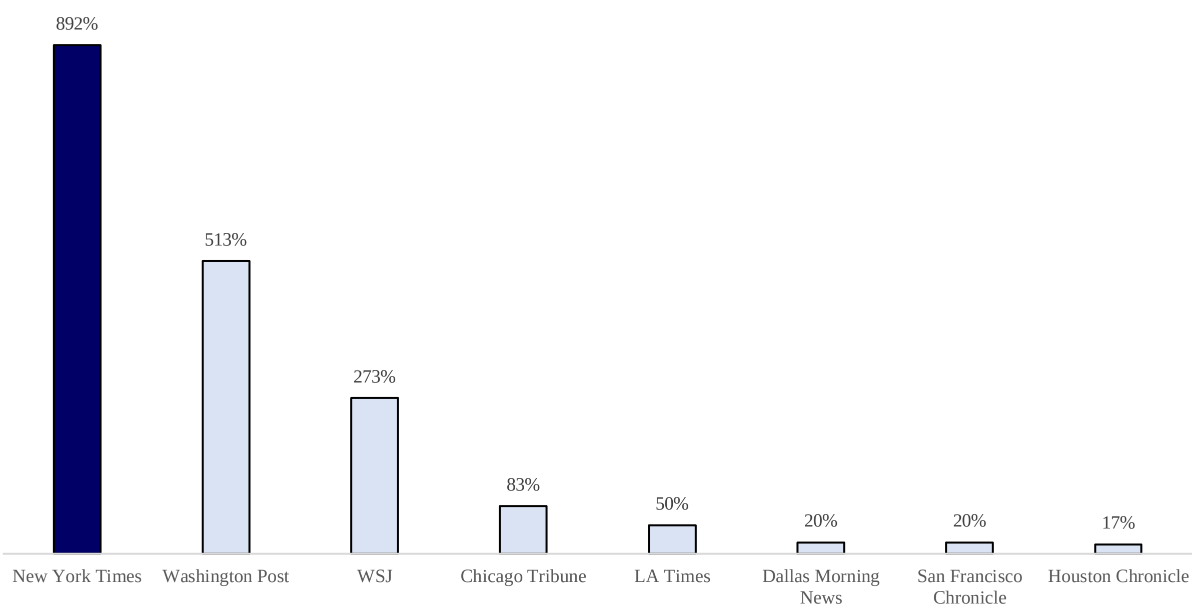
October 2022

New York Times Company Investment Memo

- The New York Times Company is the dominant global publisher of digital news media, with more subscribers than its nearest three competitors combined, NYT employs ~11% of all US newspaper journalists.
- The maturing digital news media market is complex and poorly understood, tending to powerful '*winner takes more of most*' dynamics. Unlike other media genres, the median number of subscriptions to a national news publisher is one, globally and in the US.
- Central to understanding NYT, are its unique 'quality flywheel' dynamics underwritten by changing consumption patterns associated with mobile usage. Through owning the full 'digital content stack' from newsroom to engineering, NYT both delivers content and defines its relationship with readers on its own terms, a powerful expression of ecosystem control in a media landscape characterized by aggregation.
- We view the model as particularly attractive given the uplift in average revenue per user (ARPU) through graduating promotional rate subscribers to full priced rates. NYT's fixed cost leverage amplifies this uplift down the income statement to deliver compounding EBIT & FCF growth.
- In recent periods NYT has changed how it reports certain disclosures and KPIs. This additional complexity, combined with Q1-22 acquisitions dilutive to H1-22 KPIs, obscures the likely mid-term trajectory of ARPU. Our focused work and study affords us greater visibility into mid-term ARPU paths and underwrites forecast top-line and EBIT expansion above consensus.

Q2-22 Digital Subscribers as % of 2002 Print Circulation



Executive Summary

The market underappreciates the scale and scope of NYT's digital transformation. A bold, and initially controversial digital-first subscription strategy initiated in 2011 will begin to bear fruit as it nears a critical inflection point. As of H1-22 digital subscriptions and digital advertising account for 42.6% and 12.5% of total revenues respectively.

Management have articulated a mid-term target of 15m subscribers by 2027-end. We identify strong underlying momentum, and improved retention metrics in H1-22, such we credit management's target believing it to be proportional to current momentum. Based on continued strength in retention across all subscription products, we model NYT as achieving this by early Q2-27.

A counter-intuitively strong, print business underlies the digital operations, supporting NYT's idiosyncratic quality flywheel dynamics. Despite preconceptions, the print business is not a terminally declining business weighing on AOP, but remains attractively cash generative, delivering ~$1bn of free cash flow on probable ~25% EBIT margins to 2028. Consequently, NYT continues to be able to reinvest into developing its superior digital production enhancing customer acquisition and retention. NYT has enjoyed strong gross digital subscriber additions through to H1-22. As NYT leverages of its quality flywheel to reach higher ARPUs[1], we expect strong top-line growth and margin expansion.

NYT's balance sheet is far cleaner than that of the early-2000s, with $0 debt, a pension funding surplus $74m and > $160m cash. We forecast FCF growth at CAGR ~11.4% to 2028, and in line with management's goal as articulated at the Q2-22 (June) investor day, expect ~45% of FCF to be returned to shareholders through dividends and buybacks, with EPS accretion from repurchases running 90-110 bps through to 2028.

The natural complexity of NYT's business, across product and revenue streams, makes it difficult to fully appreciate progress made on the digital first strategy. This complexity has been exacerbated recently by the necessary redefining of reported KPIs. Hence, we believe the opportunity set in NYT is greater today because significant underlying momentum is obscured by various reporting reclassifications likely confusing to most investors. Whilst this confusion will ultimately prove transitory, today we believe we are among a small group identifying NYT's progress.

NYT trades at a ~40% discount to intrinsic value based on our differentiated view of mid-term ARPU paths, with potential to deliver attractive mid-teens compounded returns through to 2028, at a >14.5x P/FCF exit multiple.

With Q1-22 acquisition of The Athletic dilutive to near term operating profit and distortive to KPIs, NYT looks expensive. However, we believe the current share price offers an attractive entry point ahead of consolidated company level margin improvements and a significant ROIC inflection in H1-24.

Support from the growing FCF profile, is supportive to a stable and growing dividend, leaving considerable scope for accelerated repurchase programs. Such, we hold continued success in execution positions the stock as an attractive fisher compounder set-up.

As of Q3-22, NYT trades ~$30 a share, with ~168m Class A shares outstanding, a market cap and EV of ~$5.3bn and ~$5bn respectively.

[1] ARPU – average revenue per user

What the Market Misunderstands

The changing economics of news media – pg.37

The internet was uniquely destructive to legacy newspaper businesses. Information, once a relatively scarce good, and one with high fixed costs of production, was abundant overnight, and for any individual consumer, in surplus supply. As distribution costs approached zero, news became a commodity, and pricing followed. With smart-phones displacing PCs for internet usage time from 2010s onwards, conventional wisdom held that fatal commodifying trends persisted. Given the two-sided market dynamics of readers and advertisers, the declines of legacy publishers has continued to accelerate with each transition.

Conventional wisdom does not understand the full story. Instead, these trends created a duality in news story lifespan, a point misunderstood by the generalist. Intermittent internet use tends to virality and a shortening of the news event horizon, - the classic commodification narrative. Whilst, at the same time, the expansion in story telling tools to include interactive multi-format digital canvases, audio and video, have extended story lifespans and underwriting higher customer lifetime value. Consequently, a competitive newsroom serves the same underlying journalism both as viral short form content, and longer form features, monetizing both ends of content timeshare and widening top-level funnels.

Fundamentally, mobile app usage differs from desktop based browsing, with the former tending to far stickier and more engaged users. This landscape underpins the idiosyncratic momentum behind the '*quality flywheel*'.

Quality Flywheel – pg.48

In the traditional news media model, distribution was the primary success factor and supernormal profits accrued to those firms which controlled scaled distribution. Under internet economics, quality of UI/X is the primary success factor, with supernormal profits accruing to those firms which best control users at scale.

In our view, quality is the key variable in determining control. As such quality is better understood in terms of '*perceived quality*', *ie. do NYT readers believe in the Times' quality, as well as the Pulitzer prize committee*.

Quality content curation has generated strong top-line and subscriber growth, with churn differentials tracking largely to quality, in Video (SVOD) and Music streaming categories. Where streaming services curate *mostly* external content, NYT leverages its own content to determine its relationship with readers; a powerful expression of ecosystem control.

NYT is unique in owning the full 'digital content stack', from newsroom to engineers, and product managers to distribution. Given our view that digital news media consumption tends to a duality in news story life-span, such ecosystem control is a necessity and allows NYT to define its relationship with readers on its own terms, a unique competitive advantage.

In news media, we view flywheels as generating more powerful '*winner takes most*' dynamics than in other media genres. We hold potential for emergent '*winner takes more of most*' dynamics, a unique propellant of the quality flywheel that is underappreciated by the market. Whilst in music and SVOD, the average consumer holds multiple subscriptions, the median number of subscriptions to a national news publisher is 1, globally and in the US.

We underwrite continued strength in reported gross subscriber adds, and average revenue per user (ARPU) expansion as promotional rate subscribers retain through graduating to full price. ARPU expansion will flow through to top-line, underwriting double digit operating profit CAGR over the mid-term. Our research informs our differentiated view that the greater risk to profitability stems from failure to execute on the digital advertising strategy, not from increased churn.

Digital content stack – pg.55 & pg.57

Underpinning the quality flywheel is the foundational strength of NYT's newsroom and editorial, combined with the digital business infrastructure.

Current headcount consists of ~1,750 newsroom and editorial staff, representing ~5% of US news-media journalists, and ~11% of US newspaper journalists. NYT remains a premium agent in the labor market, paying ~2x premium above the national average salary for journalists; and for top talent, premia expand to ~3-4x.

In creating a leading subscription first digital news model, there was no 'off the shelf' stack NYT could buy. Consequently, NYT built its tech stack from the ground up, which today is the most advanced tech stack of any digital news publisher.

Overlaying the tech stack, NYT pursued a similar strategy in recruiting top tech talent as it had in building its newsroom, with NYT demonstrating the ability to attract top-talent into key positions. Similarly, we note the increasing depth of technology expertise being brought onto NYT's board, alongside longstanding board members.

In our view, NYT will continue to compound these structural advantages in line with recursive '*winner takes <u>more</u> of most*' dynamics in digital news media.

Pricing power & ARPU expansion – pg.59 & pg.63

In driving the next leg of revenue growth, NYT needs to reach higher ARPUs. The generalist expects increased churn as prices are raised on consumers, however this view misunderstands the dynamics of promotional rates and subscription pricing.

We know there is a favorable inverse relationship between subscription price and churn. This relationship holds both in graduating subscribers from promotional to full rates, and discretely in respect of full priced rates. INMA data gives that paid trials retain far better, ~80%, implying churn at ~20%, above what our research suggests NYT achieved in H1-22.

Beyond promotional rate graduates, we conceive of potential mid-term price raises on mature subscribers as effectively the same as graduating subscribers through promotional rates. Our systematic review of industry literature informs this view.

As we see it, the pursuit of higher sARPUs through pricing power, presents only a near-term risk to churn. With price rises likely to reduce mid-term churn, as NYT effectively selects for the higher sARPU subscribers it wants. Our research holds in the near-term, NYT can churn up to ~15% above the lower bound of industrywide retention rates without a material effect on y/y revenue growth, provided retained subscribers were successfully graduated to fully priced digital Bundle subscriptions. Such, we hold there is substantial cushioning to top-line subscription revenue in respect of mid-term ARPU paths.

NYT's current retention rates are >83%, comfortably above peers. We identify continued improvement in retention through H1-22, in line with product quality. Continued product quality will prove supportive to continued strength in retention above industry levels, and we underwrite mid-term ARPU expansion above consensus, crediting success in Bundling, and on the basis of informed near-term churn indifference.

Beyond the news cycle – *pg.66*

News media has benefitted from a strong news cycle in the past 6-years. Historically, subscriber acquisition has closely tracked the news cycle. The market sees a slowdown in news intensity as a downside risk to subscriber adds and retention. However, this fails to identify the resilience management have built into NYT's product portfolio.

We hold digital-Bundle product as a digital reimagining of the Sunday print edition, where supplements added differentiated value through the breadth of content, and in effect tapped into dualities of story life-span and reader attention. NYT's Lifestyle products such as T Magazine, Cooking, Games and Wirecutter, alongside The Athletic, tend to this, and compete for different consumer timeshare and mindshare than the core news product.

Whilst, the news cycle remains important in drawing new users into NYT's top-level funnels, NYT is moving beyond the news cycle, determining engagement and retention on its own terms. We hold continued acyclical ARPU expansion as indicative of strong retention, validating our view.

Print – Hiding in plain sight – *pg.67*

Despite generalist perception, print is not a terminally declining business weighing on AOP. Instead, we propose a model by which print subscribers effectively subsidize digital only subscribers.

With the cost of journalism fixed, the only cost to the Times in providing the physical paper at the margin, is the incremental cost of print production and distribution. But, print advertising attracts materially higher rates, such print subscribers generate >5x the ARPU of digital subscribers.

By our view, print and digital products are complements not substitutes. So, a fully engaged print bundle subscriber, with complimentary digital access, generates additional digital impressions and in turn, advertising revenues. As such the true ARPU of a full priced print bundle subscriber is greater than can be backed out of financial statements.

What likely exists in NYT's printing operations is a business achieving 50% gross margins. Net-income from NYT's commercial printing activities, is an effective subsidy, and partially offsets decreased returns to diminished scale, giving potential for further margin expansion.

Our view here is informed by the gross margins achieved over a 14-year period from the launch of NYTimes.com in 1996, to NYT's shift to a subscription based digital first model in 2011. For much of its early life, NYTimes.com content was mostly 'shovelware', hence the significantly larger share of production costs are attributable to printing operations and journalism production. We guide down present gross margin assumption from historic levels for diminished returns to decreased scale.

NYT's College Point facility is the superior strategic printing asset in the NYC metro area, and remains the only facility globally owned by the Times. Pandemic related falls in demand for printed media resulted in the destruction of many smaller printing operations. Our conversations with print brokers, suggest the Pandemic may have resulted in permanent closures amounting to as much as 10-15% of global printing operations. Industry survey data from 2022, suggests ~67% of US publishers plan to continue to divest in their print operations. Against a backdrop of increasingly constrained wood pulp and newsprint supply, rates on third-party printing have continued to rise sharply. Following indices on commercial print rates gives a read on mid-term trajectory of rates on future third-party deals.

Ecosystem control at large – *pg.77* & *pg.79*

NYT's portfolio of other 'Lifestyle' products stem from NYT's powerful ecosystem control. Properties result from organic product development and acquisitions. Lifestyle products are both important in understanding the digital-Bundle, and as standalone products. Standalone, we view Lifestyle products as top-level funnel accretive, holding Wirecutter and Podcast as particularly attractive assets.

Podcasts are the primary medium for audio journalism, and news the second most popular podcast genre among US audiences. NYT is a major podcast publisher, with significant advantages over specialist publishers stemming from NYT's 'digital content' stack. NYT has continued to compound this advantage with acquisitions of Serial Productions and Audm in 2020.

The Daily and NYT Opinion's current affairs shows leverage off the fixed cost base of journalism production, drawing on newsroom reporting and staff journalists. As such, podcast revenue flows through at very attractive incremental EBITDA margins.

Continued integration of Wirecutter content into NYTimes.com, mobile app and newsletters, will prove supportive to total brand engagement time. We view total brand engagement time, as tracking to increased traffic through affiliate links, as NYT's timeshare of individual users' daily internet usage is increased.

We underwrite continued growth in Other Revenues, on the basis of strong standalone performance and subscriber growth. As a base case, Audio and Wirecutter combined deliver 287 bps incremental EBIT contributions in 2022, decreasing to 264 bps in 2025. Growth in audio downloads and streams above the rate of subscriber growth and monetization of international listeners offer upside optionality, with a potential partial offset from near-term decreases in CPM advertising rates.

The Athletic – *pg.90*

NYT acquired The Athletic in Q1-22 (January) for $550m (8.5x 2021 revenues) in an all cash deal. Management expect the acquisition to prove accretive to revenue growth, and near-term dilutive to operating profit, as management focus on subscriber growth and developing The Athletic's advertising business, guiding to ~$100m of cumulative losses over 3-years.

NYT's EV fell by -$860m, as the market ascribed negative value to the deal. We remain tempered, and view potential for The Athletic to prove a sound strategic long-term asset pending near-term execution. Similarly, we view potential for near to mid-term tailwinds to standalone subscriber count from trends related to sports betting.

At the segment level, we hold The Athletic's realizable TAM at 5.5m, with upside expansion to 7.5m tied to tailwinds to distribution from NYT's network and mid-term tailwinds from sports betting. Our TAM reflects our view that The Athletic has superior global reach potential compared to Sports Illustrated and other nationally constrained sports publications, given the breadth and depth of its coverage.

We view sports as a unique category with potential for greater multi-homing behavior over news media. Further, we hold the strength of The Athletic's multi-format product tends to audio and video format subscriber dynamics, whilst proving accretive to top-level funnels. As such, The Athletic is better viewed as a multi-home complement to Sports SVOD services than a substitute to text-based sports news.

However, we expect subscriber growth will slow as The Athletic approaches base case TAM, which as a specialist publication is smaller. Such, we model subscription growth slowing at greater rate than for the core news product from H2-25 onwards.

We contend The Athletic offers optionality, with The Athletic's US domestic reach, as proxied by search interest, less regionally concentrated than the core news brand. Similarly, The Athletic provides leading coverage of European and British football, so is supportive to international subscriber growth at the company level.

Standalone subscriptions to The Athletic function as an effective funnel into the NYT ecosystem in respect of first-year promotional rates. In many ways, NYT's acquisition of The Athletic can be conceived of as a light-footed relaunch of earlier attempts to capture regional news subscribers.

Prior to acquisition, The Athletic focused on subscriber growth to drive top-line revenue, at the expense of ARPU. The Athletic's path to profitability is a function of ARPU expansion as matured subscribers transition to full priced rates and reductions in cost of journalism premia over the core Times newsroom.

Current, annual ARPU based on Q2-22 ARPU is ~$43, with aARPU contributing ~14.6% to total ARPU. Successful roll out of NYT's advertising playbook offers potential for further ARPU expansion. But, with cyclical headwinds, and sARPU momentum, we do not expect aARPU contributions to approach that of the core news product at ~23%. Nevertheless, we credit management's strategy, and the roll out of advertising inventory on The Athletic from Q3-22.

Management discussion has focused on revenue growth, through bundling and advertising, with insufficient discussion on stemming seasonal leak, aggressively discounted promotional rates, or trimming excessive costs. We view these latter concerns as central to meeting with cumulative loss guidance of ~$100m through to 2025. Similarly, we remain concerned by potential for organizational friction across the two segments' newsroom, and within The Athletic's newsroom.

We expect churn to exhibit greater seasonality than the core news product, reflected in depressed sARPU growth. Such, we hold The Athletic will achieve positive EBITDA by 2026 in line with the upper bound of long-term guidance. We look to near-term gross segment subscriber additions and mid-term ARPU expansion driven by sARPU and aARPU growth to confirm our view.

Cost discipline remains a source of considerable uncertainty, with potential to more than offset top-line growth from ARPU expansion. we expect cost premia at The Athletic will be harder to reduce than long-term guidance suggests. Cost of Revenue is tied to the structure of The Athletic's newsroom as well as the compensation premia to 'poach' talent. Currently compensation constitutes ~75% of cost of revenue. As such, we model cumulative losses exceeding the upper bound of long-term guidance by ~12% at cumulative LBITDA Q1-22 to 2025-end of -$112m.

Risks

- Misappreciation of the scale of the news subscription market – *pg.96*
- Impairment of trust in news media – *pg.102*
- Impairment of trust in times brand – *pg.108* & *pg.110*
- Increased print production costs – *pg.112*
- Increased deterioration in print advertising market – *pg.114*
- Risks related to the acquisition of The Athletic: Elevated churn & poor cost discipline – *pg. 116*

In this paper:

Overview

History and Current Context

The New York Times Company (NYSE: NYT) was founded in 1851 by Henry Jarvis Raymond and George Jones.

Both founders were journalists at Horace Greeley's New York Tribune, a Whig-leaning publication. Henry Jarvis Raymond himself was actively involved in Republican politics, serving as a Congressman, New York's lieutenant-Governor and chair of the Republican National Committee.

The Times was positioned as a pure-play publisher of truth-seeking non-partisan journalism, a clear differentiation from the 'Yellow journalism' prevalent in the period. This tradition is reflected today in the company's mission to '*seek truth and help people understand the world*'.

In the 171-years since, the newspaper has established as the national paper of record, winning 136 Pulitzer Prizes; more than the Washington Post, Wall Street Journal and Los Angeles Times combined. Correspondingly, the paper's audience has grown from readers in the US North-East to, by management's own assessment, the English-speaking world.

The Times has endured several significant inflection points. The first, in 1896, resulted in the Sulzberger family's controlling relationship. Adolf Ochs, great-great-grandfather of current publisher, A.G. Sulzberger, successfully averted bankruptcy by slashing general circulation prices from 3¢ to 1¢, in turn tripling circulation from 25,000 to 75,000.

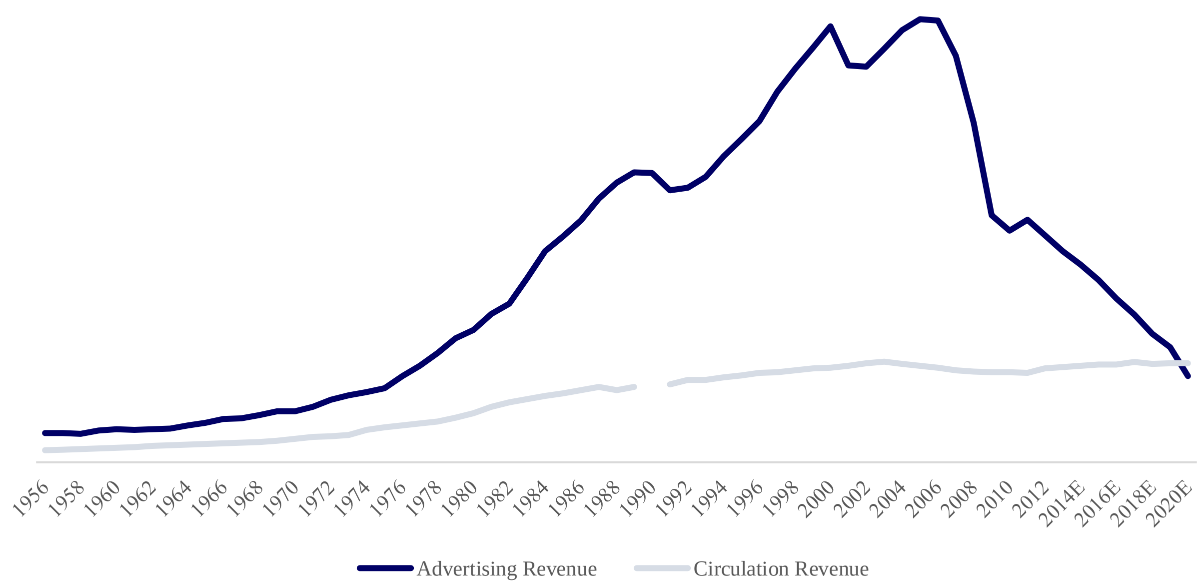
From the mid-1950s, whilst circulation growth in the US levelled-out, publishers continued generating top-line growth through pricing power and advertising revenues, alongside home and lifestyle supplements. This presented an attractive combination that NewsCorp proprietor Rupert Murdoch retrospectively termed '*the twin rivers of gold*' in reverence of the pre-internet news media landscape. In turn, this furthered the development of a two-sided market of readers and marketers. Print circulation for The New York times peaked in 1994, at 1.18m papers circulated daily.

Despite launching the core digital news platform NYTimes.com in 1996, management remained sanguine on digital expansion. A plan to spin-off the digital arm ultimately proved ill-fated, and was shelved in the wake of the dot-com bust. Meanwhile, revenue peaked in 2000 at $3.3bn, $3.1bn of which was attributable to print circulation, ~70% derived from advertising. 2000 proved a high watermark, with 2021 revenues of $2.01bn up 16.3% y/y from 2020.

Throughout the 2000s the internet lowered news media distribution costs to near-zero, however the Times' flatfooted approach proved inept. To boot, the internet effectively disaggregated mass-audiences into hyper-targetable micro-audiences. Consequently, advertisers were less willing to pay-up for mass-audience impressions. NYT's portfolio of broadcast media properties acquired from the early-1990s onwards, were similarly afflicted by this trend.

Today, NYT is foremost a subscription business, with subscriptions to its various print and digital products accounting for ~70% of revenues. Subscriptions at Q2-22-end totaled 10.39m, held by 9.11m subscribers, 1.26m of which are subscribers to The Athletic, a digital sports-news property acquired in the period for $550m cash. Compared to 2014, the Times served 1.05m digital only subscribers, and advertising revenue accounted for 47.1% of company revenues.

US Print News: Advertising & Circulation Revenues 1956 - 2020



Source: Pew Research Center

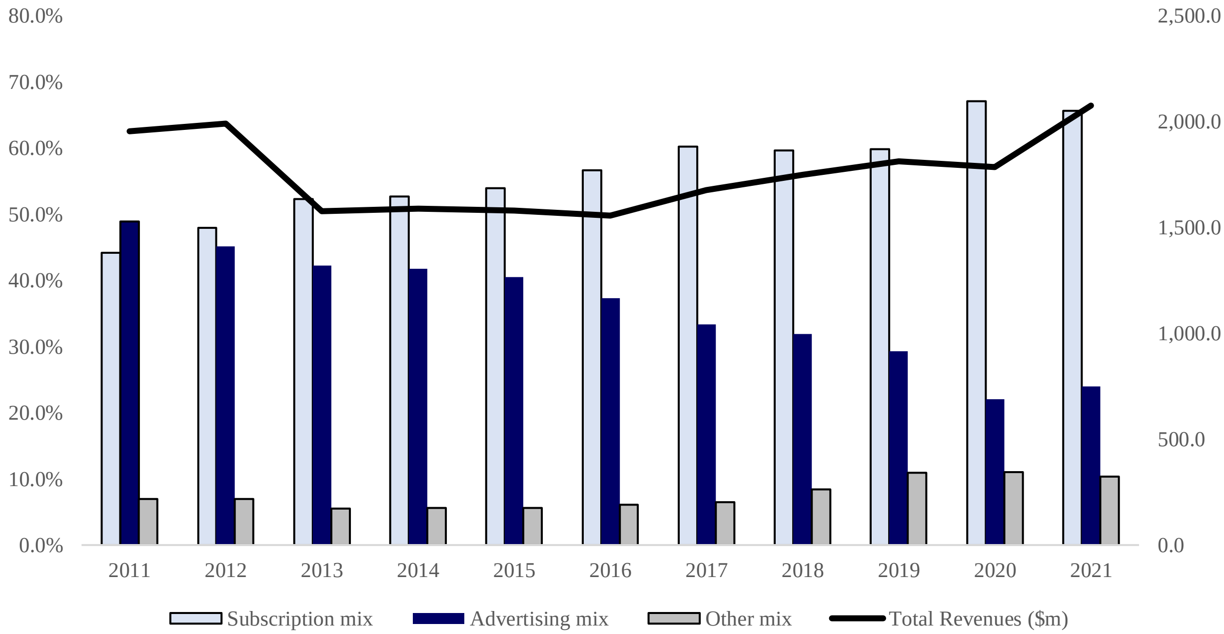
However NYT's shift from an advertising driven business to a subscriber driven model supported by advertising revenue, is less a pivot, and rather a course correction. Management believe there is latent fundamental demand for quality news and information overlaying the multi-decade shift from traditional print news to digital news media. The Times' transition, trajectory and current position can be traced to the infamous '*Innovation Report* ' a leaked internal memo. The architect of the Innovation memo, is current publisher A.G. Sulzberger.

In pursuing this transition, NYT reoriented to support audience development and assign primacy to user experience. Firm-wide changes were implemented stemming from greater integration of newsroom operations with engineering and product development teams. The underlying strategy being to match best in class journalism to optimized engagement and an effective monetization strategy. In turn, this creates daily information and news habits, generating higher customer lifetime value (CLV) for NYT. One such example was the change of publishing cadence, with the newsroom now breaking stories in the morning, to better suit digital user habits.

A 2019 target of 10m subscriptions by 2025, was reached upon the Q2-22 acquisition of The Athletic. Management now propose a TAM of 135m and are working to a goal of 15m subscribers by 2027-end. Targets are underpinned by a flywheel narrative, with quality journalism driving subscriber acquisition and reducing churn, which in turn supports further investment in content, *et iterum* .

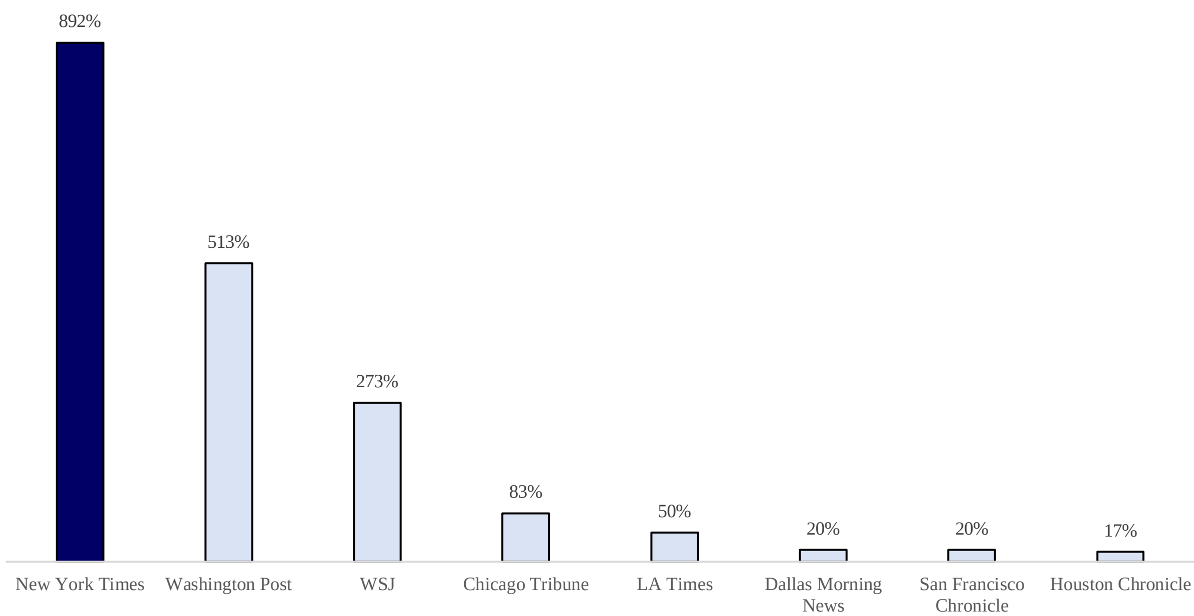
Prima facie, the narrative holds. NYT digital and print subscribers exceed its closest competitor by >2.5x, the entire subscriber base of the Washington Post, Wall Street Journal and Financial Times combined. Meanwhile, the Times employs ~5% all US journalists, paying newsroom staff a ~2x premium.

NYT Revenue Mix FY 2011 - 2021



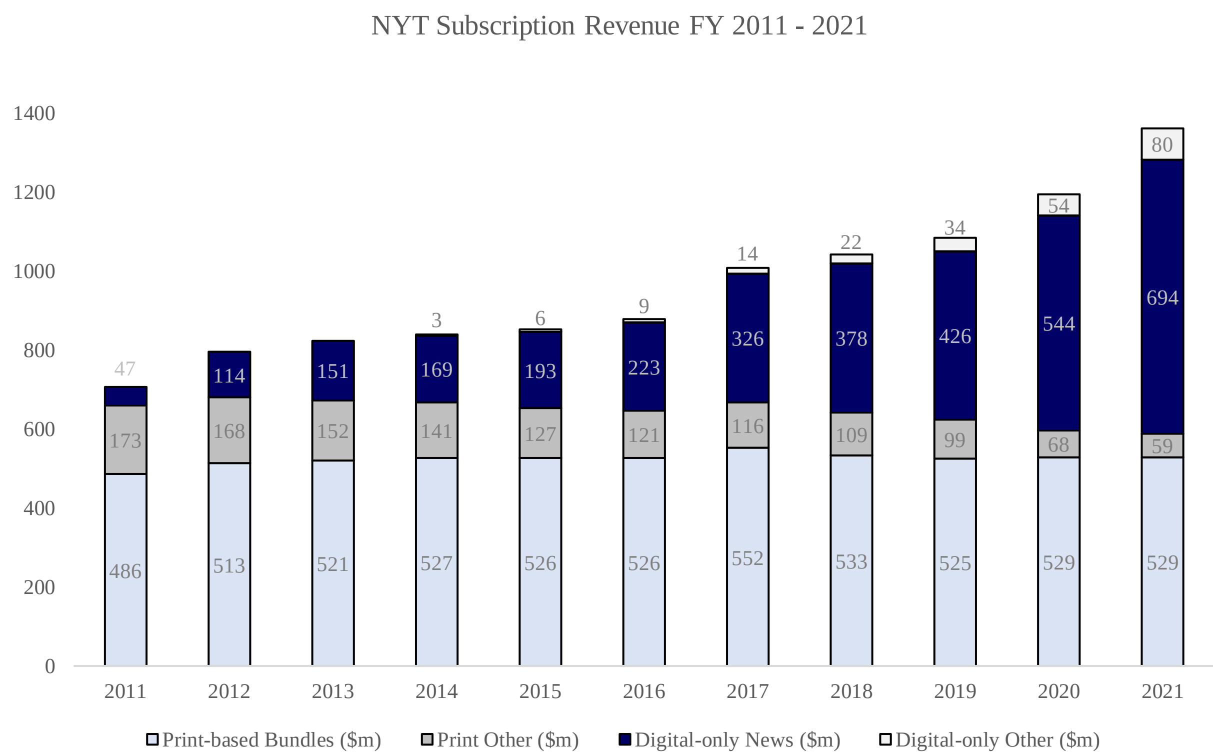
Source: Company Reports

Q2-22 Digital Subscribers as % of 2002 Print Circulation



Source: Company Reports & Nieman Labs, GORA Estimates & Calculations

Subscription Revenue



Source: Company Reports

NYT began charging for access to core digital news content from 2011, and from 2012 subscription revenue was NYT's primary source of revenue. FY 2017, revenue item 'circulation' was renamed 'subscription' to reflect this change Over the ten year period 2011-2021, headline subscription revenue has grown at CAGR 4.7%[2].

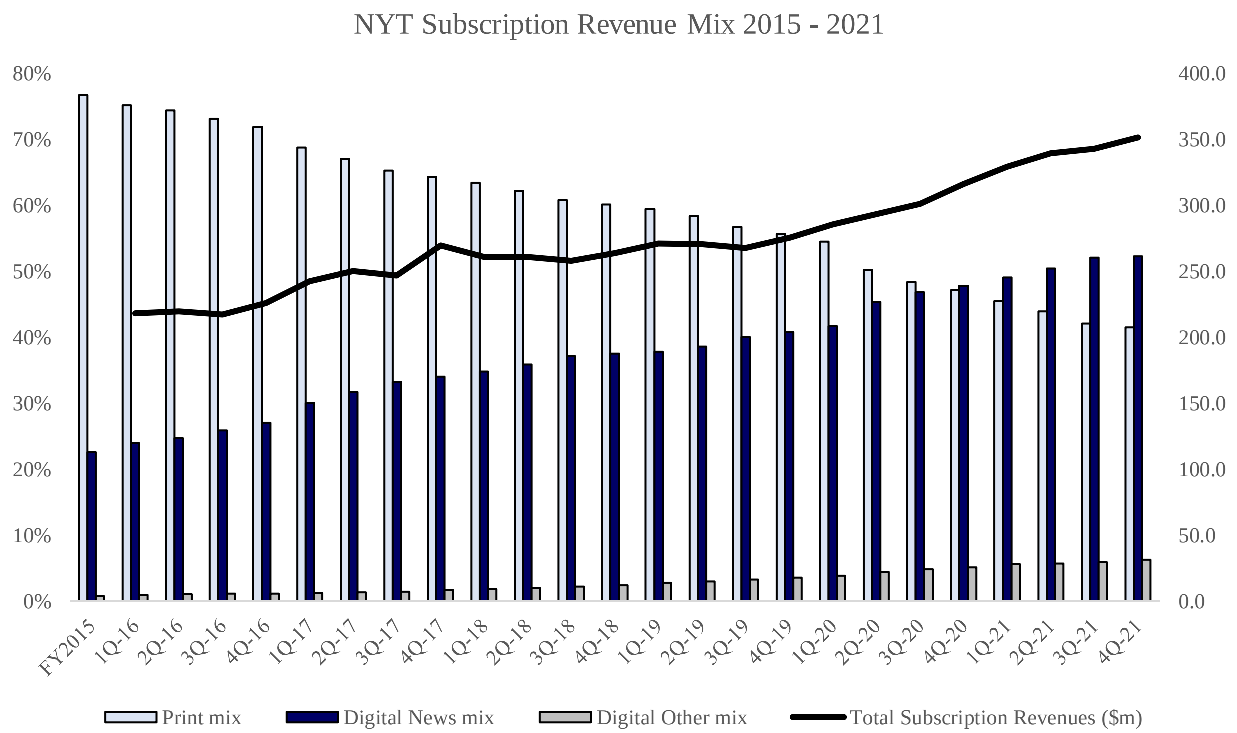
Given the structural declines in general circulation and single-copy print news consumption, parsing print from digital subscription revenues proves more instructive in understanding the underlying characteristics of NYT's print and digital subscription revenues.

Print subscriptions as reported since 2019 consist of domestic US home delivery subscription revenues and a second broader category accounting for single-copy, international edition and other print subscription products including bulk sales. The international edition is the Times branded successor to the International Herald Tribune, first published in 2013 and distributed in 130+ countries and territories. Bulk sales constitute sales to venues and institutions, - schools, universities, hotels *et al*.

This latter category exhibited greater weakness y/y 2018-2019, with the loss of Starbucks outlets as a distribution center in Q3-19 (August), and intuitively through the pandemic period 2020-2021 due to increased home working and reduced travel.

[2] Prior to FY 2016, subscription revenues related to NYT Crossword products were included as 'Other Revenues', reclassifying historic revenues across to reflect this do not give substantial uplift to headline CAGR.

Nevertheless, by AAM data New York Times daily and Sunday average circulation remains highest of its domestic peers 2011-2021, at ~343,000 and ~820,000 respectively in 2021.



Source: Company Reports

	FY 2019	FY 2020	FY 2021
Domestic Home Delivery Subscription Revenue (*y / y*)	***-1.5%***	***0.8%***	***0.0%***
Single-copy, NYT International and Other Revenues (*y / y*)	***-9.5%***	***-31.1%***	***-13.1%***

Source: Company Reports

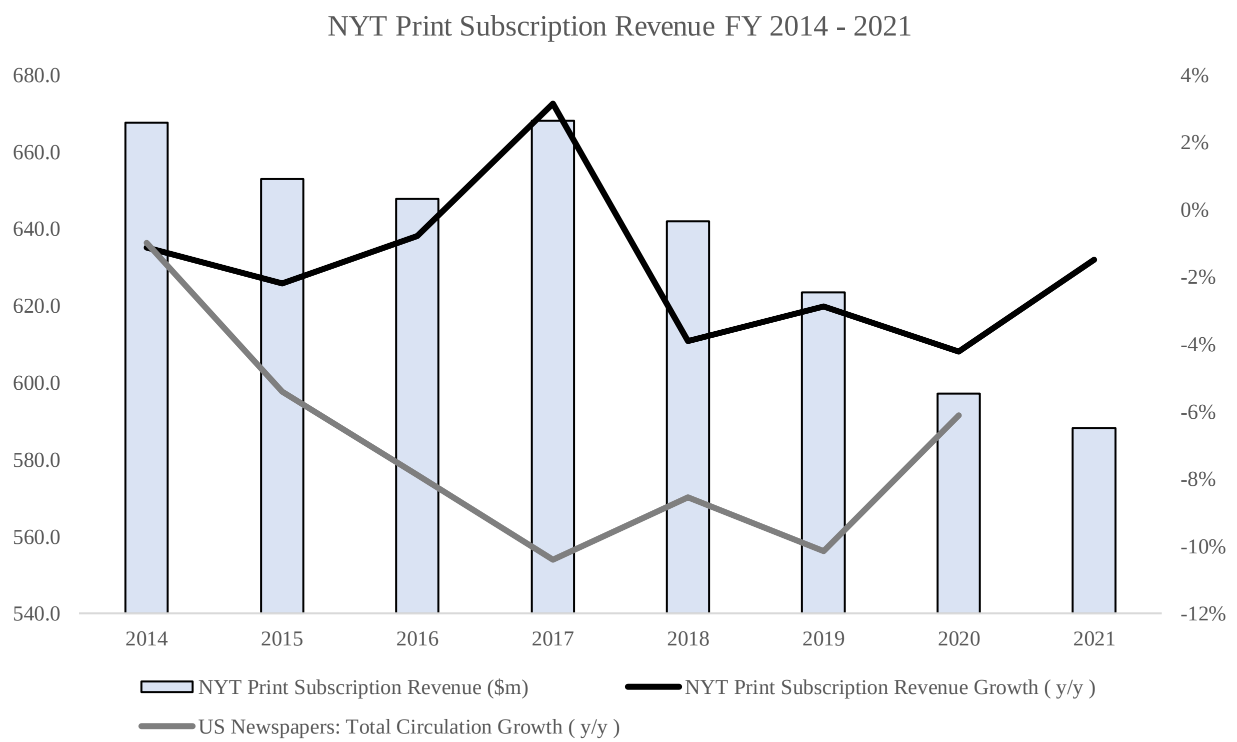
Domestic home delivery has retained particular resilience. NYT have been successful in passing-on price increases to print subscribers, Q1-16 (6%), Q1-19 (6%) and Q1-21 (13%) for home deliveries. These have provided a partial offset to declining print subscriptions. Consequently, print subscription revenues have declined at a lesser rate than declines in circulation among US peers.

It remains to be seen whether there exists a core base of 'sticky' print subscribers, and at what price level. However, 2019 and 2021 price increases did not appear to have a material impact on the rate of decline in outstanding subscription count in subsequent quarters. A possible explanation for the relative resilience of domestic home delivery subscriptions lies in the fact these subscriptions have included complimentary access to NYT's suite of digital products since 2011.

Q / Q Print Subscription Growth

	1Q	2Q	3Q	4Q
2019	***-2.16%***	***-2.88%***	***-1.48%***	***-1.04%***
2020	***-1.87%***	***0.00%***	***-1.07%***	***0.24%***
2021	***-0.96%***	***-2.67%***	***-1.00%***	***-1.38%***

Source: Company Reports



Source: Company Reports & Pew Research Center, GORA Calculations

In the same 10-year period, digital subscription revenue has grown at CAGR 33.1%, accounting for 61% subscription revenue by Q1-22.

NYT offers standalone subscriptions to its news and other digital product offerings, in addition to a bundled multi-product offering. Management believe the multi-product bundle to be commensurate with the strategic goal of growing organic subscriber engagement. Inspite of this bundled product, on aggregate each NYT subscriber holds 1.2 subscriptions.

Oustanding digitial subsctiption count includes group corporate and education subscriptions, which have represented ~ 5 - 7% of outstanding digital subscriptions in period 2017-2021. Further, from Q3-19 (September), NYT partnered with Verizon to provide access to > 7m students and their teachers across Title I US highschools nationwide. As such, users with access to a subsciption sits substantially above either outstanding subsciption or subscriber count.

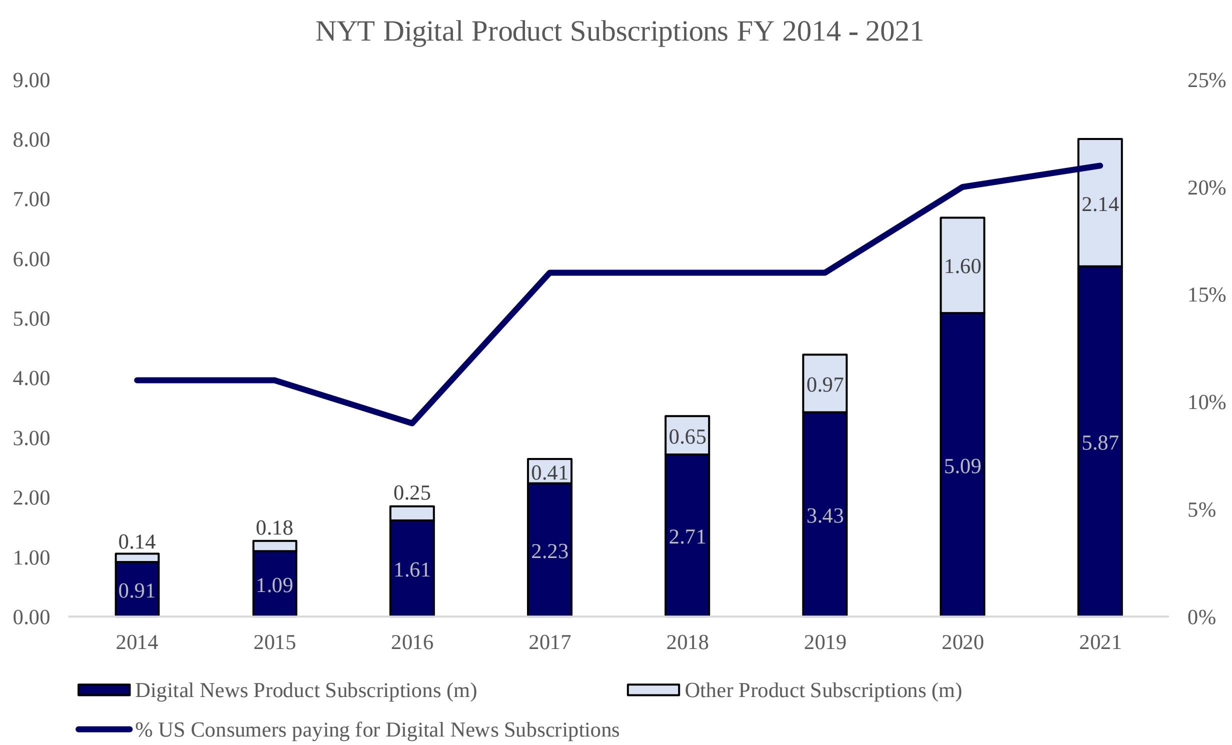
The flagship news product constitutes ~80% of outstanding digital subscriptions generating ~90% subscription revenue. Other digital products include Games, Cooking, Audm and Wirecutter, which taken together have enjoyed a greater outstanding subscription CAGR, but account for a modest share of digital subscription revenue.

	FY 2014 - 2021	2021
	Outstanding Subscription CAGR	% Digital Subscription Revenue
Digital News Only	***30.3%***	***89.7%***
Other Digital	***47.6%***	***10.3%***
Revenue Weighted Total	***33.7%***	-

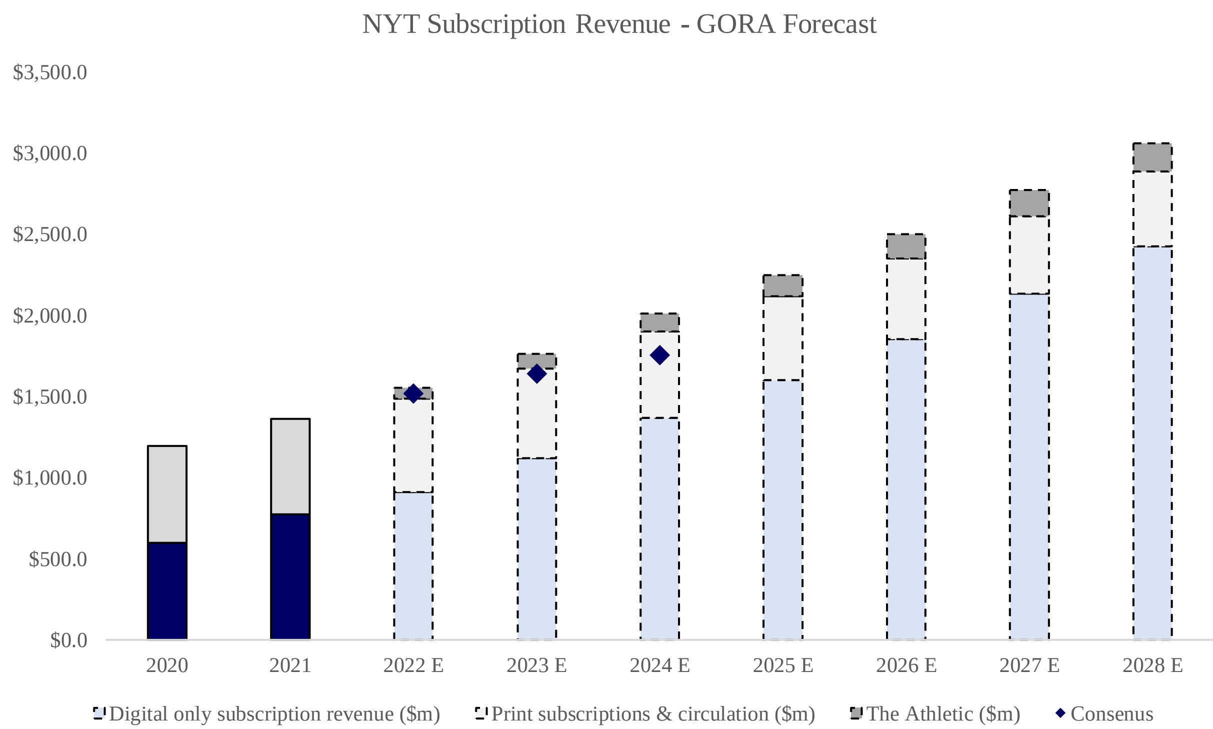
Source: Company Reports, GORA Calculations

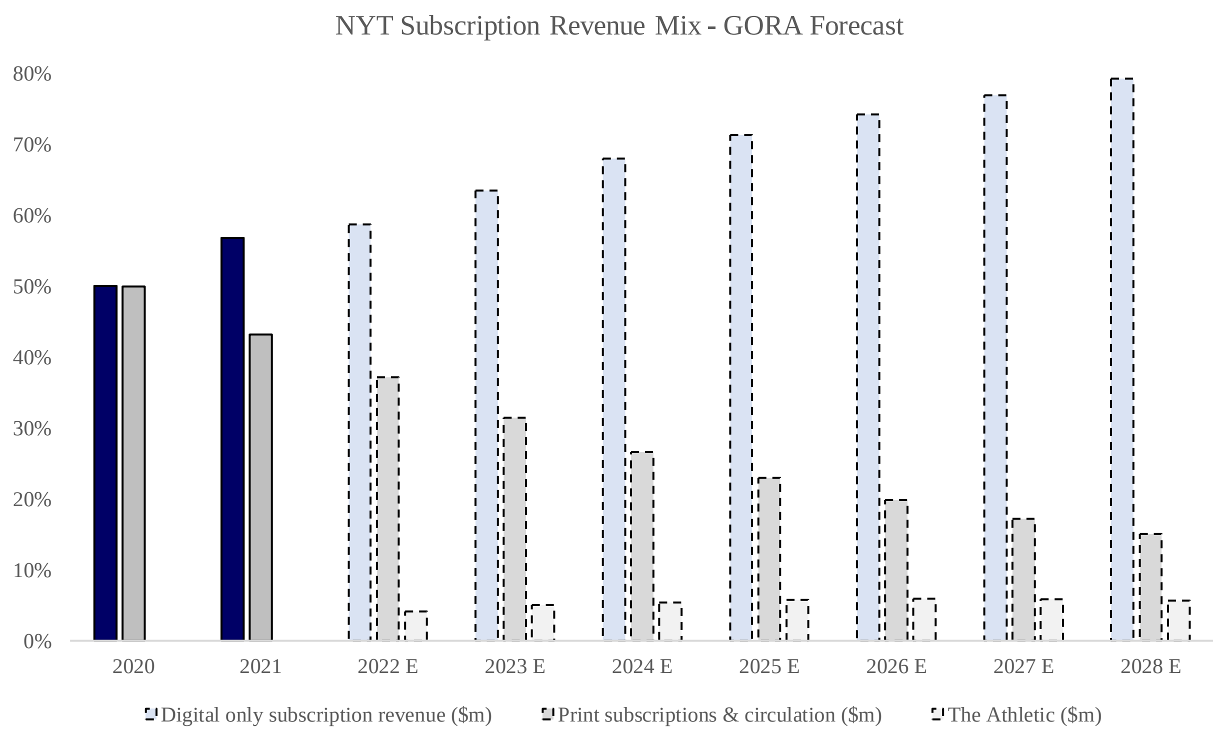
2020 was NYT's best recorded year for digital subscription count growth, a consequence of the pandemic backdrop and the $1 promotional pricing offer. Whilst subscription growth moderated in 2021, Combined with a Q1-20 price increase for existing subscribers, digital subscription revenues more than offset print declines to deliver 10.3% and 13.9% y/y subscription revenue growth in 2020 and 2021, compared to a 5-year 8.3% average.

Our forecasts for subscription revenue are a function of achieving higher subscriber ARPUs from graduating promotional rate subscribers on to full rates and success in cross-selling higher priced Bundle subscribptions, *see* – Fundamental Considerations.



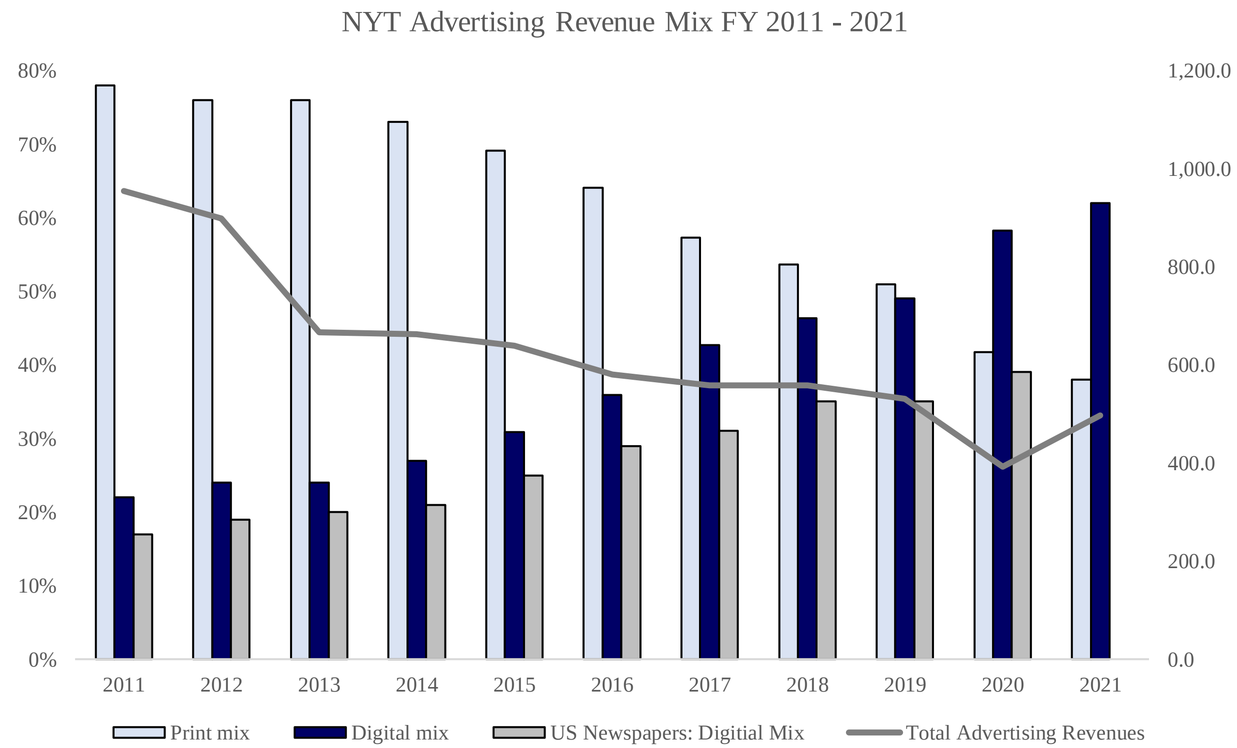
Source: Company Reports & Reuters Institute – University of Oxford, GORA Calculations





Sources: Company Reports, Refinitiv & GORA Estimates

Advertising Revenue



Source: Company Reports & Pew Research Center, GORA Calculations

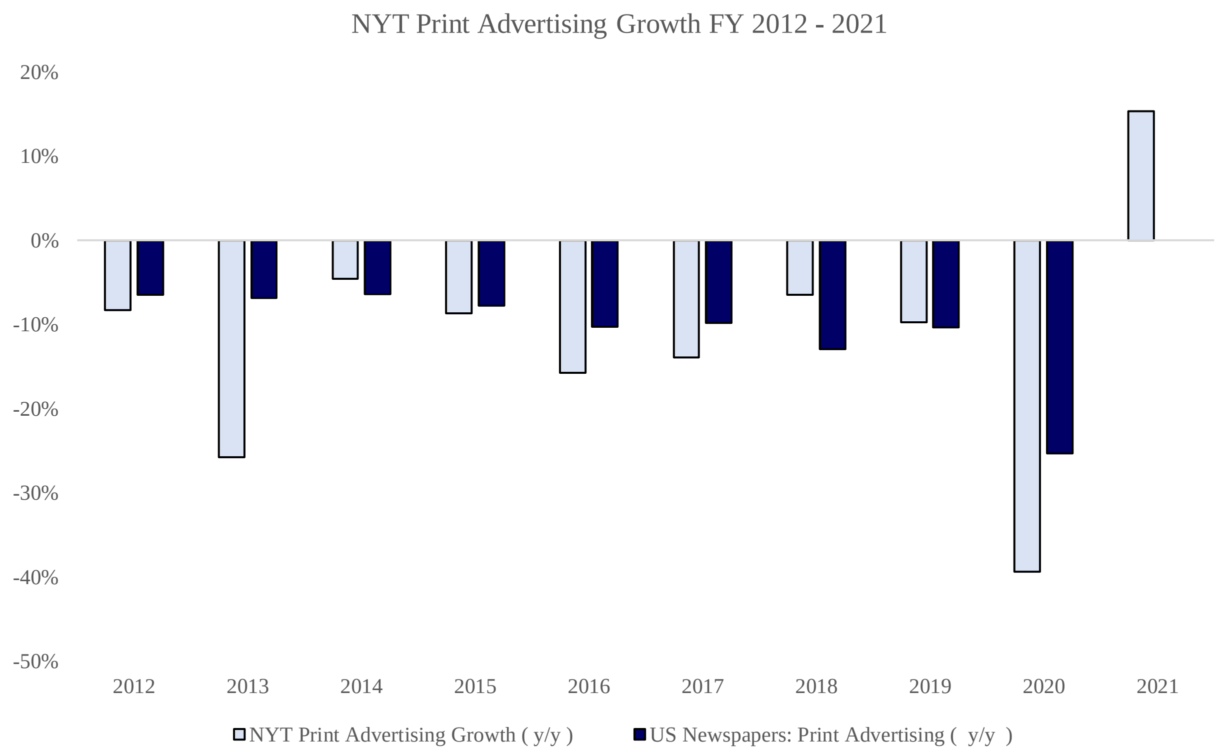
Advertising revenue is principally from digitial display ads across NYT's digital properties including audio and video media, and column-inch advertising in print. NYT's advertising sales team sells directly to marketers, with a small proportion of total advertising revenue attributable to advertising exchanges running programatic auctions.

Industry print advertising revenues have tracked down with declines in general circulation due to a range of structural factors. Despite occupying the greatest share of domestic print advertising, NYT's print advertising business has declined at a greater rate than domestic peers (10-yr CAGR -12.8%), weighing on headline advertising revenues when combined with digital advertising 10-yr CAGR at 3.9%.

Digital advertising only surpassed print advertising revnue in 2020, a fact attributable more to the rate of print decline, than to underlying growth in NYT's digital advertising business. FY 2021 digital advertising revenues of $308.6m accounted for 62% of total advertising revenue.

NYT's core digital advertising business has increasingly incroporated offerings related to NYT's first-party data on subscribers to generate propreitary insights. Other digital advertising comprises revenues generated from open-market programatic advertising, display ads on Wirecuttes, and creative services sales related to branded content.

Print advertising revenues relate to conventional column-inch advertising, classified listings, line-ads and preprinted advertisements, - prosaically glossy inserts.



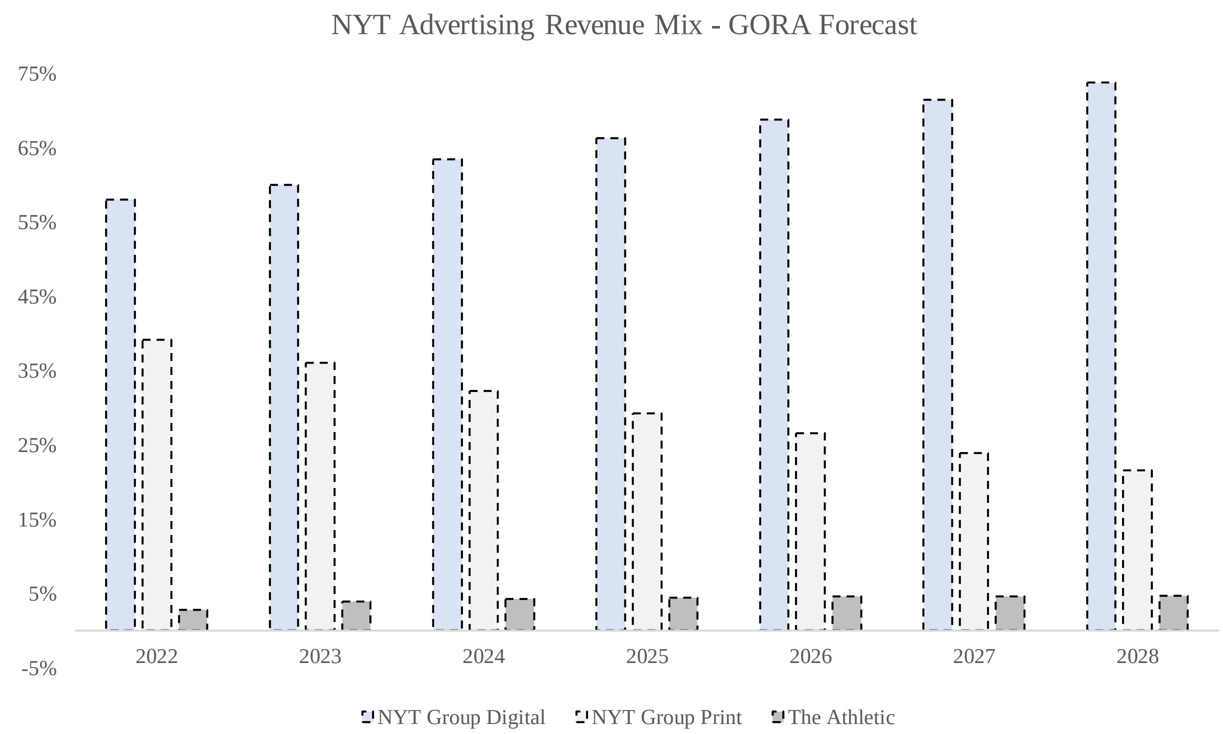
Source: Company Reports & Pew Research Center, GORA Calculations

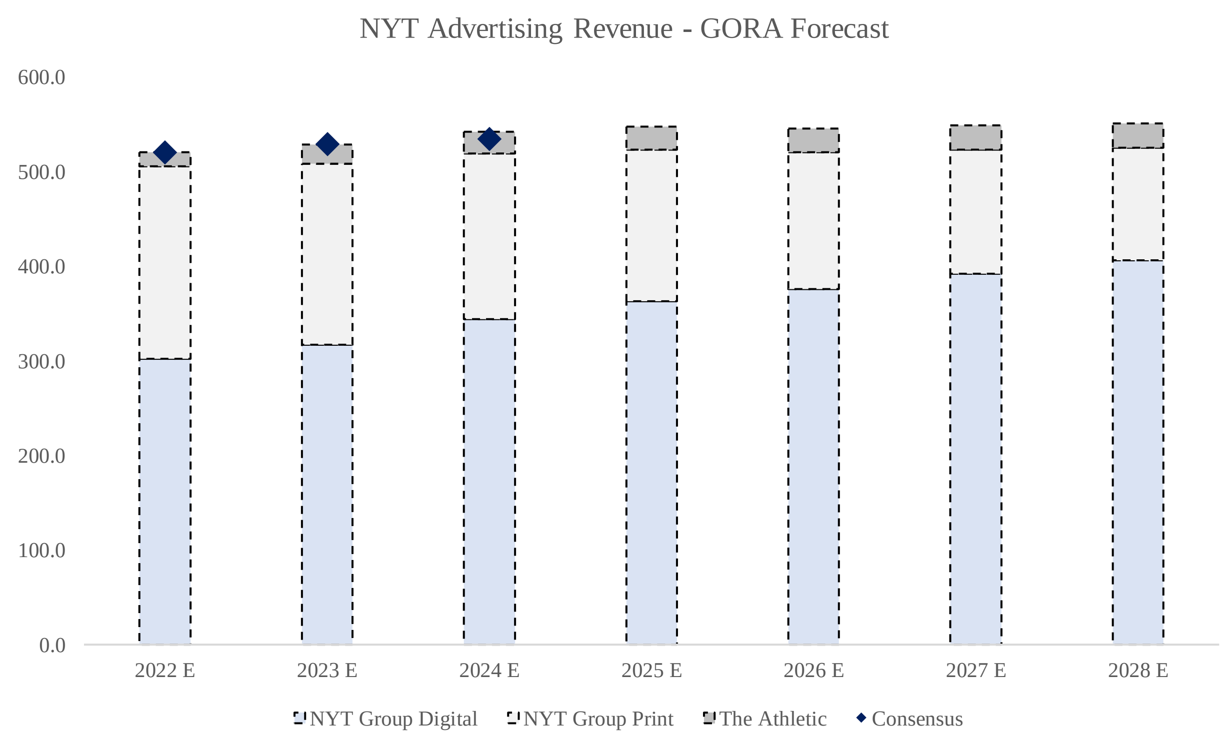
Column-inch and digital display advertising are priced according to established rates, with premia for positioning, size and in print, for colour also. Revenue is broadly seasonal, tracking up into Q4 for holiday-period advertising. The Pandemic applied downward pressure on rates in 2020, with average rates to the Times decreasing ~23% y/y.

Rates on traditional desktop display advertising have been in structural decline since 2014, due to increased new-media inventory and greater audience fragmentation across aggregators, coupled with social media platforms offering superior targeting and propreitary data products. Branded content and in-app mobile advertising provided an offset 2015-2019, lines supported by 2016 acquisitions of Fake Love and HelloSociety digital marketing agencies.

Since 2018, NYT has been strategically reducing the inventory it clears through open market programmatic auctions, instead pursuing deeper integrations. This serves as an attempt to reinstate the relationship between publishers and marketers as disrupted by the open-market auction system. If successful, this has the potential to deliver long-dated strategic partnerships, with stickier marketer relationships and higher value more predictable revenues. The merits of such a strategy are hard to asses given Pandemic related disruptions to the advertising market and its relative uniqueness. However, the 2018 Google Cloud partnership, may provide an early illustration of the kind of projects NYT can support.

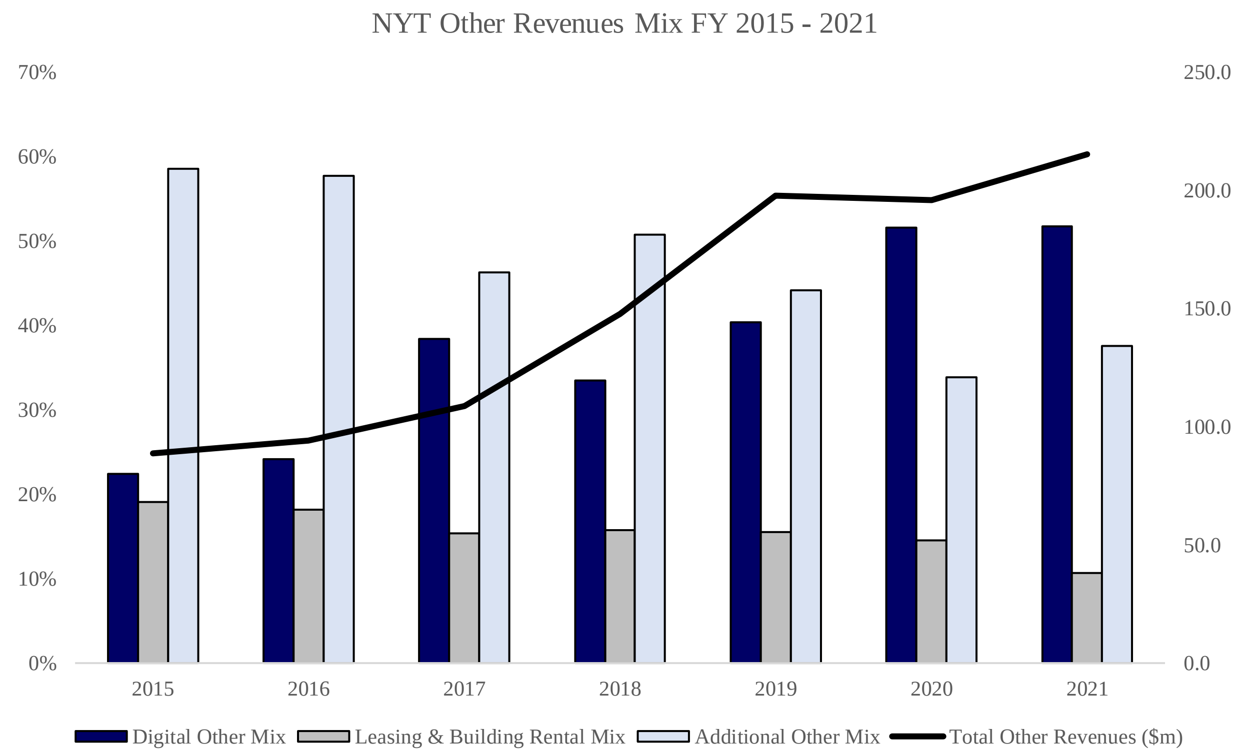
Management hold digital advertising revenue as a mid-term growth driver in spite of current macro headwinds. As a base case, we broadly support this view, although remain sanguine, and propose digital advertising only as a modest mid-term growth driver, underwriting it from a subscriber growth perspective. Print declines provide a partial offset. *See* – Fundamental Considerations.





Sources: Company Reports, Refinitiv & GORA Estimates

Other Revenues



Source: Company Reports, GORA Calculations

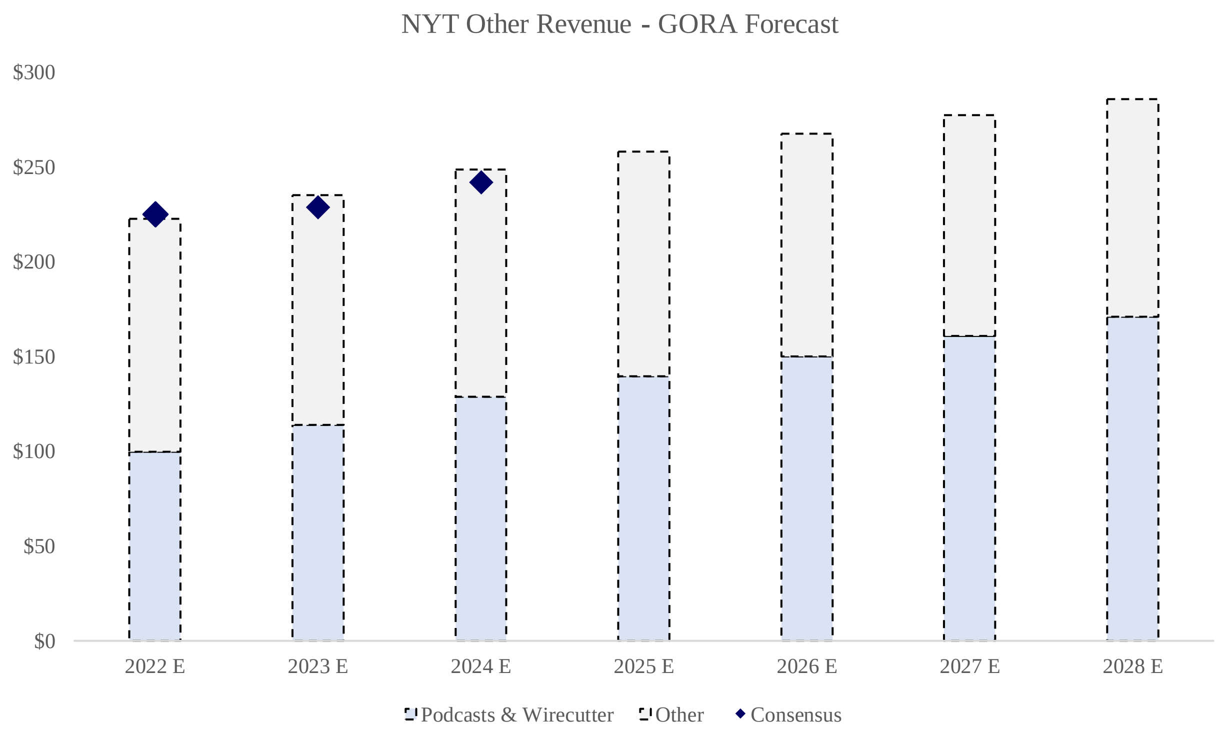
From the Q3-16 acquisition of Wirecutter ($30m -cash), an online consumer guide, other digital revenue has grown to $111.4m FY 2021. Affiliate referral revenues from the Wirecutter property constitute the lion's share of these revenues since 2016.

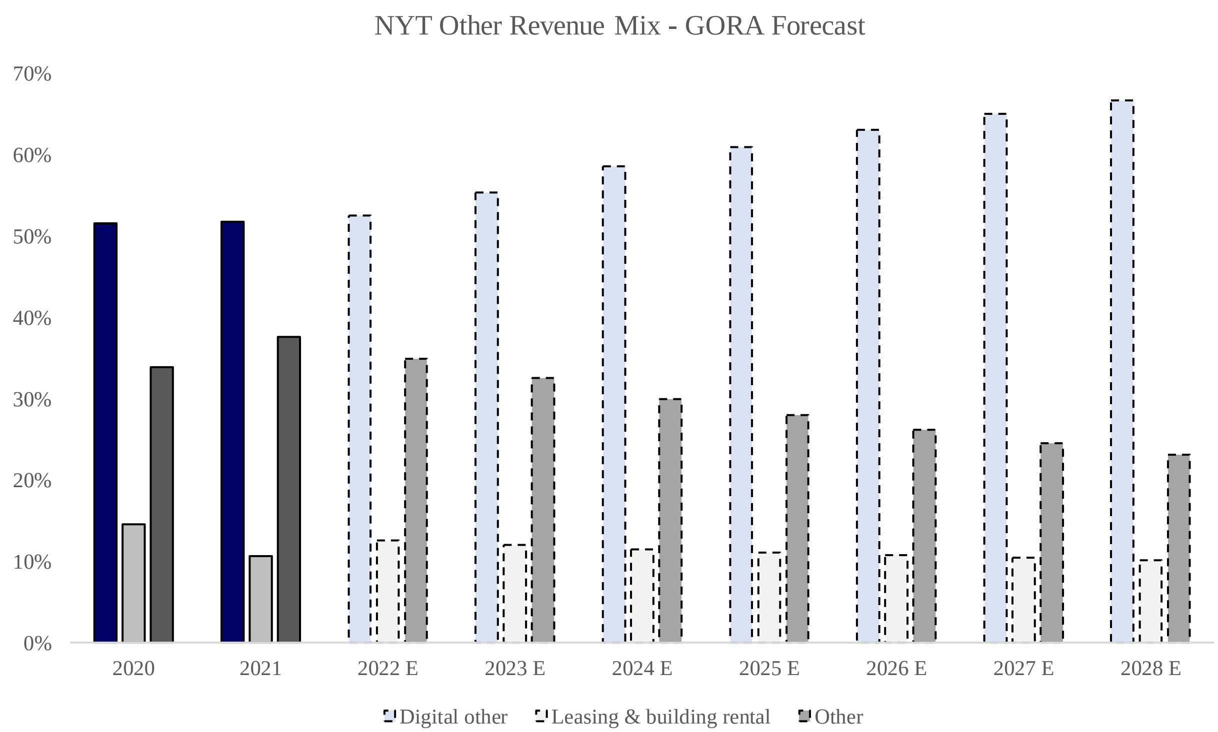
2019 61.2% y/y increase in digital other revenue, is largely attributable to the launch of 'The Weekly', now 'The New York Times Presents', in Q2-19. 2020 contributions here were weaker due to Pandemic related disruptions to production schedules. However in 2020 also, Wirecutter was fully integrated onto the core news website, providing uplift to gross affliate referrals. Digital licencing revenue was primarily related to a now terminated (Q3-22, July) licencing arrangement with Facebook News. NYT has additional licencing arrangements with ~1,500 clients globally, including print and digital news publishers, film and television. The Pandemic proved supportive to both items, offsetting declines in digital revenues associated with 'The Weekly'.

Additional other revenues include NYT's live events business (NYT Live), the student sponsorship programme and commercial printing activities at NYT's College Point facility. NYT Live events are monetized primarily through sponsorship and advertising. From 2021, NYT began printing a range of Dow Jones publications, more than offsetting Pandemic related disruption to NYT Live's activities.

NYT earns rental income from leasing floors in its headquarters. Naturally, the Pandemic proved disruptive, with rental income falling -6.9% on a y/y basis in 2020, -25.2% on a two year basis.

We underwrite continued growth in Other Revenues, on the basis of strong standalone product performance and subscriber growth at the segment level (NYT Group), with particular strength in Audio and Wirecutter, *see* – Fundamental Considerations.





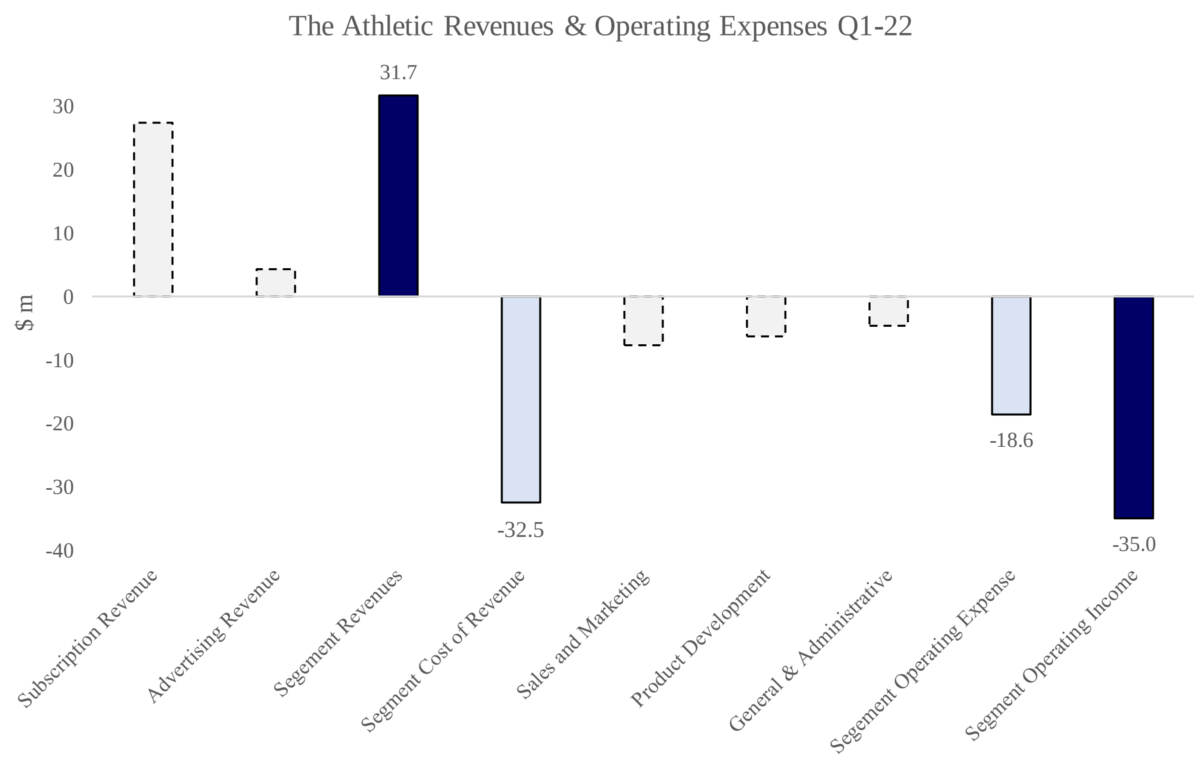
Sources: Company Reports, Refinitiv & GORA Estimates

The Athletic Revenues

At acquistion (February 2022), The Athletic had ~1.2m paid subscribers, and operated a susbcription first model, with 85.4% of segment revenue from susbcriptions.

As of Q2-22, NYT will continue to operate The Athletic seperately to branded NYT products. However, managmenet are seeking to increase advertising's contribution to segment revenues. This will include traditional display and content advertising, across The Athletic's various podcast and video properties.

From Q2-end (June 2022), access to The Athletic was extended to all existing digital and print bundle subscibers, with Athletic content integrated into the home pages of NYTimes.com, mobile and in Times branded newsletters. Management report particular strength in raising cross platform engagement, and CEO Kopit-Levien reiteratd potential for a reduced negative impact related to the acquisiton FY-22.

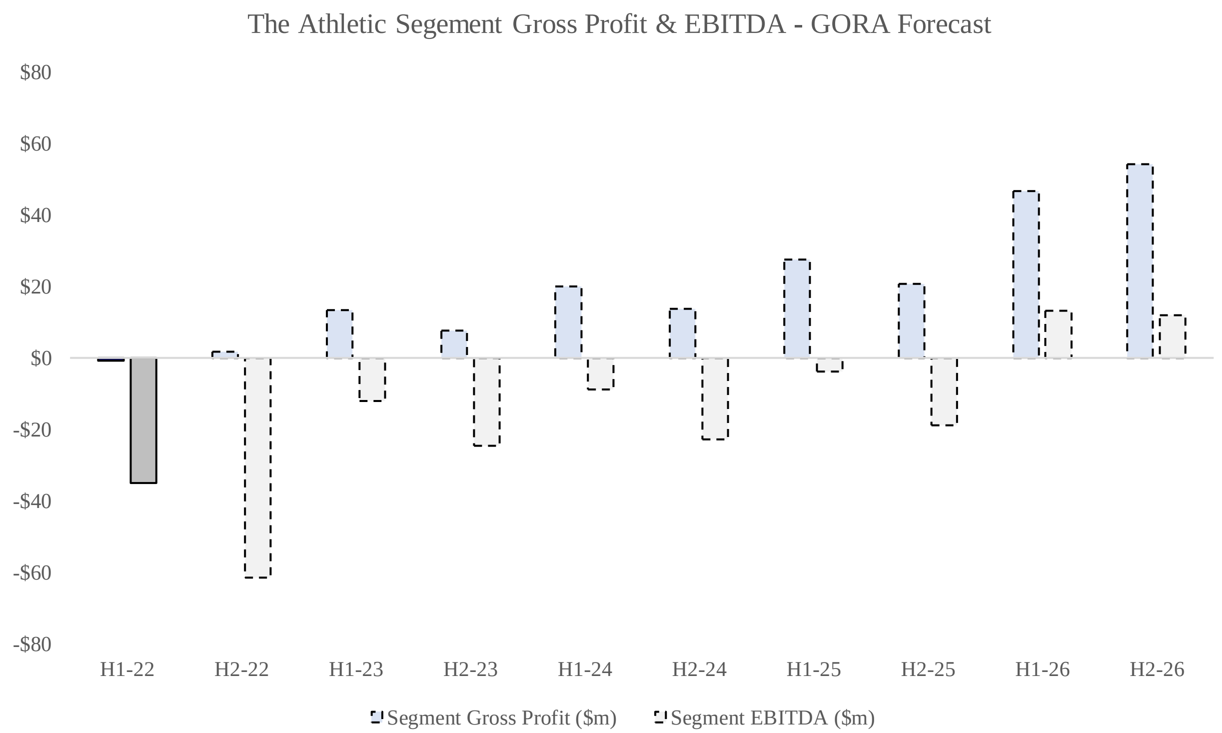


Source: Company Reports

Q1-22	GORA Imputed Digital-Only Subscription ARPU ($)	GORA Imputed Digital-Only Advertising ARPU ($)	ARPU ($)	Cost of Revenue per Subscriber Premium
The New York Times Group	9.40	2.83	12.24	-
The Athletic	2.54	0.44	2.98	***27.6%***

Source: Company Reports, GORA Calculations

Our forecats at the segment level reflect a nuanced asssesment. We credit the potential for The Athletic to prove a sound long-term strategic asset, however believe that in the near term churn and cost discipline will prove barriers to meeting with long-term guidance of ~100m in cumulative lossess by 2025-end. We expect churn differentials and headwinds to the roll out of advertising on the property will exert downward pressure on ARPU in the mid-term. *See* – Fundamental Considerations.



Source: Company Reports, GORA Estimates

Cost of Revenue & Operating Expenditure

NYT changed the reporting structure of GAAP costs from Q1-20. Discussion is focused on costs as they are now reported, with notes given reconciling across structures.

Cost of revenue includes all costs related to content creation, subscriber and advertising client servicing, print production inclusive of distribution, and costs related to digital content delivery. Digital content delivery costs includes all costs related to cloud infrastructure. Employee compensation is included where related to each headline category under cost of revenue.

Content creation includes cost of journalism, which scales primarily as a function of newsroom headcount, and includes compensation related to multi-media news products such as audio, and lifestyle products inclusive of Cooking and Games. Cost of journalism as a component grew y/y in 2020, 2021 and H1-22, and is expected to be a source of continued cost growth through H2-22 and 2023 amidst a regime of slowing cost growth.

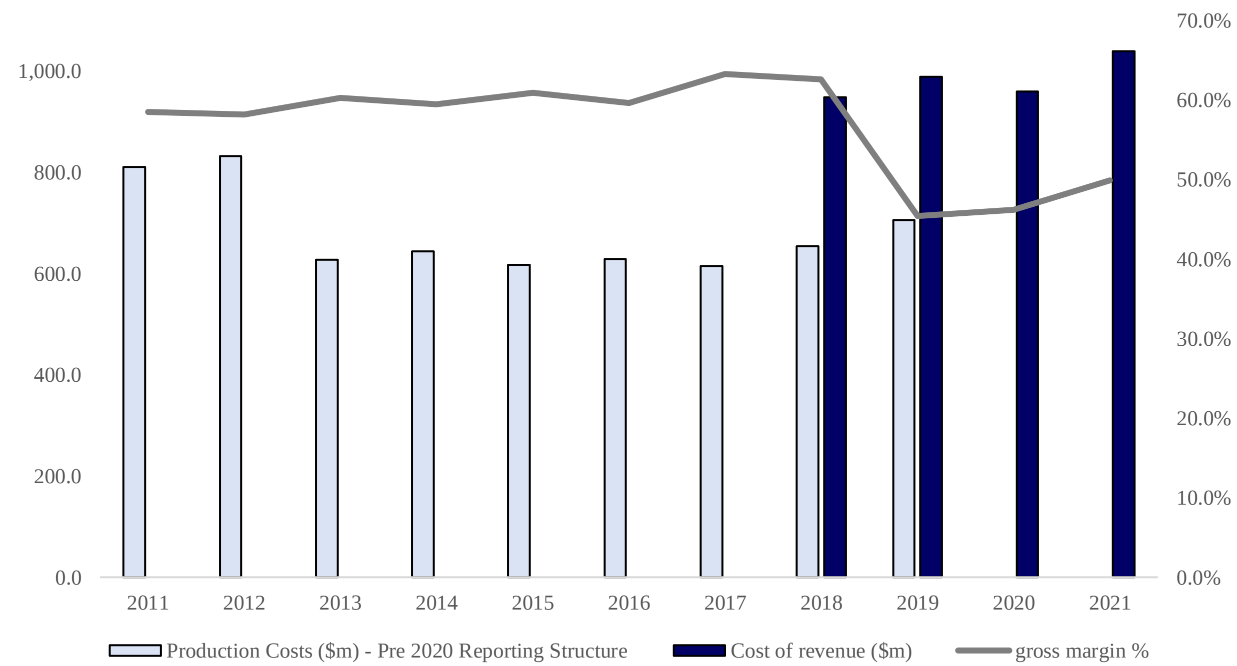
Subscriber and advertiser servicing costs track to their respective revenue lines. The former is determined by credit card processing fees and commissions to third parties, effectively a demand generation expense. Costs grew y/y with net subscriber additions in 2020, 2021 and H1-22. Advertiser servicing costs decreased as a component y/y and on a two-year basis in 2021 with the Q3-19 (September) closure of Hello Society and FakeLove digital marketing agencies.

Print production and distribution costs relate additionally to NYT's printing activities in respect of third-parties at the College Point facility. As such, it doubly declined in 2020 and 2021 given declines in print circulation both at the Times and outside parties' publication. Notably print production and distribution as a component increased in Q2-22 largely driven by greater outside printing activities, and increased costs of raw material and fuel.

Product development includes costs associated with NYT's investment in developing and enhancing their digital product portfolio. As such, product development includes engineering, product development and data insights. Product development costs historically have scaled primarily as a function of compensation inclusive of incentive compensation, y/y in 2020, 2021 and H1-22, and is expected to be a source of continued cost growth through H2-22 and 2023 amidst a regime of slowing cost growth.

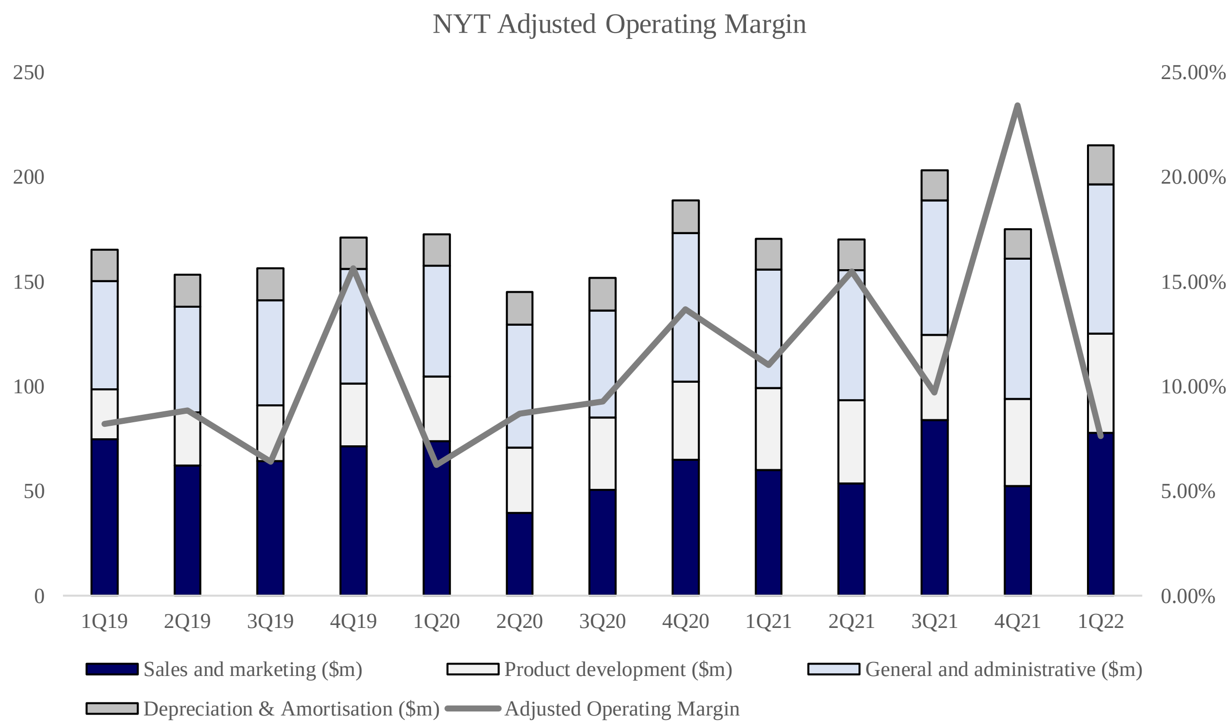
General & Administrative costs include general management, corporate enterprise technology, operations, multi-employer pension-plan withdrawal costs and unallocated overheads. G&A increased y/y in 2020, 2021 and H1-22 in relation to headcount growth in enterprise technology and HR, both related to employee growth in other divisions. Consulting costs as a component also grew in 2020 and 2021.

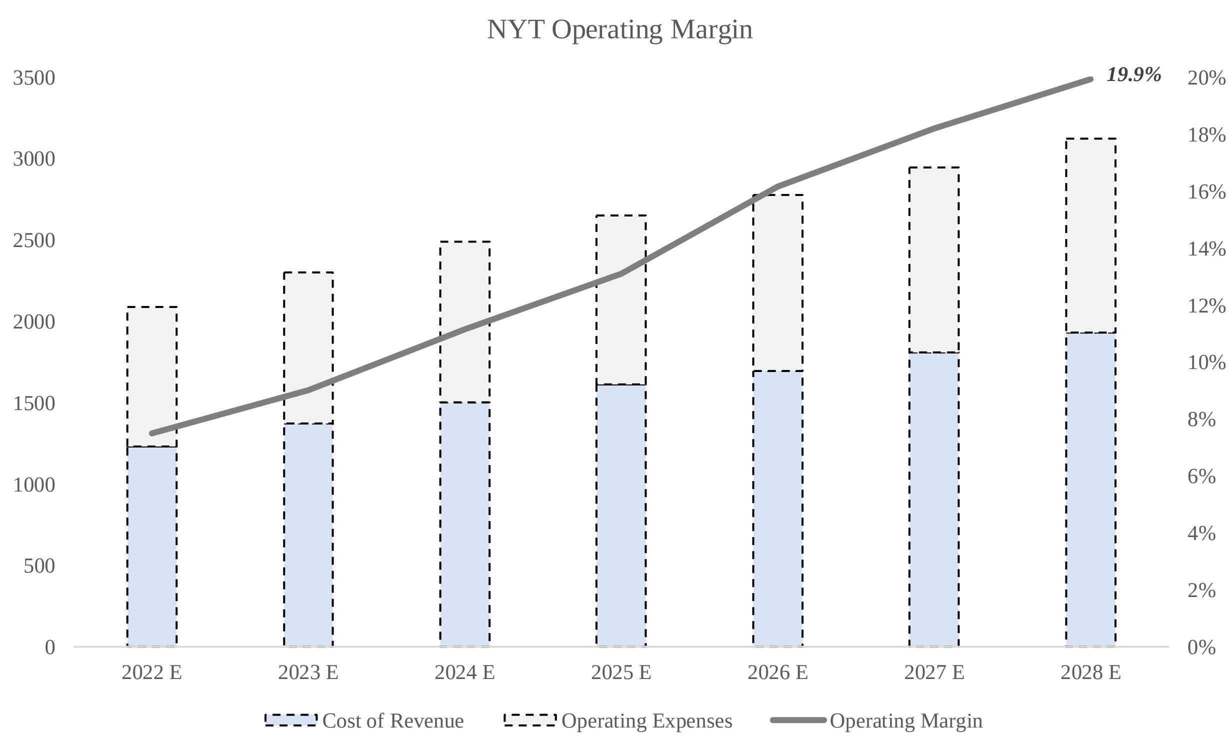
NYT Gross Margin



Pre-2020 Reporting Structure			2020 Reporting Structure	
Line Item	**Description**	**Notes**	**Line Item**	**Description**
Production Costs Wages and Benefits	Employee Compensation		Product Development*	*See* - Cost of Revenue & Operating Expenditure
Raw Materials	Raw materials and machinery expenses related to news generation and production	*All costs exclusive of those related to product engineering and product design costs reclassified to Cost of Revenue*	Cost of Revenue	*See* - Cost of Revenue & Operating Expenditure
Other Production Costs	Costs related to producing branded content			
Selling, General & Administrative		*All costs related to distribution and fulfilment and subscriber & advertiser servicing costs where previously included in SG&A, reclassified to Cost of Revenue*		
			Sales and Marketing	
			Product Development*	*See* - Cost of Revenue & Operating Expenditure
			General & Administrative	
		Incentive compensation where previously included in SG&A	Reclassified with compensation expenses where included across all other lines	

Source: Company Reports



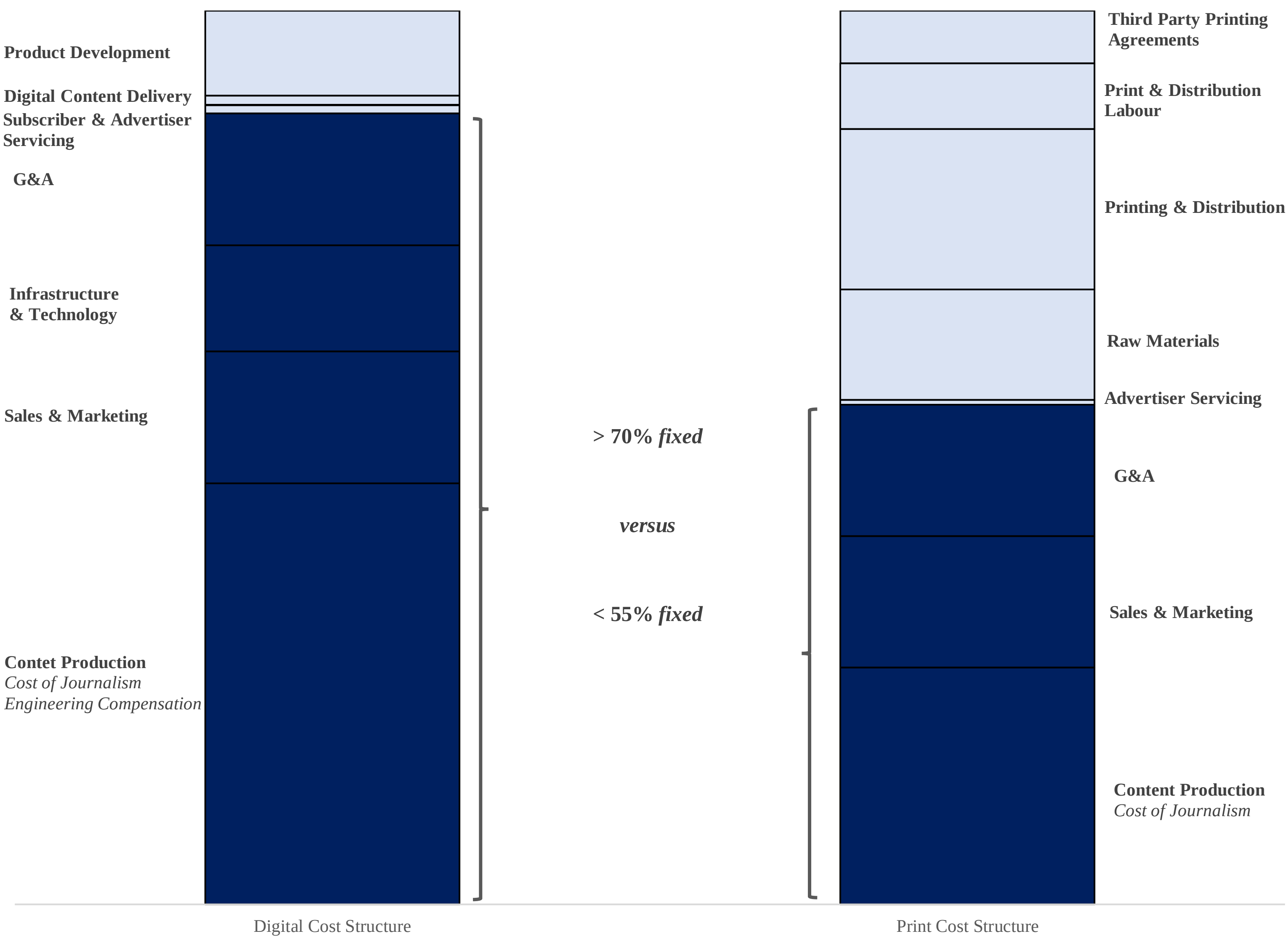


Source: Company Reports & GORA Estimates

Combined Revenues & Company Economics

"[As] we get … growth in digital subscriptions based on engagement and consumption of the product itself, as opposed to growth achieved through paid marketing … we'll see the revenue … grow far faster than its cost base and the profitability of the operating leverage get better and better."

— Mark Thompson, *formerly* CEO New York Times Company



	Digital Cost Structure	Includes	Reporting Line	
fixed	**Content Production**	*Cost of Journalism* *Engineering Compensation*	*Component of*	Cost of Revenue
fixed	**Sales & Marketing**	*Subscription Marketing* *Advertising Sales*		Sales & Marketing
fixed	**Infrastructure & Technology Costs**	*Engineering*	*Component of*	Cost of Revenue
		Data Insights	*Component of*	Product Development
fixed	**General & Administrative**	*Enterprise Technology* *Headquarters - Operations* *Unallocated Overheads*		General & Administrative
variable	**Subscriber & Advertiser Servicing**	*Credit Card Servicing* *Creative Services*	*Component of*	Cost of Revenue
variable	**Digital Content Delivery**	*Cloud Storage*	*Component of*	Cost of Revenue
variable	**Product Development**			Product Development

Source: Company Reports

Content Costs as % Revenue

	Music Streaming [3]	Video Steaming (SVOD) [4]	New York Times
2021	***> 65%***	***~ 65%***	***~ 45%***

Source: Company Reports, GORA Research

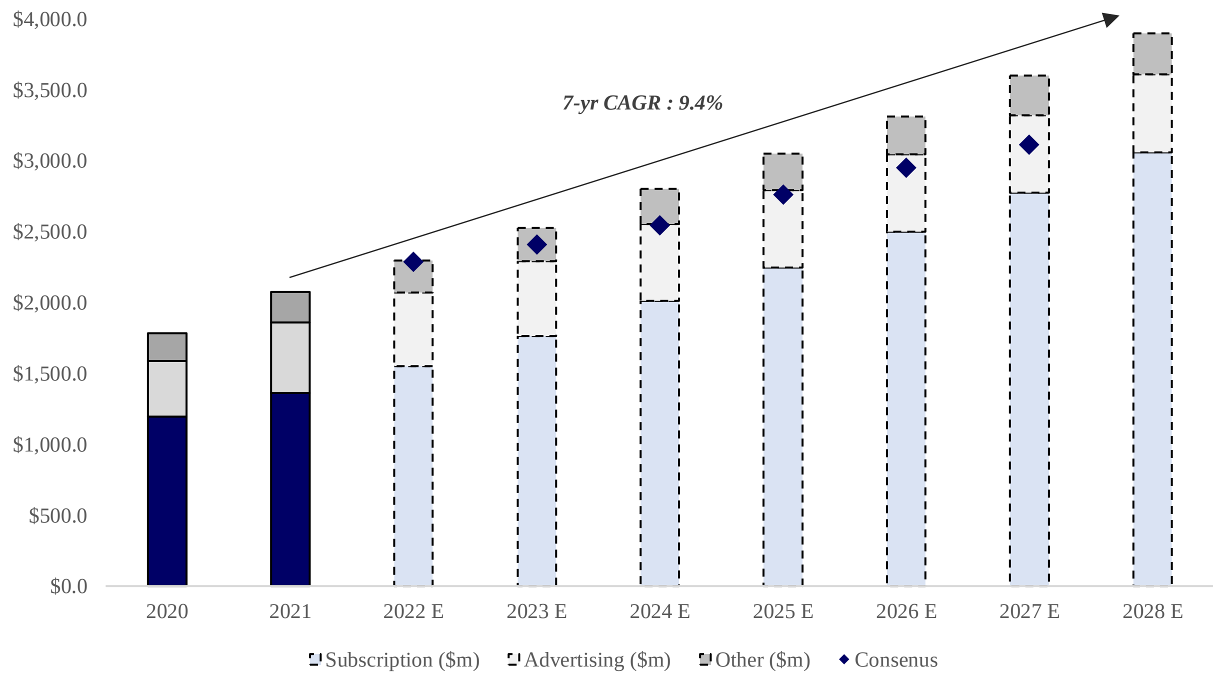
As a feature of news media, NYT owns the full 'digital content stack', from newsroom to engineers and product managers to distribution. Unlike music or SVOD, NYT distributes only the content it produces. This entails a lower cost structure than in other genres.

Strong continued subscriber adds and retention off promotional rates supports higher ARPUs and gives mid-term margin expansion on the basis of improving operating leverage. Variable costs are largely negligible beyond product development, which accounts for ~80% of variable costs (FY-21). We expect NYT Group product development to slow sequentially from H2-23, with partial offset at the company level from The Athletic through to 2025.

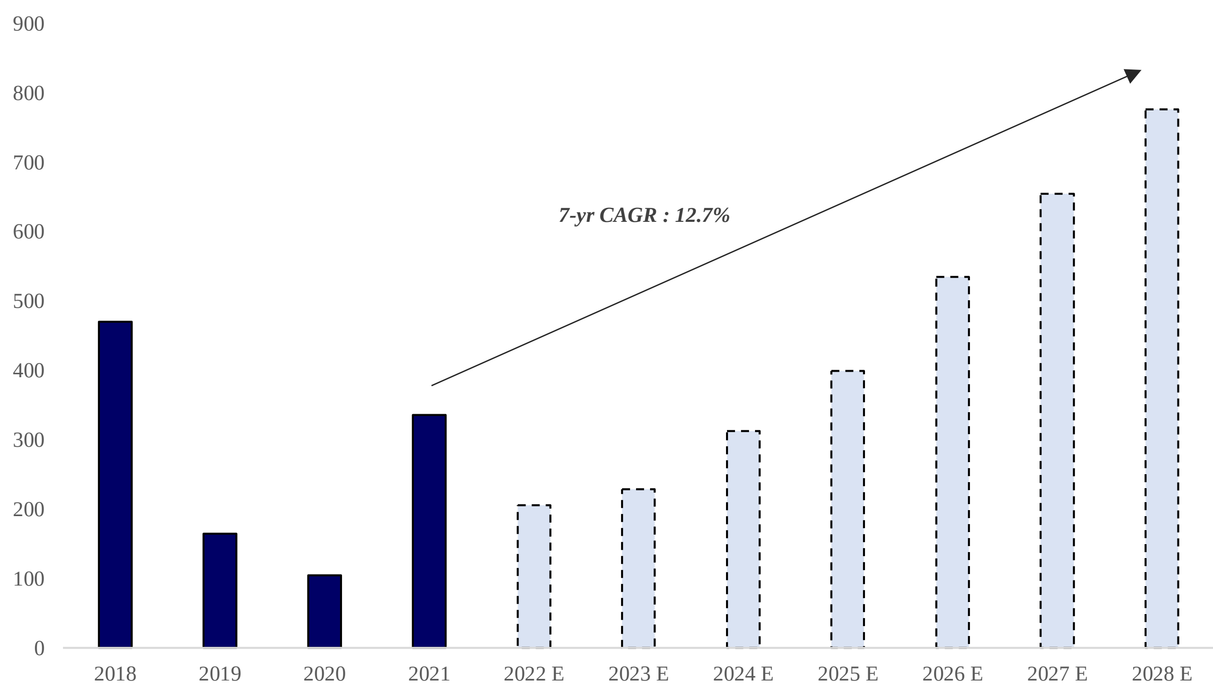
We also hold NYT's ownership of the digital content stack as a powerful expression of ecosystem control and strongly brand accretive, *see* – Durable Competitive Advantage – Quality Flywheel.

[3] SPOT
[4] Industry basket

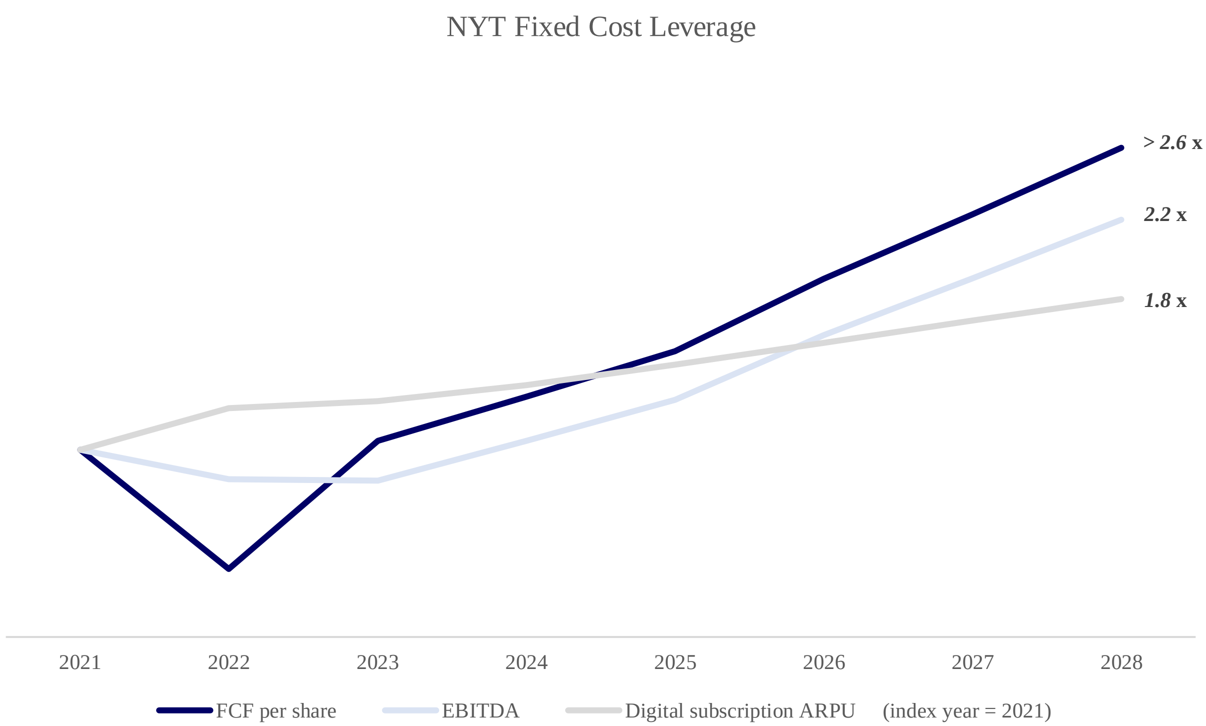
NYT Combined Revenues - GORA Forecast



NYT EBIT - GORA Forecasts



Source: Company Reports & GORA Estimates



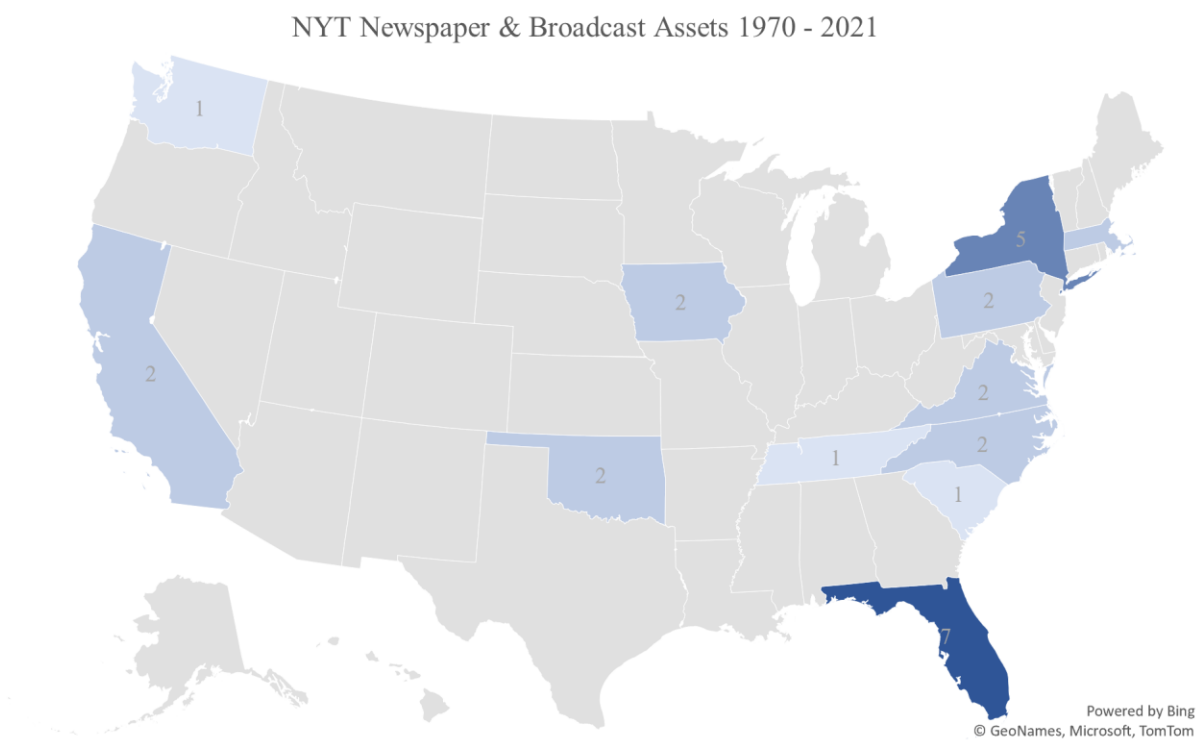
Source: Company Reports & GORA Estimates

Balance Sheet

From 1960 & 70s onwards, NYT increasingly took on debt to finance acquisitions and investments in portfolio publications, broadcasters and other assets. Other investments included paper producers and mills, not uncommon for a publisher operating at scale, and more unusually, stakes in the Boston Red Socks, Liverpool FC, and a NASCAR Team through 'New England Sports Ventures', a JV, now 'Fenway Sports Group'.

NYT Publishing & Broadcast Assets 1970-2021

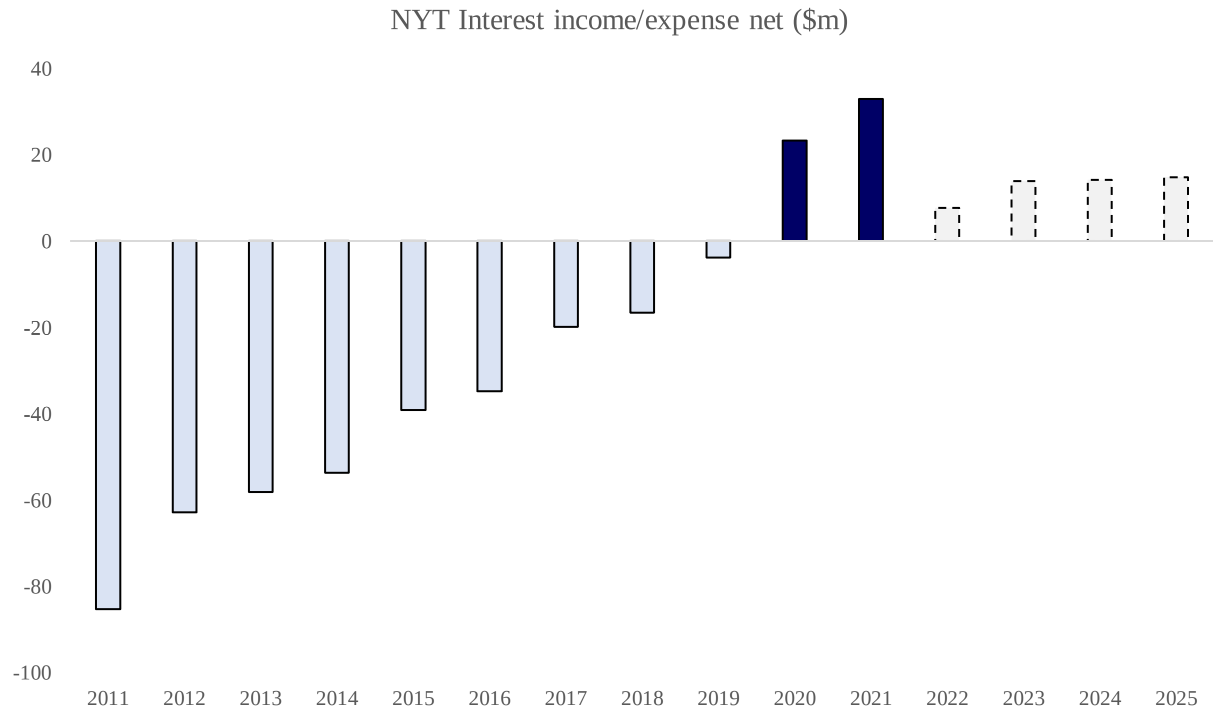
Newspapers	Magazines	TV Stations	Radio Stations
23	***17***	***9***	***2***

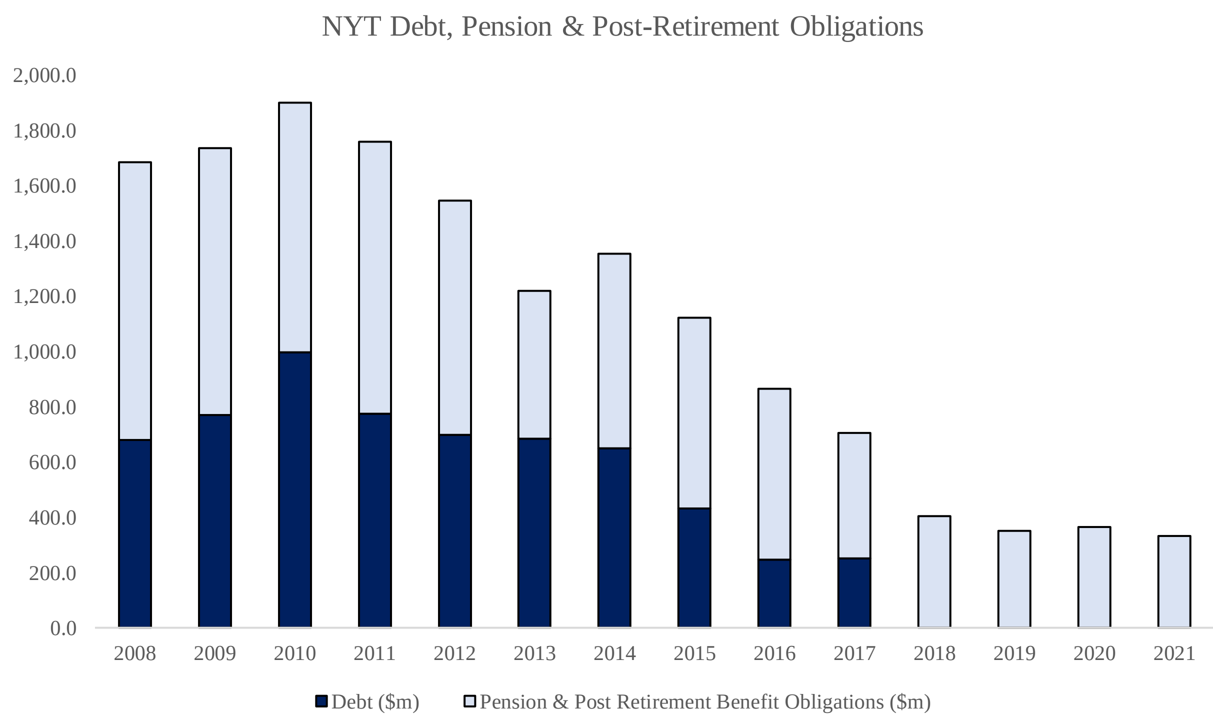


Sources: Company Reports & @MineSafety

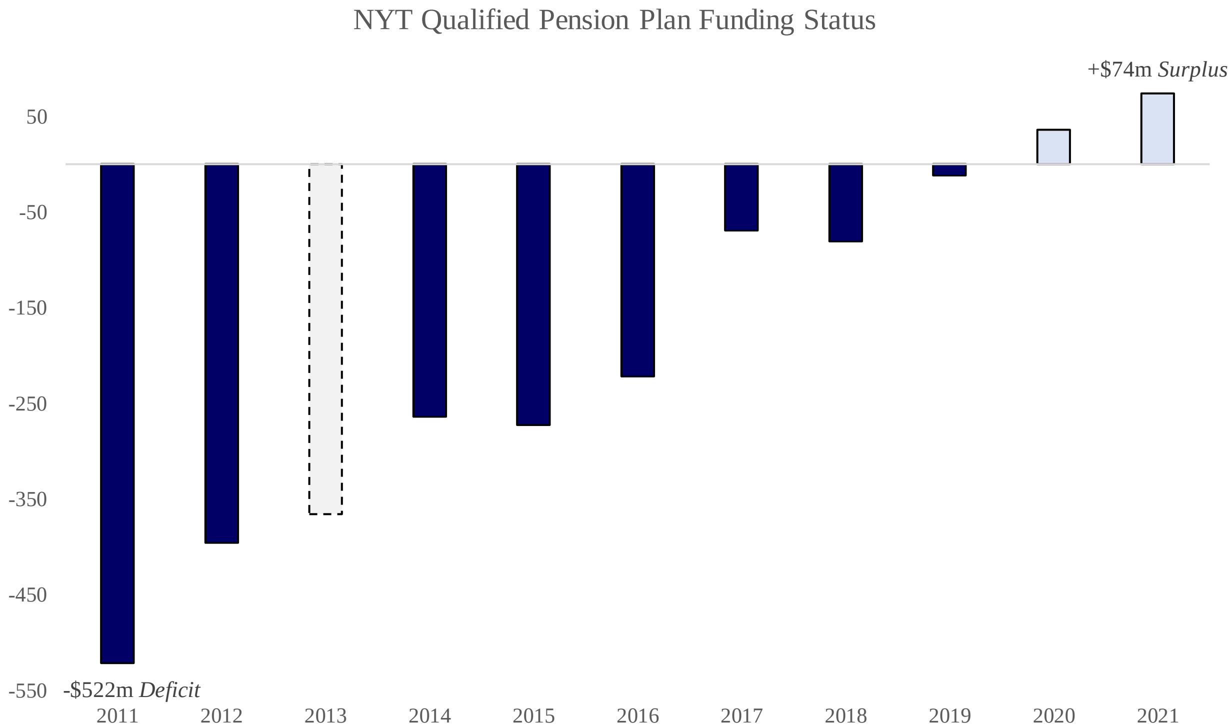
As advertising and circulation revenues declined throughout the early-2000s, NYT was increasingly challenged by the burden of interest payments and its mounting Pension and post-Retirement obligations, peaking at >$1bn in 2008.

Consequently, NYT began pairing back its balance sheet, selling non-core investments including internet properties such as About.com, TV and Radio stations, and negotiating a sale-leaseback arrangement on their eponymous Manhattan headquarters.





Sources: Company Reports, Capital IQ & GORA Estimates



Sources: Company Reports & GORA Estimates

In respect of its qualified pension plan, NYT has successfully achieved surplus funding status. Settlements and a 2020 agreement to transfer certain future benefit obligations and administrative costs to an insurer, reduced gross qualified pension plan obligations by ~$236m. In 2021 qualified pension plan surplus funding stood at $74m.

Consider then,

"We sold off every bit of the company we could sell off to hold our journalism investment as flat as humanly possible … all the smart people in media thought it was crazy, all our shareholders thought it was financially irresponsible."

— A.G. Sulzberger, Chairman New York Times Company & Publisher New York Times

versus now, (Q1-20 Earnings Call)

"Our fortress balance sheet puts us in a far better position … not just to weather this storm but to thrive."

— Mark Thompson, *formerly* CEO New York Times Company

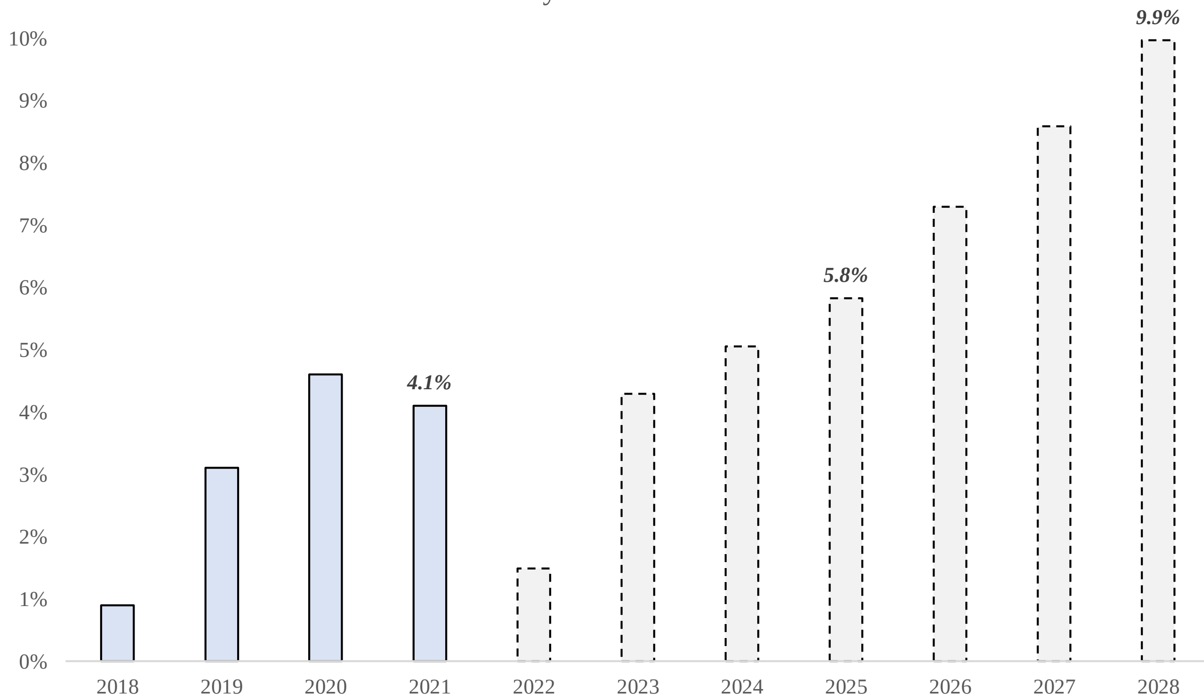
NYT has an unsecured revolving line of credit, as of Q2-22 there were no outstanding borrowings under this facility. At Q2-22, the company entered into an amendment and restatement of this credit facility, increasing the committed amount from $250m to $350m, extending the maturity date to Q3-27 (July 27th). A commitment fee applies quarterly at 20bps on the unused portion.

In Q1-22 (February), NYT's board approved a $150m Class A share repurchase program, largely to offset the effects of dilution related to stock based compensation. As of Q2-22, $82.8m remained under this authorization.

Cash Flow

NYT's attractive economics, with organic revenue growth driven by ARPU expansion off a fixed cost base, tending to margin expansion, coupled with mid-term sequential slowing in variable costs, yield a growing FCF profile.

NYT FCF yield - GORA Forecast



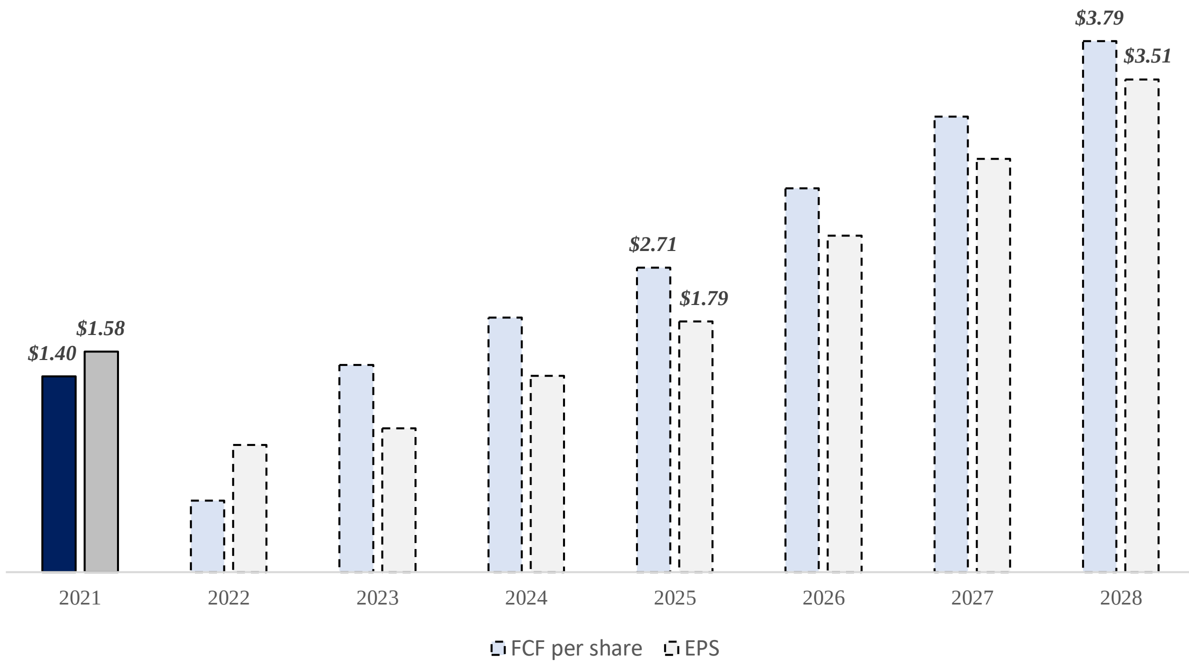
Source: Company Reports & GORA Estimates

Historically, when conditions were favorable for print publishers, NYT was a strong repurchaser of its stock and consistent dividend payer. Given the economics of digital journalism we expect a less acquisitive NYT will tend to a healthy regime of dividends and accelerated share repurchases. We hold a buybacks at 22.5% - 25% FCF, in line with long term guidance, provide a growing tailwind to EPS through accretion.

	2022	2023	2024	2025	2026	2027	2028
FCF *y/y growth per share*	*-63.7%*	*188.2%*	*22.6%*	*19.0%*	*25.4%*	*18.0%*	*15.7%*
Repurchases % FCF	*98.8%*	*26.8%*	*24.5%*	*22.6%*	*21.8%*	*21.5%*	*21.1%*
Dividends % FCF	*66.7%*	*24.4%*	*22.0%*	*20.3%*	*19.0%*	*19.7%*	*20.0%*
Long term guidance *Dividends & Repurchases*				*25% - 50% FCF*			
EPS Accretion from share repurchases	**70bps**	**90bps**	**90bps**	**90bps**	**90bps**	**100bps**	**110bps**

Source: Company Reports & GORA Estimates

NYT EPS & FCF per share - GORA Forecast



Source: Company Reports & GORA Estimates

Due to how NYT recognizes subscription revenue, with subscription revenue in respect of forward periods booked as 'unexpired subscriptions', a liability, underwriting continued strong growth in net subscriber additions implicitly underwrites FCF per share greater than EPS in the mid-term. *See* – The Opportunity.

Fundamental Considerations

The Changing Economics of News Media

"Here's the problem: Journalists don't understand their own business"

— Randall Rothenberg, Chair Interactive Advertising Bureau, *formerly* New York Times Journalist

Discussions of disruption in the newspaper business are generally unremarkable, however the underlying economics and competitive dynamics which emerge are ill-understood by generalists. It is this second-order understanding which proves illustrative in assessing NYT's broader strategy and competitive position today.

Traditional news media incurs unfortunate economics. News is a non-excludable good, and production of journalism is expensive, with the cost of distribution remaining fixed irrespective of the quantity of journalistic work produced. By this same token, advertising emerged as a complementary high-margin business line, with favorable returns to scale.

Serving both readers and marketers, traditional print media creates a two-sided market of readers and advertisers, characterized by interrelated demand and cross-externalities. Advertisers, all else equal, prefer larger audiences, however readers hold varying distaste for advertising in their news media diet. In turn, advertising demand is dependent on circulation, which itself is dependent on advertising to subsidize the low sticker price on papers, typically at or below marginal cost of production. Advertising rates have exhibited a positive relationship to the relative competitiveness of a given market, subsidizing a greater share of the circulation price, itself negatively related, *ie.. sticker prices fall in relatively more competitive markets*.

Consequently, with newspapers the primary medium for distribution of information and print advertising, advertising became newspapers' primary revenue source, comprising more than 80% of aggregate US newspaper revenues from 1980s onwards. In turn, these realities tended to profitable monopolies, often bounded regionally.

Nevertheless, the US remained somewhat unique in the depth and breadth of news publications, many of which were hyper-regional. A fact which is often attributed the US' geography and the subdivision of administrative authority between federal, state and local government. This trend persists to the present day, albeit the total count of print publications is greatly diminished.

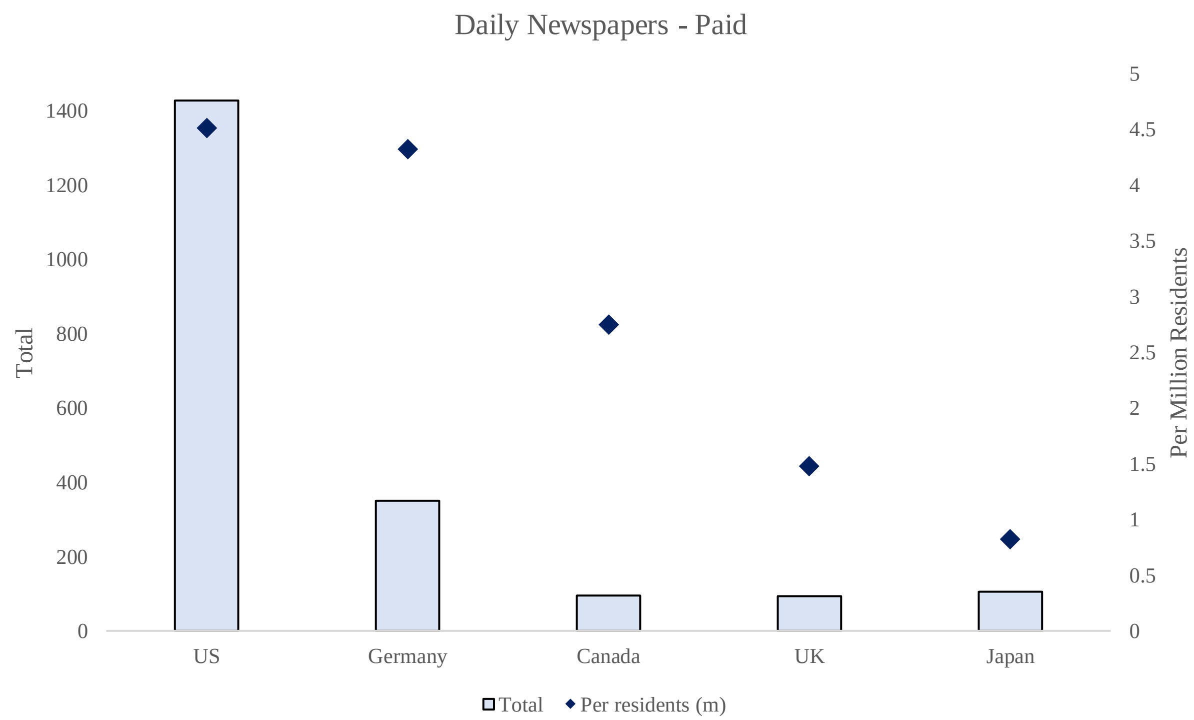
"The number of periodicals and occasional publications in the United States exceeds all belief … scarcely a hamlet lacks its newspaper."

— Alexis de Tocqueville, Democracy in America (1836)

The internet proved uniquely destructive to such businesses. Information, for all of prior-history a relatively scarce good, and one which was costly to produce, was abundant overnight, and for any individual consumer in surplus supply. In effect news became a commodity, and pricing followed. As Steward Brand presciently observed in 1987:

"Information wants to be free. Information also wants to be expensive. Information wants to be free because it has become so cheap to distribute, copy, and recombine — too cheap to meter. It wants to be expensive because it can be immeasurably valuable to the recipient. That tension will not go away. Each round of new devices makes the tension worse, not better."

— Stewart Brand, The Media Lab (1987)



Source: Handbook of Media Economics

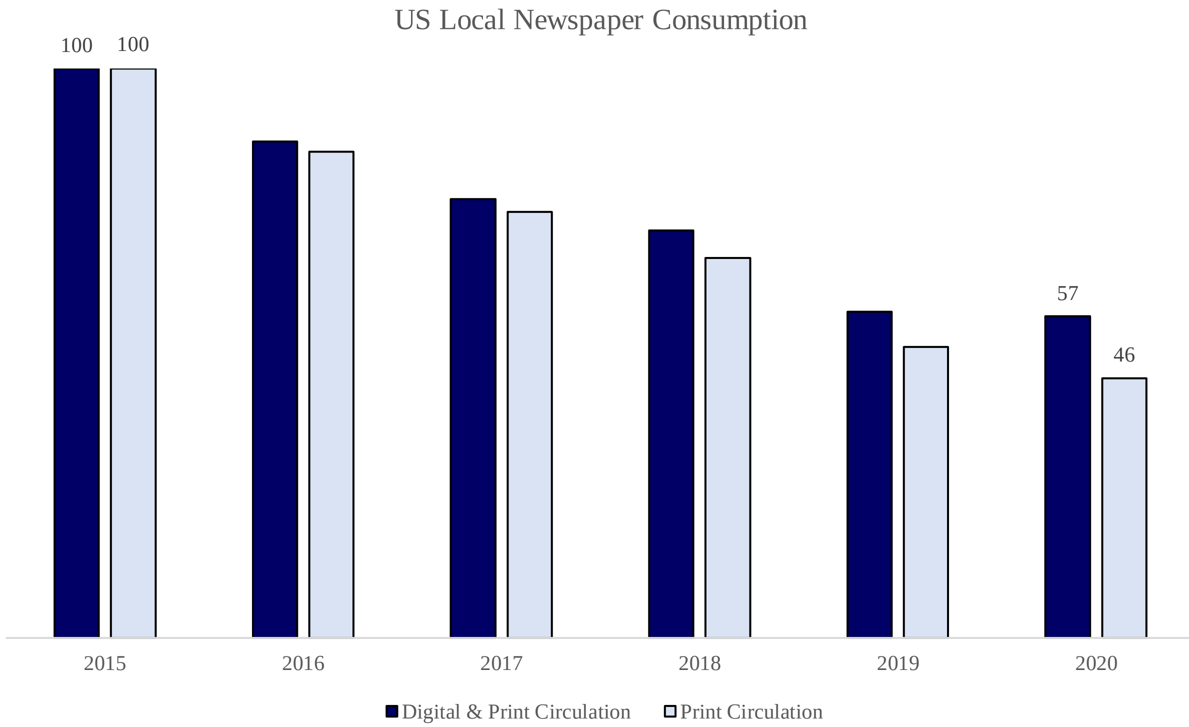
As smart-phones have displaced PCs for internet usage time, conventional wisdom is that these commodifying trends persisted. A trend naturally reflected in news media consumption.

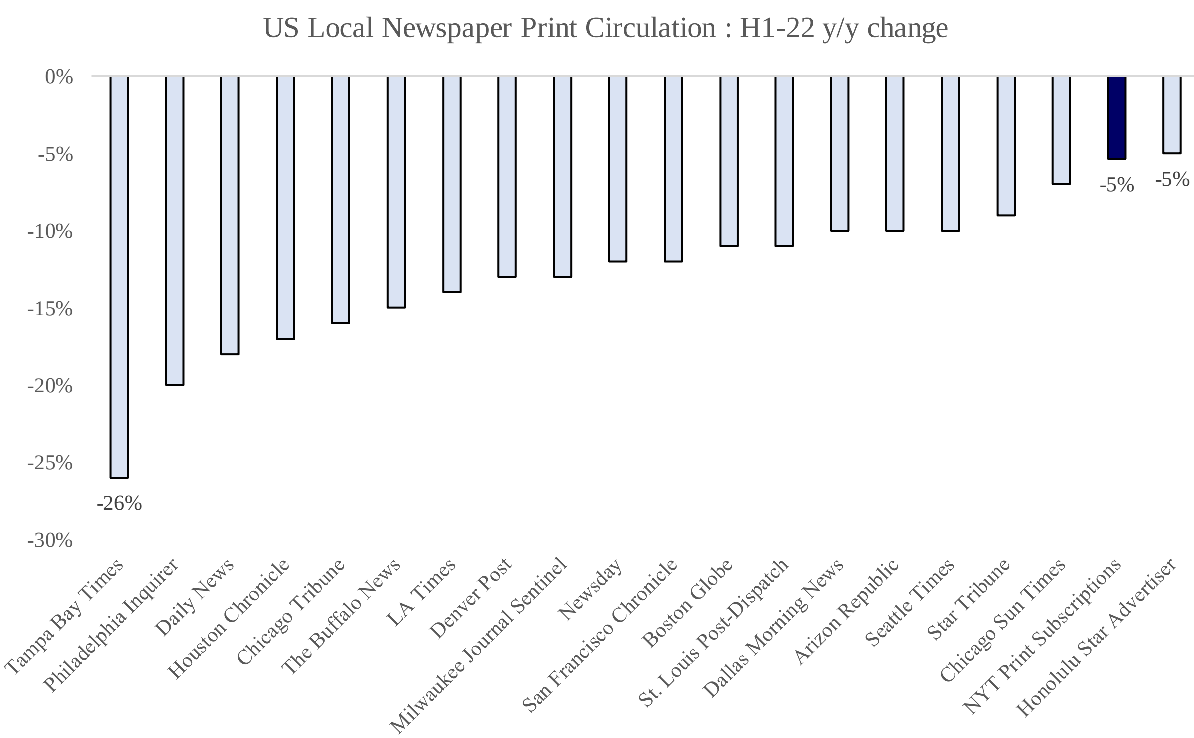
With mobile devices continuing to integrate intermittent internet usage into daily life, hopeful observers propose opportunities for network effects. 2019-2021 ~30% of internet users report sharing news by social media and direct messaging as part of their digital news consumption patterns, with a similar proportion commenting on news stories.

There are benefits to generating higher CLVs from these trends, however a nuanced assessment is required. These network effects tend to the personal not personal utility. The former being comparatively weaker; users could have network access removed without substantial change to their life. This is a distinction drawn by NfX in their network effects manual which provides a digital taxonomy of 16 identified network effects and their differing merits.

When we consider the disaggregation of regional print monopolies into supra-regional and international interest groups organized by cause, interest and ideology, these personal networks provisionally generate a '*winner takes most*' market for digital news content. The failure of NYT's own short-lived website with custom curated content for suburban New Jersey is further testament to this reality.

In the 4 years since the launch of NYTimes.com, local newspaper consumption among the Times' target audience declined 16% on a 4-year basis to 2000. With the primary media for news consumption shifting once again from PC to mobile, we note a similar rapid depletion in local newspaper readership 2015 – present.





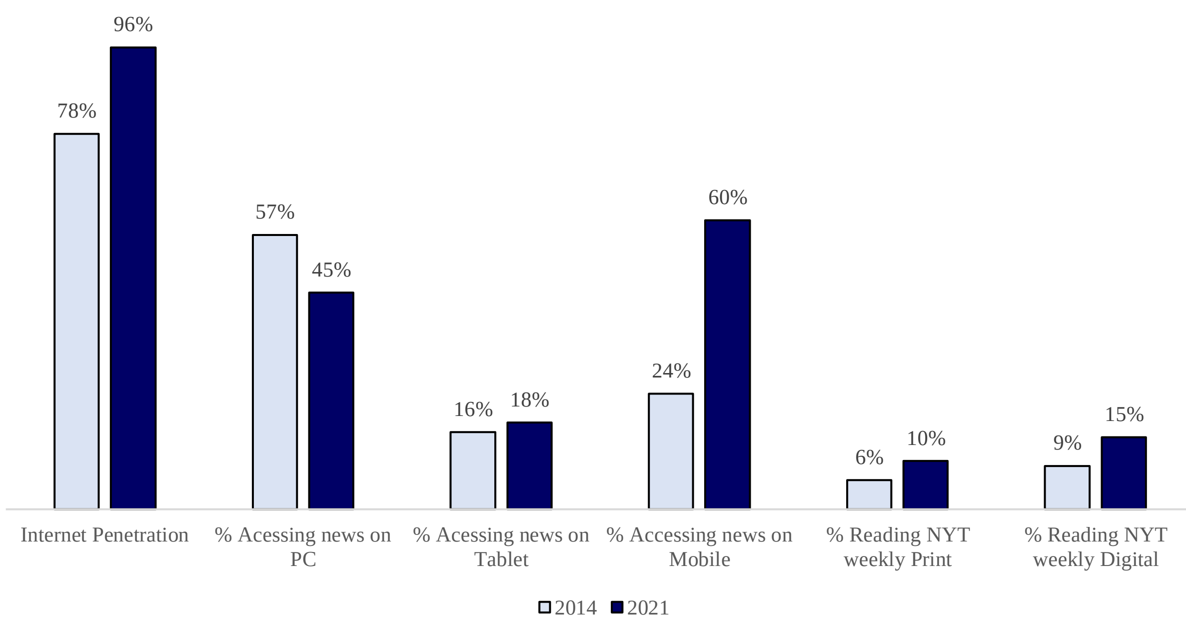
Sources: Pew Research Center, Alliance for Audited Media, Press Gazette, Company Reports & GORA Calculations

As a nationally established news brand NYT was a beneficiary of these trends. An advantage it has continued to compound, first by organic and acquisitive growth in the product portfolio, and through distribution deals with third-parties. Although syndication is not a new concept, NYT were faster to adapt this old-economy model to a digital context, signing deals with Apple News and Facebook News in Q3-15 (July).

By transitioning to a subscriber first business model, NYT was more willing and able to participate in creating such off-platform opportunities and experiences, viewing such deals as sacrificing advertising revenue for distribution in the short-term to create long-dated subscription growth optionality. These deal offered tailwinds, particularly in growing engagement with international readers, as NYT got to live 'rent-free' on major personal utility networks. Although all such deals are now expired or terminated.

Q2-22 termination of the Facebook News deal was due to a Facebook product reorientation and reduced focus on news, likely tied to the reduced share of Facebook users accessing news through the platform, *see* – **Risks – Fishing in a Small Pond – The True Scale of the Subscription News Market**.

US News Media Consumption Trends



Source: Reuters Institute, University of Oxford, GORA Calculations

We contend, conventional wisdom is too quick to suggest these same trends have created a uniformly commodified news media landscape. Instead, we believe these trends conspired to create duality in news story lifespan. Intermittent internet use tends to virality and a shortening of the news event horizon, - the classic commodification narrative. This motivates continued reductions in costs of journalism on aggregate, tracking to reductions in US aggregate newsroom and editorial headcount, creating a relative undersupply in quality journalism.

At the same time, the expansion in story telling tools to include interactive multi-format digital canvases, audio and video, have extended story lifespans and increased engagement. But the production of such content is costly and requires a large fixed-cost base of newsroom staff. Overlaying these provisional '*winner takes most*' dynamics are the fact that mobile app usage differs from desktop based browsing, with smartphone consumption tending to far stickier and more engaged users. This landscape, as we see it, informs NYT's durable competitive advantage and the momentum behind its '*quality flywheel*'; *see* – Durable Competitive Advantage – Quality Flywheel.

As we see it, securing the next stage of sustainable revenue growth is reached through achieving higher ARPUs. Leveraging off the quality flywheel will prove essential in retaining subscribers through graduation to full rates. New product development is challenging within such a static media category as news, so strategic acquisitions such as The Athletic, complement organic product development, and enhance NYT's ability to exert pricing power through Bundle products. *See* – Promotional Offers & Pricing Power, Bundling & Digital ARPU, Acquisition of The Athletic and Growth Adjacencies.

The now individual character of news media consumption informs the substantial decline in advertising revenue contribution to aggregate US newspapers top-line, ~ -70% in real terms since 2000. Print circulation numbers were grossed up for the '*pass-along audience*', by which paying readers could be expected to literally pass-along their copy of the paper to subsequent readers. Such was this belief that advertising rates were a function of a ~2.5x person impression rate per newspaper sold, a figure crudely derived from consumer surveys.

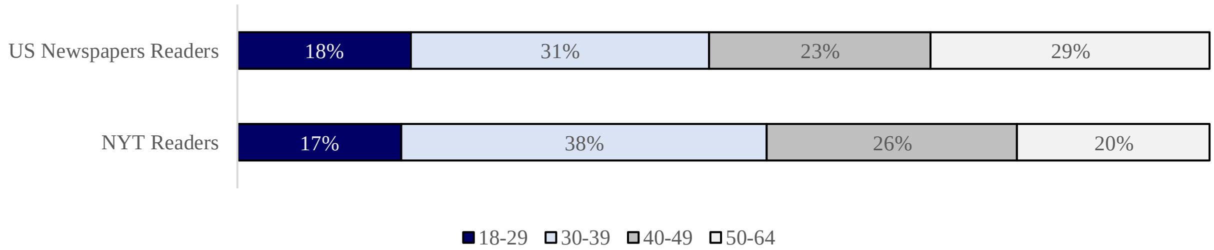
By contrast, the internet enabled performance based advertising, by which marketers could target the audience most likely to convert, quantify the cost of this conversion and thus adjust advertising spend accordingly. In a traditional model, marketers partnered with newspaper brands to reach their readers, but also to be associated with that paper's brand. Under a new economy model, marketers care far less about where their advertisements are placed, provided they achieve cost-optimized targeting. Today, marketers can target NYT readers without advertising on NYTimes.com or paying a penny to NYT.

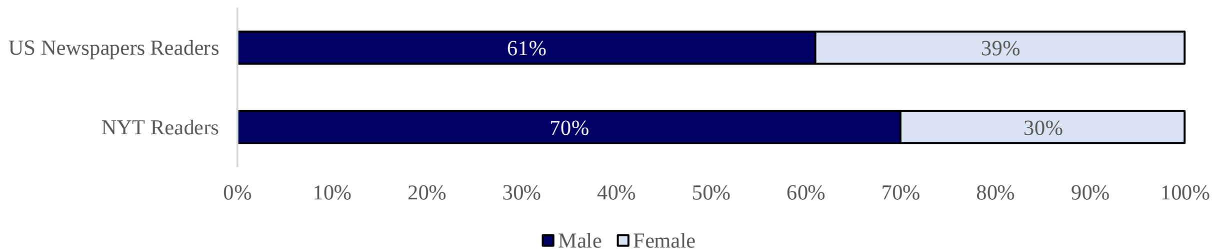
It is common to identify the shift in large corporates' advertising spending. However, what is often overlooked is the effect targeted ads had on small businesses, those which would have paid for classifieds; the real strength underlying strong print advertising revenue. Whereas once a local contractor could only rely on a few lines in the classified section, that same contractor can now target their advertisement to reach Facebook or Google users within a specified radius, and enjoy substantially higher ROAS. Google mobile search data suggests that 76% of mobile users who searched for a proximal local business visited within 24-hours, and 28% converted to customers.

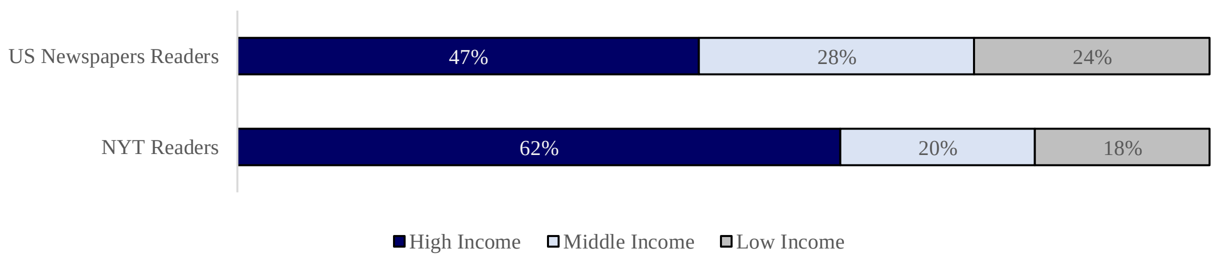
With the rise of programmatic buying driving digital ad rates lower, marketers have increasingly substituted away from traditional publishers' online properties. Thus, news media too has had to begin working out how to target client advertisements, beyond increasing audience engagement. In a post-GDPR and post-cookie advertising landscape, success in compiling first-party data on readers will determine a publishers' relative competitive position against news media peers. We view, developing an engaged multi-product registered user base, will prove central in developing richer first-party data to inform development of proprietary targeted advertising products. *See* – Growth Prospects – Digital Advertising as a Mid-term Growth Driver.

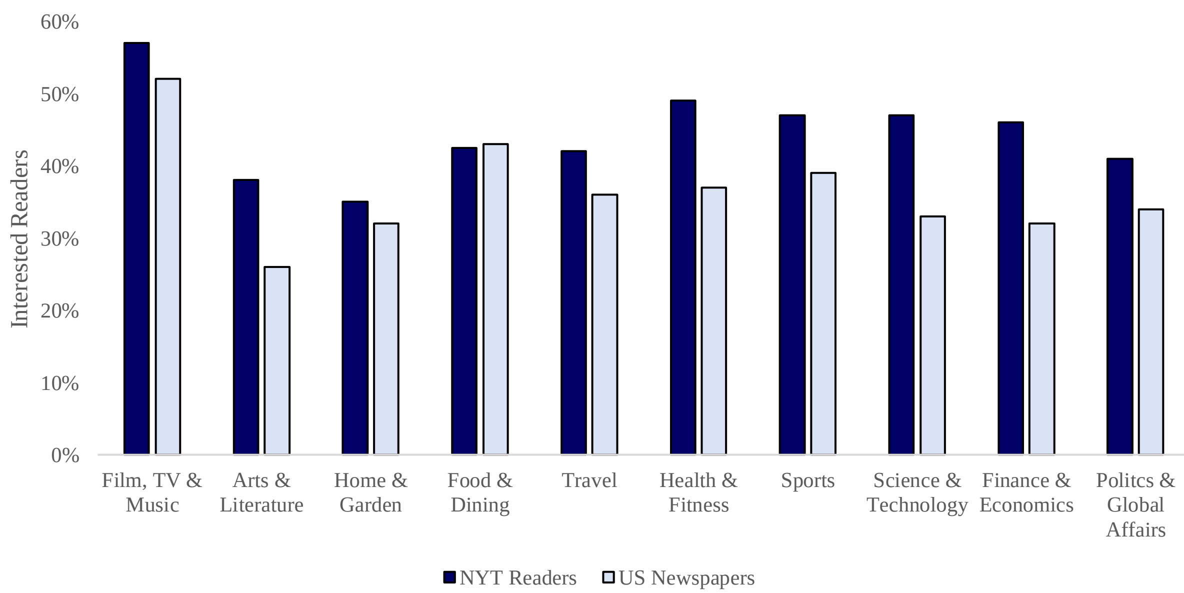
This same context also further illustrates the value of retaining a Print presence, with digital property access extended to print subscribers. As such, print subscribers enjoy the full benefits of digital-only peers, paying a relatively small premium for the print product, whilst the publisher is able to extract significantly higher margin advertising revenues per subscriber. *See* – Print – Hiding in Plain Sight.

Understanding NYT's Audience

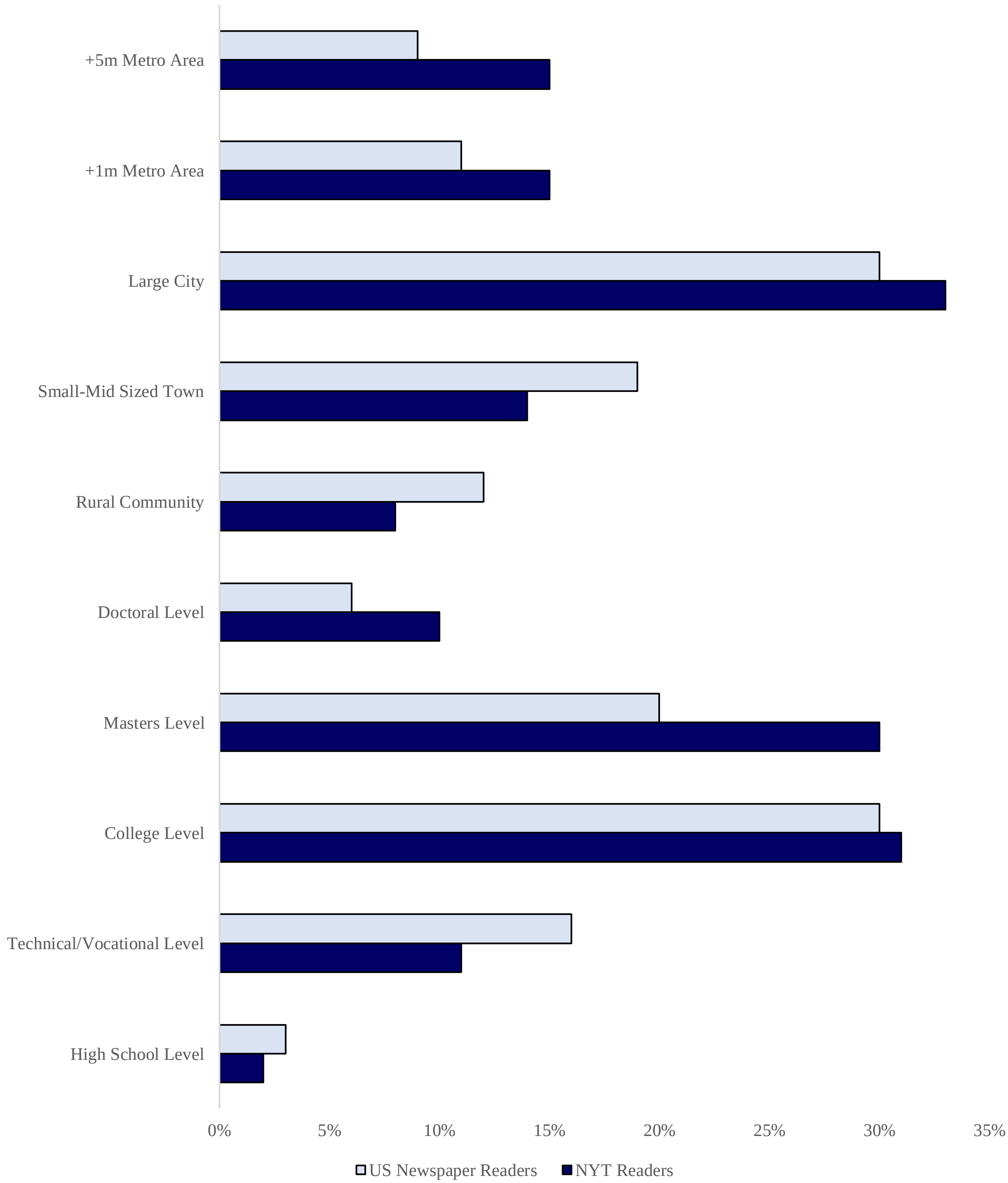








Source: Statista Global Consumer Survey



Source: Statista Global Consumer Survey

Management & The Sulzberger Family

Current CEO Meredith Kopit Levin succeeded former CEO Mark Thompson in Q3-20 (September). Thompson previously served as Director General of BBC, and led NYT through the early stages of its digital transition, assuming the role in Q4-12 (November).

CEO Kopit Levin joined NYT in 2013 from Forbes Media, as Head of Advertising and one of Thompson's first high profile appointments. Levin directed NYT's first forays into native advertising, and rose to CRO in 2015, and COO in 2017.

CFO Roland Caputo, has a 32-year tenure at NYT, with much of his career in NYT's print division. Other senior executives are increasingly drawn from technology backgrounds, *see* – Durable Competitive Advantage – Technology.

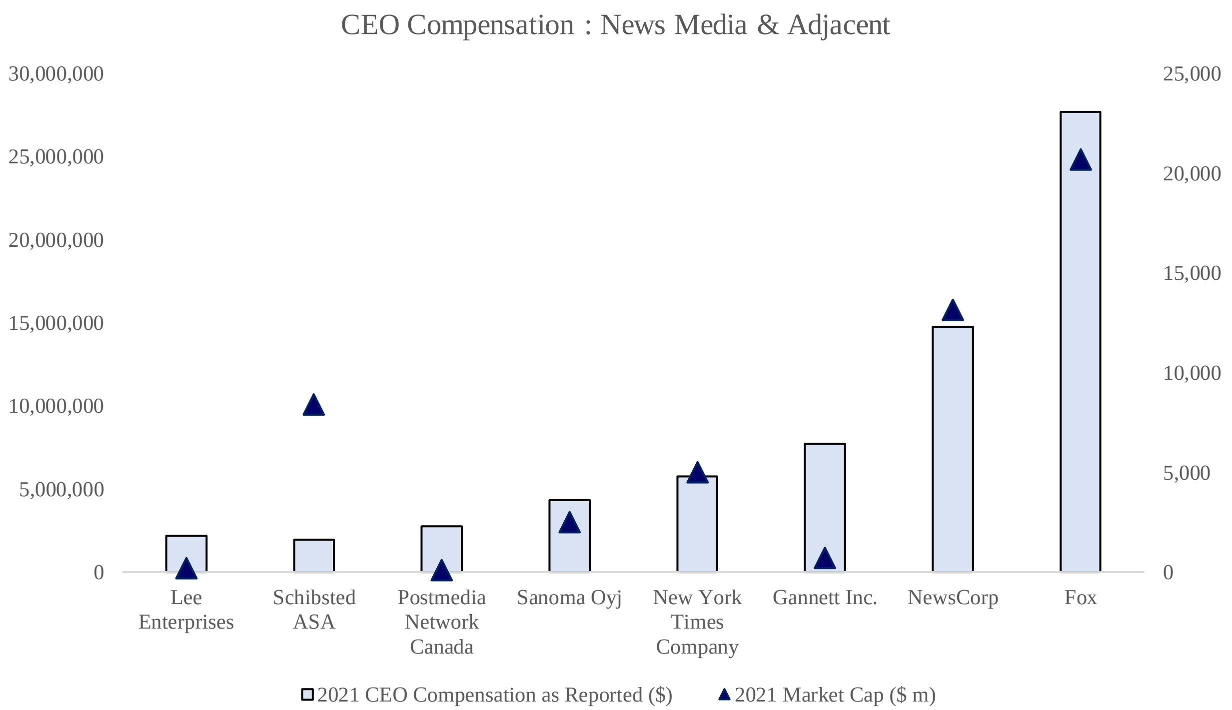
Current Chairman and Publisher A.G. Sulzberger represents the sixth generation of the Sulzberger family. Sulzberger's early career was as a reporter and investigative journalists at a number of publications including serving as NYT's metro reporter. Sulzberger also served as Associate Editor for Newsroom Strategy and Deputy Publisher, before succeeding his father Arthur Ochs Sulzberger Jr as publisher in Q1-18 (January). A.G. Sulzberger is notable as the architect of the 2014 leaked 'Innovation' memo, *see* – Durable Competitive Advantage – Quality Flywheel.

The Sulzberger family controls the Class B shares, as such ~70% of the Board. In addition to A.G., David Perpich also a Sulzberger family member serves as Publisher of The Athletic and Wirecutter since 2022.

	NYT	CV	
Meredith Kopit Levien	CEO : 2020 COO: 2017 EVP & CRO : 2015	Forbes : Publisher, CRO The Atlantic	University of Virginia, BA
Roland Caputo	CFO : 2018 VP Print Products & Services : 2013 VP Circulation Fulfilment : 2001 VP Circulation Business Development : 2000		University of Rochester, MBA SUNY, BA
A.G. Sulzberger	Chairman & Publisher : 2018 Deputy Publisher : 2016 Associate Editor for Newsroom Strategy : 2015	The Providence Journal The Oregonian	Brown University, AB
David Perpich	Publisher of The Athletic & Wirecutter : 2022 Head of Standalone Products : 2020 President & GM Wirecutter : 2016 VP & SVP Product Management 2013	Booz & Company About.com	Harvard Business School, MBA Duke University, BA

William Bardeen	CSO : 2018 SVP Strategy & Development : 2013	A.T. Kearney	Columbia Business School, MBA Harvard College, AB
Alex Hardiman	CPO : 2020 SVP Head of Product : 2019	Facebook The Atlantic	Columbia College, BA
Hannah Yang	CGO : 2020 SVP Head of Subscription Growth : 2018 SVP Subscription Acquisition : 2017	Strategy&	Harvard Law School, JD Harvard College, AB
Jason Sobel	CTO : 2021	Airbnb Facebook	Brown University, ScM Brown University, AB
David Rubin	CMO	Pinterest Unilever	The Wharton School, MBA Yale University, BA
Lisa Howard	Global Head of Advertising	Yahoo Billboard Conde Nast	The University of Georgia, BA
Joe Kahn	Executive Editor	Wall Street Journal Dallas Morning News	Harvard University, AM Harvard College, AB

Sources: Company Website, LinkedIn



Source: S&P Capital IQ

2021 Components of Target Compensation

	Base Salary	Annual Incentive Compensation	Long-Term Incentive Compensation
Meredith Kopit Levien - CEO	18.0%	***18.0%***	***64.0%***
Other Named Executive Officers	32.0%	***24.5%***	***43.5%***

2021 Annual Incentive Compensation

Financial Target	Adjusted Operating Profit	***75%***
Individual Target	Assessment of achievement against predetermined goals	***25%***

Long-Term Performance Awards

Adjusted Operating Profit	30% Cash
Adjusted Operating Profit	30% Class A Shares
Relative Total Shareholder Return	40% Class A Shares

Source: Company Reports

CEO Compensation	Mark Thompson			Meredith Kopit Levien	
	2017	2018	2019	2020	2021
Salary	**$1,019,231**	**$1,020,865**	**$1,050,546**	**$832,968**	**$900,000**
Incentive Compensation & Other Cash Compensation	$2,278,208	$2,060,952	$2,871,716	$1,301,751	$2,183,606
Stock Based Compensation	***$1,858,172***	***$3,050,996***	***$2,212,908***	***$2,232,818***	***$2,664,222***
Change in Pension Plan	$6,828	$5,670	$8,936	$4,653	$7,698
Total Compensation	**$5,162,439**	**$6,138,483**	**$6,144,106**	**$4,372,190**	**$5,755,526**

Source: S&P Capital IQ

CFO Compensation	James M. Follo	Roland Caputo			
	2017	2018	2019	2020	2021
Salary	**$584,588**	**$499,664**	**$584,800**	**$628,659**	**$635,076**
Incentive Compensation & Other Cash Compensation	$893,017	$552,879	$743,278	$897,961	$1,609,365
Stock Based Compensation	***$489,317***	***$532,070***	***$553,239***	***$769,492***	***$832,559***
Change in Pension Plan	$68,914	$1,872	$616,372	$323,794	$5,525
Total Compensation	**$2,035,836**	**$1,586,485**	**$2,497,689**	**$2,619,906**	**$3,082,525**

Source: S&P Capital IQ

Chairman & Publisher Compensation	A. Ochs Sulzberger Jr	A.G. Sulzberger			
	2017	2018	2019	2020	2021
Salary	**$1,107,904**	**$542,649**	**$590,693**	**$609,924**	**$612,001**
Incentive Compensation & Other Cash Compensation	$2,408,654	$488,261	$861,102	$859,729	$1,521,354
Stock Based Compensation	***$1,858,172***	***$457,645***	***$616,029***	***$945,871***	***$1,478,598***
Change in Pension Plan	$207,299	$136	$7,489	$7,562	$2,603
Total Compensation	**$5,582,029**	**$1,488,691**	**$2,075,313**	**$2,423,086**	**$3,614,556**

Source: S&P Capital IQ

Durable Competitive Advantage – Quality Flywheel

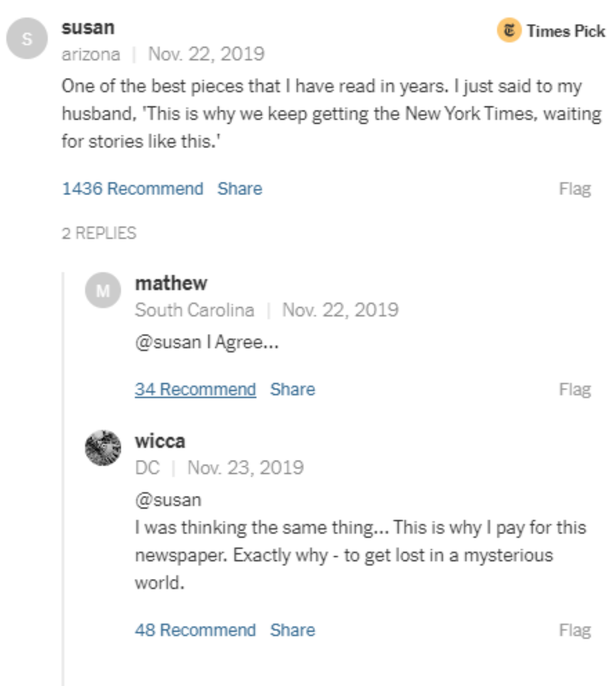
"As someone who cares deeply about independent journalism, I love the idea that our most important financial relationship is with the reader, not the advertiser. It clarifies our mission and helps us make tough choices about how to spend our precious editorial resources."

— Lydia Polgreen, *formerly* Editorial Director, New York Times Global

Under the old economy model, quality was important in so far as it pertained to circulation rates, from which advertising revenues were derived. As a subscription first business, quality is now a first order concern. In our view quality is set by the quality of information produced and is necessarily matched by digital product quality.

By the traditional news media model, distribution was the primary success factor and supernormal profits accrued to those firms which controlled scaled distribution. Under internet economics, quality of UI/X is the primary success factor, with supernormal profits accruing to those firms which best control users at scale. In turn, by internet economics, quality entails control, but quality itself is determined by the controlled. Ultimately we understand quality as '*perceived quality*', as determined by NYT's readers, subscribers and registered users, *ie. do NYT readers believe in the Times' quality, as well as the Pulitzer prize committee*?

In other media genres, quality content curation and a subscription first model have generated strong top-line and subscriber growth, with churn differentials tracking largely to quality. Where SVOD and music streaming services curate mostly external content, NYT is able to leverage its own content to determine its relationship with readers; a powerful expression of ecosystem control.



Source: Company Website

Although, news content is higher frequency, NYT benefits from owning the full 'digital content stack', from newsroom to engineers and product managers to distribution. Given our view that trends shaping digital news media consumption tend to a duality in news story life-span, *see* – The Changing Economics of Print Media, this ecosystem control is a critical advantage.

At the short end of story life-span, NYT's mobile-app push-notifications, the live updated Coronavirus Dashboard , 'Live' stories and 'Breaking' newsletter leverage off this ecosystem control to create unique content that competes at short-end of story life-span.

Meanwhile, at the long-end of story life-span, NYT creates magazine-like content, that interfaces with users in a manner which more closely resembles that of a technology product than traditional news media, through integrating multiple formats into a single digital canvas. Consider for example, this article examining the efficacy of claims that CRT is being taught in US public schools curricula, or a recent article on failures related to Tesla's self-driving software, which integrate video panels that scroll with the reader as one reads down through the article.

Additionally, as a feature of the content production ecosystem control, NYT is able to extend total brand engagement time migrating readers across on- and off-platform experiences. These off platform experiences serve as an additional leg of monetization, leveraging off the fixed base of journalism costs, *see* – Growth Prospect – Audio & Video Journalism.

Every few years, the family agreed to admit a journalist, always a foreigner, to tell of their grievances against the state. The journalists emerged with deliciously macabre stories, which I had studied admiringly. In 1997, the prince and the princess told The Times of London that their mother, in a final gesture of protest against the treachery of Britain and India, had killed herself by drinking a poison mixed with crushed diamonds and pearls.

The Prince's Story, in Audio Listen to a special three-part episode of The Daily recounting the tale.

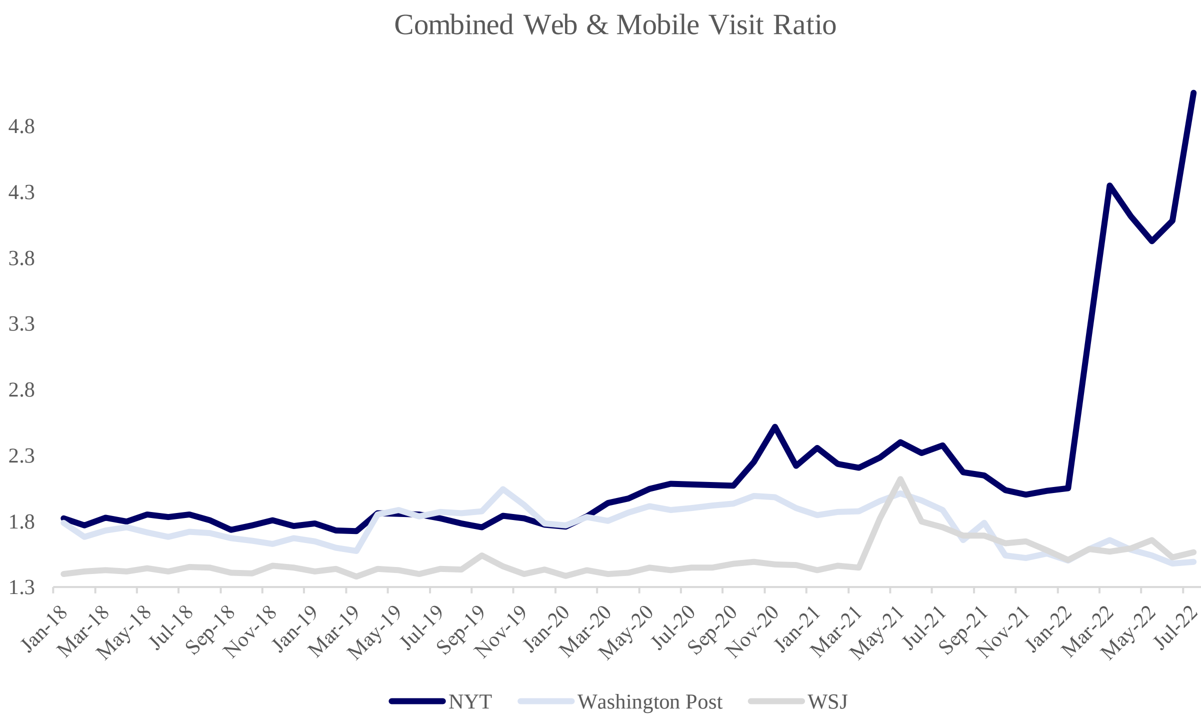
I could see why these stories resonated so. The country was imprinted with trauma, by the epic deceit of the British conquest and then the blood bath of the British departure, known as Partition, which carved out Pakistan from India and set off convulsions of Hindu-Muslim violence.

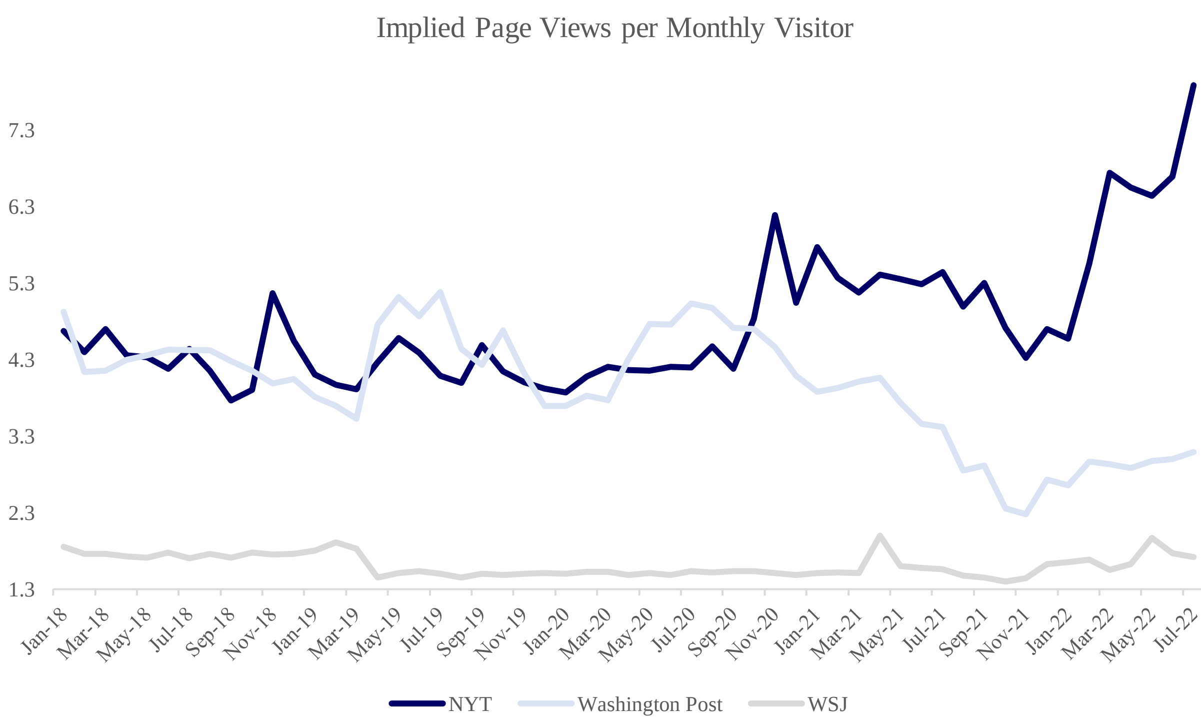
Source: Company Website

We reference NYT's combined web and mobile visit ratio as primary testament to NYT's success in playing both ends of the news event horizon. Visit ratio is an imputed figure we derive to give the number of monthly visits per unique visitor. We can combine this metric with the average pages viewed per visit, to give an implied page views per monthly visitor. NYT compares favorably to the Washington Post and WSJ.

$$\text{Visit Ratio} = \text{Gross Monthly Visits} / \text{Unique Visits}$$

$$\text{Implied Page Views per Monthly Visitor} = \text{Visit Ratio} \times \text{Pages per Visit}$$

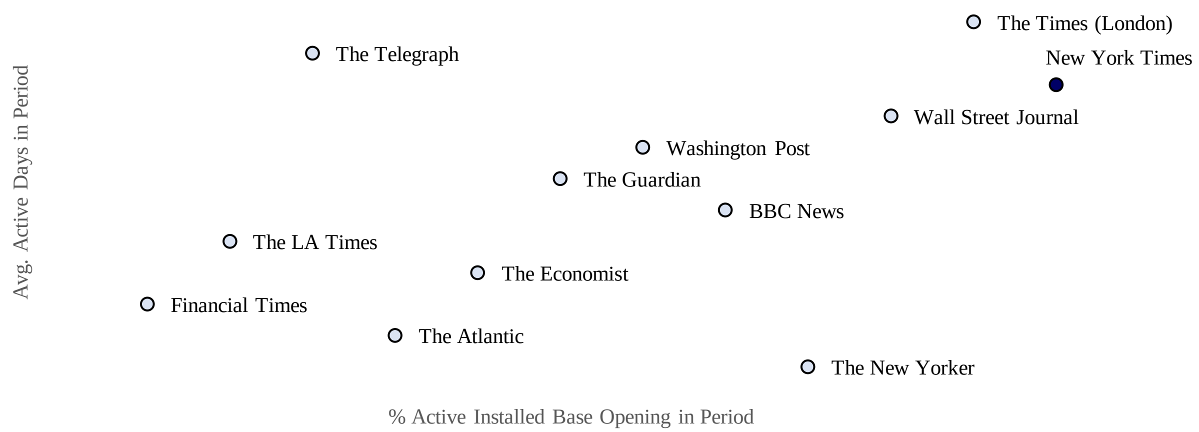




Sources: SEM Rush, GORA Calculations

Mobile-app usage metrics are similarly illustrative of NYT's success in capturing short and long-duration timeshare and mindshare, with NYT mobile-app users achieving highest average active day count, average session count per day, and download weighted MAU counts, compared to US peers.

H1-22 : Combined Android & iOS 'Stickiness' Metrics - US



H1-22 : Combined Android & iOS Growth Metrics - US

Source: Data.ai

As such, by the traditional flywheel model, through differentiated quality information products, NYT attracts subscribers. Subscription revenues in turn drive newsroom expansion, alongside digital product development spend, to further enhance NYT's product offerings, driving further subscriber growth in a virtuous cycle. In addition to subscription revenues, NYT is able to further monetize through advertising deals. And, beyond the digital business, NYT's legacy print business and commercial printing activities, remain highly cash generative, *see* – Print – Hiding in Plain Sight. As such, the flywheel's gears are further greased.

In news media, we view flywheels as generating more powerful '*winner takes most*' dynamics than in other media genres, with potential for emergent '*winner takes more of most* ' dynamics. Whilst in SVOD, and music streaming, consumers typically hold multiple subscriptions, the median number of news subscriptions held is one per subscriber.

In the US the median is two subscriptions per subscriber, however consumer behavior tends to a mix of one national and one local or specialist publication. So, in effect NYT still competes to be a US consumer's single news product subscription. *See* – Risks – Fishing in a Small Pond? The True Scale of the Subscription News Market. Combined with online digital reach, Android and iOS application metrics bear out the power of the quality flywheel and emergent '*winner takes more of most*' dynamics, above NYT's gross subscriber count lead.

"As recently as 2014 … the idea that subscribers would pay enough to support the company's expensive global news gathering seemed like a pipe dream. But today, the gulf between the times and the rest of the industry is vast and keeps growing."

— Ben Smith, *formerly* Editor-in-Chief, BuzzFeed News

"The moat is so wide now, I can't see anyone else getting in it."

— Josh Tyrangiel, *formerly* Senior Vice President of News, Vice

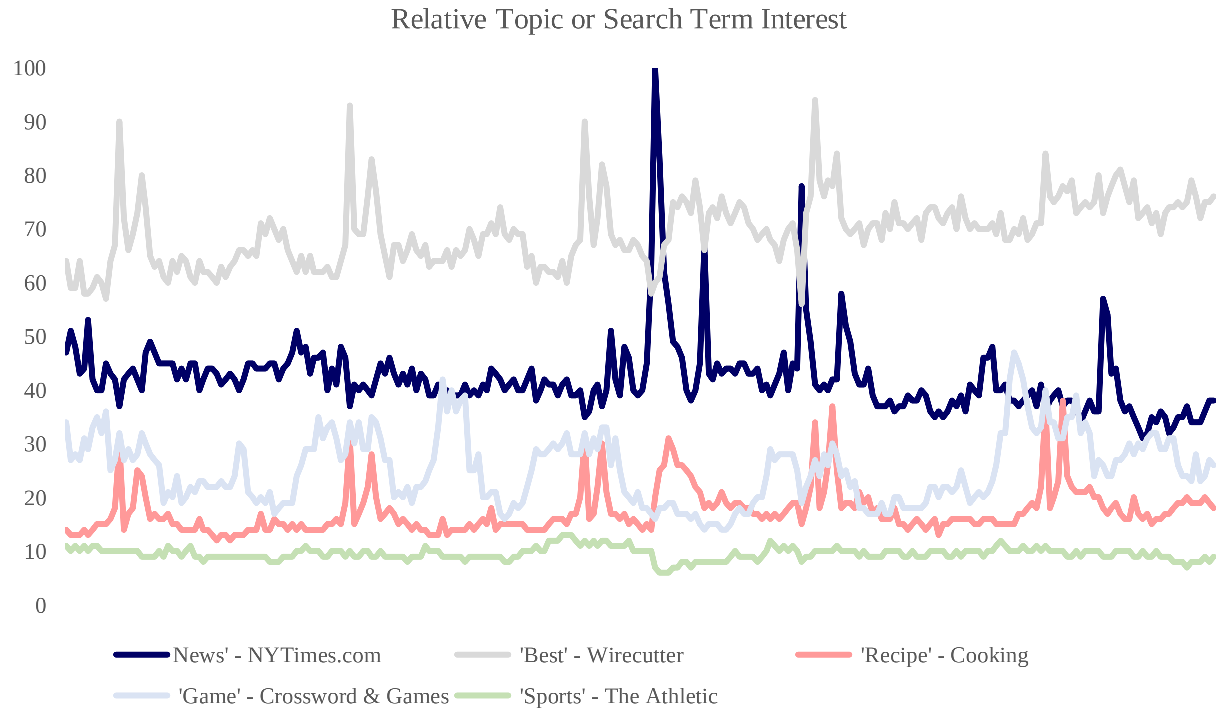
To date, NYT's flywheel dynamics have been driven by subscriber growth, a consequence of a strategic focus on subscriber count growth over ARPU growth. As such, to sustain top-line growth, and flywheel momentum, NYT will have to leverage off the quality flywheel to reach higher ARPUs. NYT seeks to achieve this through its Bundle products.

We view the digital-Bundle product as effectively recreating the Sunday print edition, complete with supplements, which added differentiated value through the breadth of content, and in effect tapped into dualities of story life-span and reader attention. NYT's Lifestyle products such as T Magazine, Cooking, Games and Wirecutter, alongside The Athletic, tend to this, and compete for different consumer timeshare and mindshare than the core news product. As such, we view these as differentiated in their subscriber value add and accretive to '*perceived* ' product quality.

Given the support offered by advertising revenue to subscription sales, in a news media subscription business, publishers are able to produce non-paywalled content that serves both to support advertising revenues and widen top-level funnels, whilst simultaneously increasingly '*perceived quality*' among existing subscribers. We view this as a particular advantage of news-media over other subscription businesses.

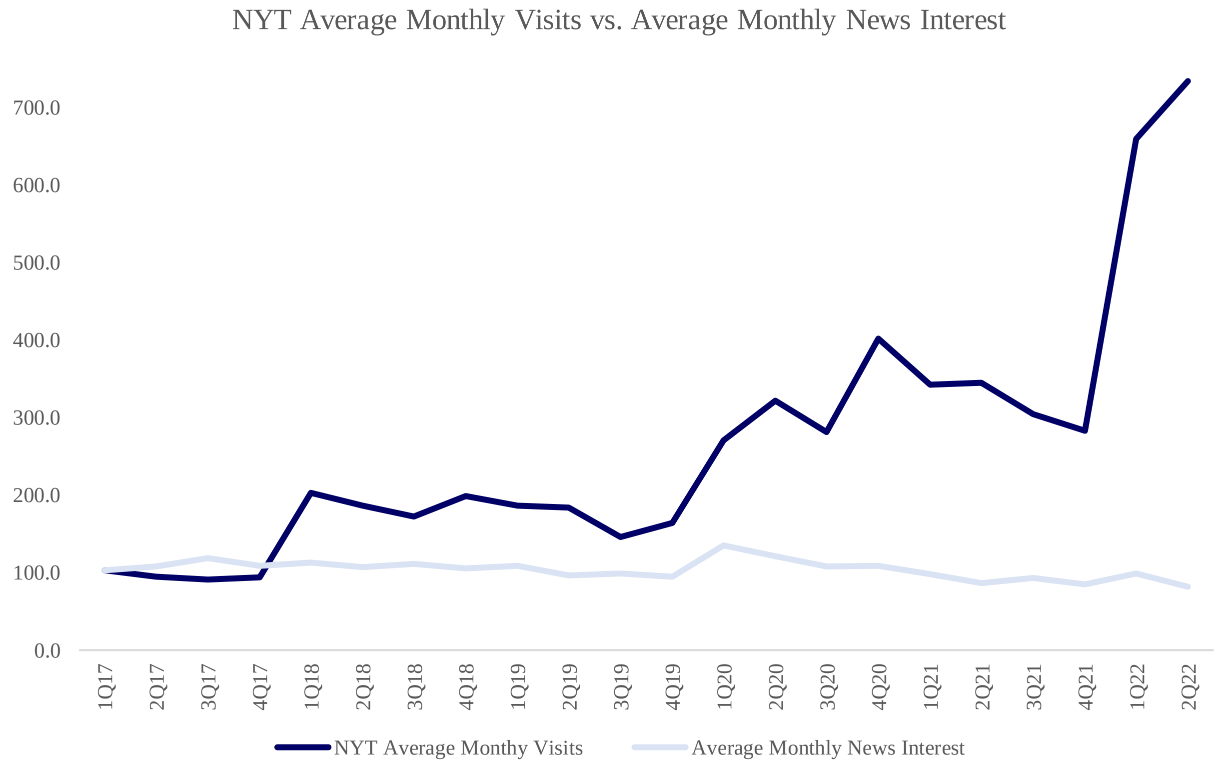
As such, we identify further potential for enhanced '*perceived quality*' in the growth and reach of NYT's off-platform products and experiences, *see* – Growth Prospects – Audio & Video Journalism. The now expired Facebook News Deal, was significant in growing reach with international readers. 'The Daily', NYT's flagship podcast is an incredibly strong performer, and among the most listened to podcasts globally. In addition NYT maintains a varied portfolio of branded and off-brand podcasts. The Athletic itself has an extensive catalogue of podcasts, and during the season, podcasts form a core component of team-specific coverage. In video formats, NYT released investigate news program 'The Weekly' and maintains a superior presence in subscriber count over US major peers on YouTube.

Historically news-media businesses have been tied to news-cycle, with advertising revenues as a cyclical overlay. As NYT increases its product portfolio, both on platform for subscribers and through off-platform experiences such as video and audio, NYT increasingly becomes independent of the news cycle. Through moving beyond the news cycle as a determinant of user engagement, NYT drives stickier subscribers and underwrites longer dated flywheel momentum. Blending across the categories NYT is active-in, delivers a 5-fold reduction in variance of relative topic interest, over news only.

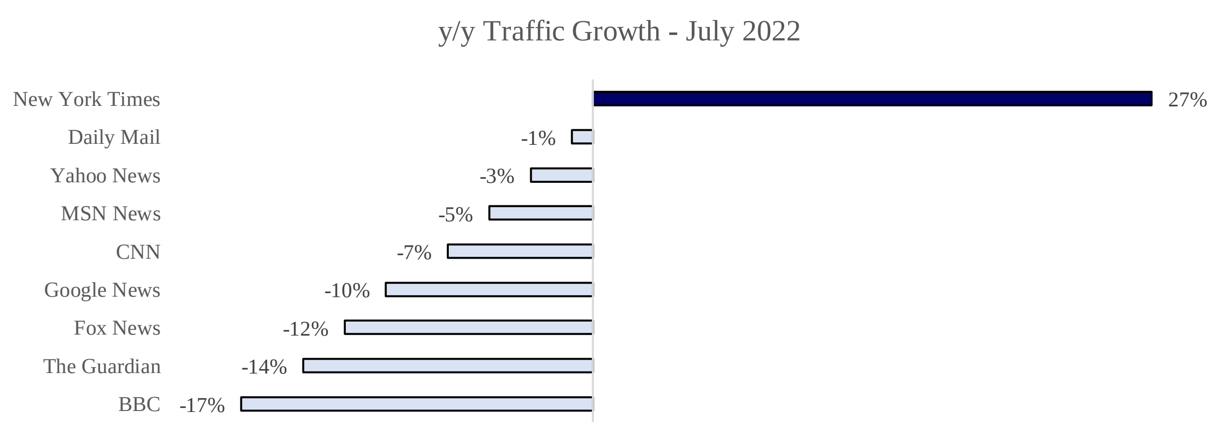


Source: Google Trends

By successful execution of the quality flywheel strategy, we underwrite continued strength in reported gross subscriber adds and retention rates beyond the news cycle. Continued strength in retention, drives ARPU expansion as promotional rate subscribers retain through graduations to fully priced rates. In turn, we expect average revenue per user (ARPU) expansion as promotional rate subscribers retain through graduating to full price. ARPU expansion will flow through to top-line, underwriting mid-teens EBIT CAGR over the mid-term. Our research informs our differentiated view that the greater risk to profitability stems from failure to execute on the digital advertising strategy, not from increased churn, *see* – Promotional & Pricing Power.



Source: SEM Rush, Google Trends & GORA Calculations



Source: Similar Web

Durable Competitive Advantage – Newsroom

"We are first and foremost an extraordinary journalism company. We will always be that. I want to say that without question."

— Meredith Kopit Levien, CEO, New York Times Company

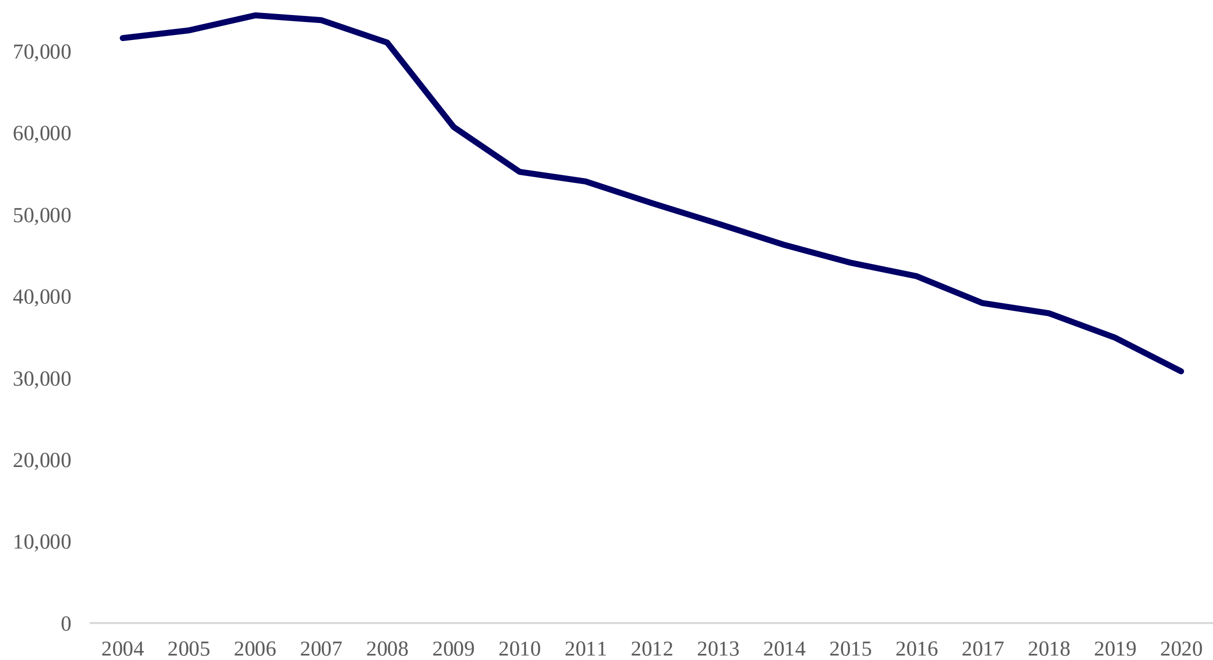
Underpinning the quality flywheel is the strength of NYT's newsroom and editorial. We hold the view that the core-news product is the primary consumer value-add, and central to the success of the bundling strategy. In our view, the quality of NYT's newsroom determines the spec of the bearings upon which the flywheel turns.

Current journalist headcount consists of ~1,750 newsroom and editorial staff, representing ~5% of US news-media journalists, and ~11% of US newspaper journalists.

	NYT	US Newspapers	US News-Media
Journalism Staff	***~1,750***	***~15,400***	***~39,100***

Source: New York Times & Bureau of Labor Statistics

US Newspapers : Newsroom Employees



Source: Pew Research Center

The relative scale of NYT's core news operations today is largely attributable to previous management teams. With revenues falling throughout the 2000s, US publishers looked to newsroom headcount and budgets as targets for cost cutting. NYT differed in its approach, instead pursuing cuts in production and marketing costs, sparing newsroom and editorial. As such, what exists today in NYT's newsroom is a significant structural advantage.

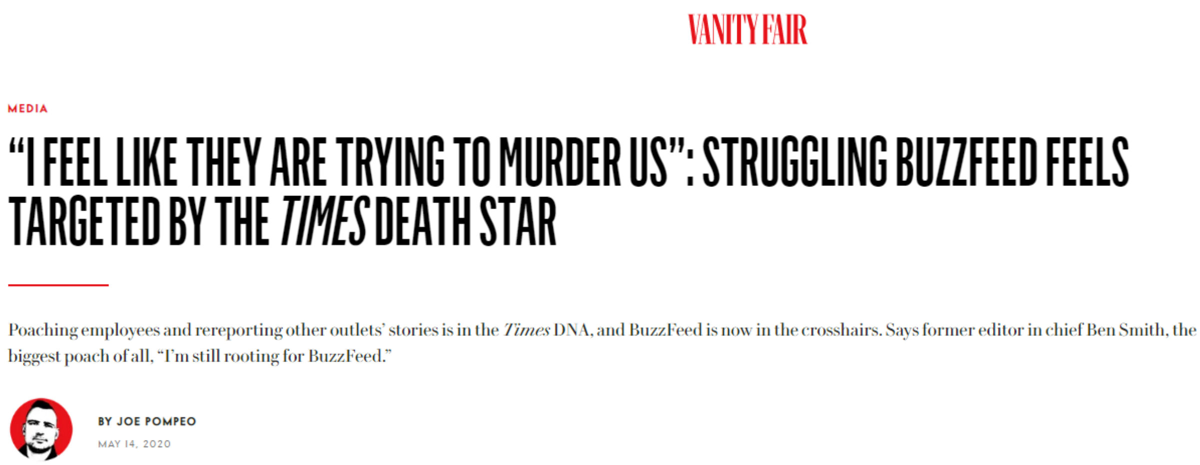
Average Journalist/Reporter Base Salary

NYT	Washington Post	WSJ	LA Times	US Newspapers
~ $94,000	***~ $77,700***	***~ $65,600***	***~ $63,400***	***~ $ 49,500***

Source: Glassdoor, Bureau of Labor Statistics

NYT remains a premium agent in the labor market, paying ~ 2x premium above the national average salary for journalists, and for top talent the premia expands to ~ 3 - 4x. Unsurprisingly, this has proven a powerful incentive in attracting top journalists away from outlet such as Politico, BuzzFeed News and WSJ.

Maggie Haberman, Ken Vogal, Jonathan Martin, Glenn Thrush and Annie Karni were among Politico's top senior reporters who defected to the Times. From BuzzFeed, NYT lured Ben Smith [5], Virginia Hughes [6] and Roxanne Emadi [7], among a total of 20 former BuzzFeed staff to NYT's newsroom with compensation packages > $150,000. So large is the contingent, it is reported there is now a '#BuzzFriends' channel on NYT's slack app.



VANITY FAIR

MEDIA

“I FEEL LIKE THEY ARE TRYING TO MURDER US”: STRUGGLING BUZZFEED FEELS TARGETED BY THE *TIMES* DEATH STAR

Poaching employees and rereporting other outlets' stories is in the *Times* DNA, and BuzzFeed is now in the crosshairs. Says former editor in chief Ben Smith, the biggest poach of all, “I'm still rooting for BuzzFeed.”

BY JOE POMPEO

MAY 14, 2020

Source: Vanity Fair

“The Times so dominates the news business that it has absorbed many of the people who once threatened it.”

— Ben Smith, *formerly* Editor-in-Chief, BuzzFeed News

We view NYT's position as a premium agent in the labor market as wholly supportive to the continued compounding of NYT's established advantage in line with the *'winner takes <u>more</u> of most'* dynamics in digital news media.

[5] *formerly* Editor-in-Chief - BuzzFeed
[6] *formerly* Deputy Editor-in-Chief - BuzzFeed
[7] *formerly* Editor & Head of Audience Development - BuzzFeed

Durable Competitive Advantage – Technology

“The journalism is the foundation, but it’s the digital business infrastructure built atop that has propelled [NYT’s] success.”

— Ken Doctor, *formerly* President, Newsonomics

The 2014 innovation report identified that whilst NYT was producing best in class journalism, it was failing to reach readers digitally. NYT’s reporting was being aggregated off-platform and consumed elsewhere. For example, in December 2013, HuffPo attracted more site visits by aggregating NYT’s coverage of Nelson Mandela’s funeral than NYTimes.com.

Underlying this, the report identified severe weaknesses in the tech credentials of the digital product. The lack of structured data resulted in poor searchability and search performance. With the newsroom itself siloed from the product team, journalists were producing stories for an end of day deadline to meet with evening print runs, despite the majority of subscribers and registered users reading in the morning. Similarly, socials were an afterthought. Whilst BuzzFeed and HuffPo build brands off viral social distribution, the majority of NYT’s newsroom staff had no public social media presence, let alone regularly shared work or engaged with readers and other media personalities. Given internet economics, by which controlling users at scale is the path to economic profits, NYT’s digital strategy was abjectly misaligned.

“If you think about a digital product - a smartphone app for the Times, say - it’s an integration of everything. It’s a kind of Rubik’s Cube of audience data, of behavioral science and ergonomics, of how the thing’s going to be packaged, of the pure gold of the actual journalism itself, of the integration of different media - and within that, a customer journey for people to register and ultimately become subscribers. You’ve got a very complex entity there.”

— Mark Thompson, *formerly* CEO, New York Times Company

In creating a leading subscription first digital news model, there was no ‘off the shelf’ stack NYT could buy. Consequently, NYT built is tech stack from the ground up, which today resembles the most advanced tech stack of any digital news publisher.

Overlaying the tech stack, NYT pursued a similar strategy in recruiting to tech talent as it had in building its newsroom, with NYT demonstrating the ability to attract top-talent into key positions. Chief Product Officer Alex Hardiman previously served as Head of News Products at Meta (Facebook). Chief Technology Officer Jason Sobel, was formerly Head of Infrastructure at Airbnb, and Engineering Director at Meta (Facebook).

	Google	Meta	Apple	Microsoft	Airbnb	Netflix & Spotify	Zynga & EA	PayPal & Square
NYT Tech Hires	***32***	***22***	***16***	***6***	***4***	***10***	***7***	***4***

Source: LinkedIn

“We moved to a matrix structure where the team leaders - often very young, late 20s, early 30s - have power over the product and tech road maps and can make decisions based on what they learn from the testing-and-learning platforms, without regard to senior leadership … They’d rather just do it and measure its success or failure, with the view that they can always reverse it.”

— Mark Thompson, *formerly* CEO, New York Times Company

The same trend is reflected across NYT's operations. 85% of NYT's advertising division turned over 2012-2015, with outgoing advertising staff replaced by digital native hires with data expertise, to match the skillset of product managers in the subscription business.

Consequently, NYT is now able to track how readers engage with information products and advertising, alongside retention, to create cohorts. Audience development and retention can then continue to re-engage users by newsletter, push notifications and socials, alongside experiments with differing price tiers. Referencing again internet economics, by which supernormal profits accrue to those firms who best control users at scale, NYT has a significant advantage over peers.

Similarly, we note the increasing depth of technology expertise being brought onto NYT's board, alongside longstanding board members.

Amanpal S. Bhutani	CEO GoDaddy President Expedia Group Director JP Morgan (Technology)	*Board member since 2018*
Manual Bronstein	CPO Roblox SVP Alphabet Zynga & Microsoft	*Board member since 2021*
Rachel Glaser	CFO Etsy CFO Leaf Group CFO Move / Realtor.com CFO MyLife.com SVP Yahoo	*Board member since 2018*
Brian P. McAndrews	CEO Pandora MD Madrona Venture Group SVP Microsoft	*Board member since 2019*
Rebecca van Dyck	COO Reality Labs (Meta) CMO AR / VR Meta Director Apple (Marketing)	*Board member since 2015*

Source: Company Website

Promotional Offers & Pricing Power

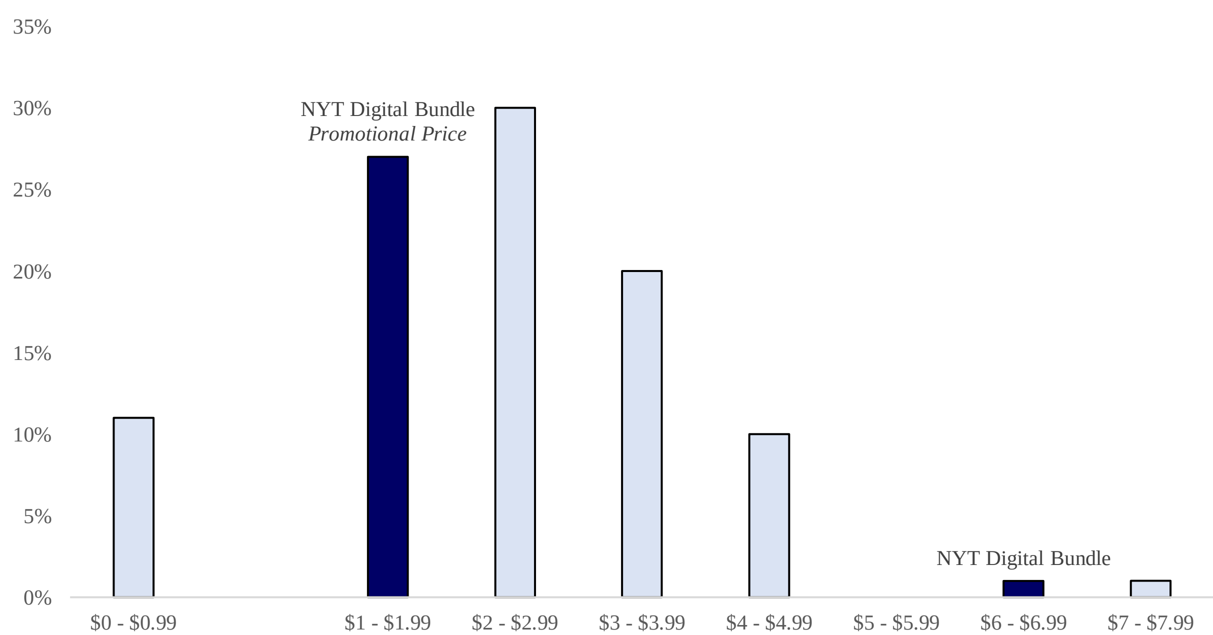
In driving the next leg of revenue growth, NYT needs to reach higher ARPUs. The generalist expects increased churn as prices are raised on consumers, however this view misunderstands the dynamics of promotional rates and subscription pricing.

NYT's pricing remains in line with its major peers in respect of promotional rates and fully priced digital rates, placing NYT's digital bundle promotional and full priced rates at ~10% of US News Media digital subscriptions rates. US digital news pricing does not track to market size (TAM), reach or historic print circulation. Instead, we find brand proprietorship to be more significant, with multi-brand media owners and operators typically pricing their properties within set bands relative to each other.

Monthly Prices	*Standalone Lifestyle*		*Digital News Only*	*Digital Bundle*
NYT Subscription Prices	***$5.00 each***		***$4.00 / $17.00***	***$6.00 / $25.00***
		NYT	Washington Post	WSJ
Digital All-Acess Promotional Rates		***$6.00***	***$4.00***	***$4.00***
Notes			*Free for 4 weeks*	*$12.00 initial charge*
Duration		***1-year***	***1-year***	***3-months***
All-Acess Full Price Rates		***$17.00***	***$10.00***	***$36.99***

Source: Company Websites

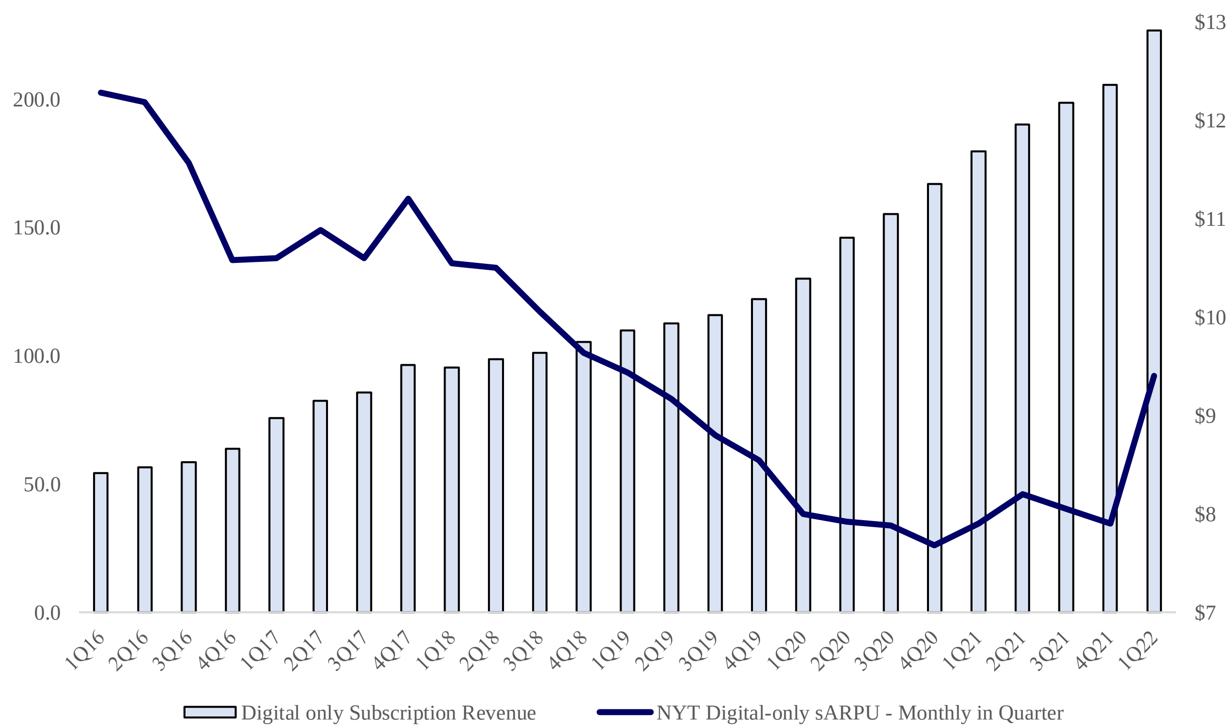
US Newspapers : Digital Subscription Prices - Standardised Weekly Price



Source: American Press Institute, GORA Calculations

In understanding pricing behavior in digital news subscriptions, it's common to draw a distinction between pricing for growth and pricing for retention. Pricing below a given threshold provides substantial tailwinds to subscriber growth, which can underwrite initial digital subscription revenue growth. However securing higher ARPUs is the only viable path to sustainable revenue growth for a subscription business. Prima facie, there appears a tension between these two strategies, with churn increasing at the point of graduating subscribers off promotional rates.

In pivoting to a subscriber first model, NYT pursued an aggressive subscriber acquisition strategy. Central to this were heavily discounted promotional rates for news and Bundle subscribers. NYT's standard promotional plan runs for 12-months, however from Q3-19 (Aug) NYT began experimenting with longer-dated promotional periods by which subscribers are graduated through intermediate rates and tapered onto the full rate. The strategy proved successful in driving top-line growth, with digital-only subscription revenue growing 24.25% CAGR 2014-2021 in spite of average subscription revenue per subscriber (sARPU) falling -62.5% from peak to trough.



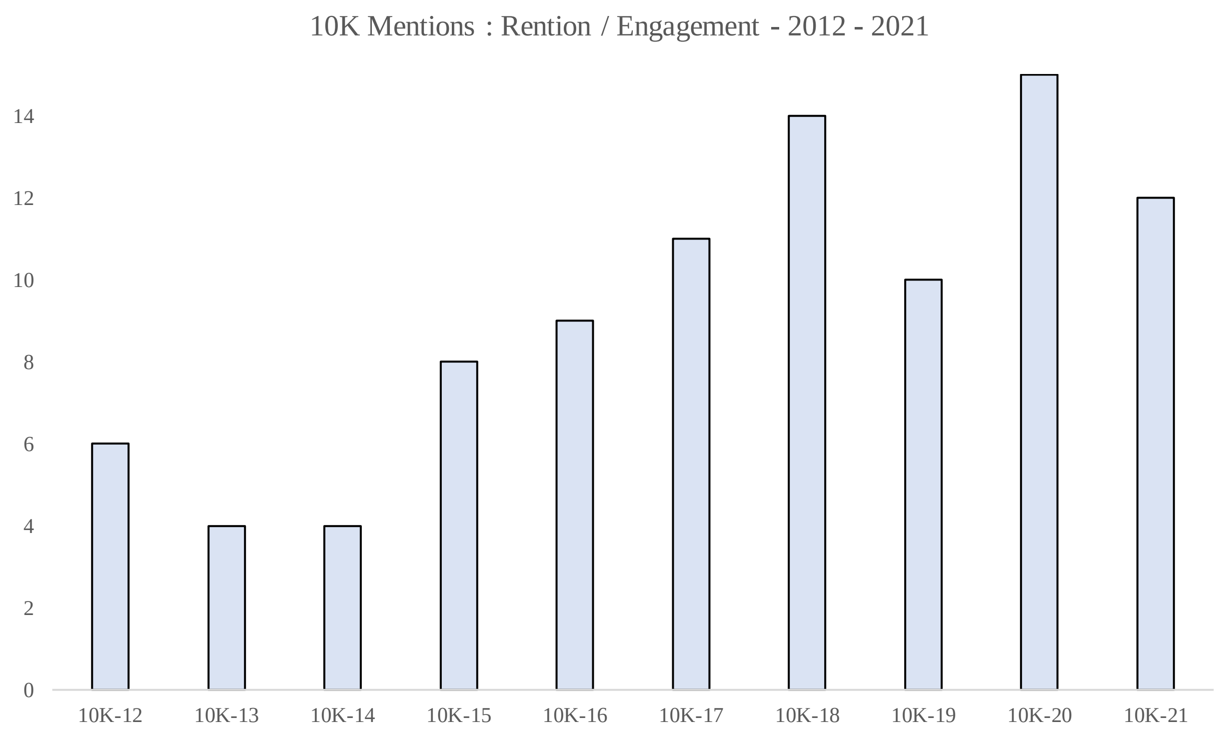
Source: Company Reports, GORA Calculations

NYT has two strategies for achieving higher ARPUs. First, in graduating promotional rate subscribers, through to intermediate rates. Second, enticing existing standalone single product subscribers to purchase a Bundle product. The generalist expects increased churn at either of these two points, however this misunderstands the dynamics of promotional pricing.

NYT first began graduating subscribers through intermediate rates by a simple A | B test, but moved to a model by which subscribers are graduated at differing rates based on usage. This has resulted in securing higher sARPUs at reduced churn rates. sARPU uplift from Q4-20 against strong net subscriber adds in 2020, likely on promotional rates, seeks to confirm this. Management reports and our research identifies improved momentum in Bundle conversion in H1-22. However, teasing this out of the financial statements is difficult given the distortive effect of lower priced standalone Games additions related to the Q1-22 acquisition of Wordle.

We know industrywide, there is a favorable inverse relationship between subscription price and churn. This relationship holds both in transitioning subscribers from promotional to full rates, and discretely in respect of full priced rates. Free trial subscribers retain poorly, systematic review of industry literature suggests ~25%, implying churn at ~75%. However, paid trials retain far better ~80% implying churn at ~20%, in line with what our research suggests NYT achieves.

Further, we know there exists a positive industrywide relationship between promotional rate trial length and retention. Counterintuitively, this relationship holds across multi-year promotional rate trial periods. Case studies provided in the International News Media Association's (INMA) white paper on promotional rates give retention differentials as high as 43-percentage-points after 30-months comparing short-dated trails to two-year promotional rate trials. This goes someway to validate NYT's strategy of migrating subscribers through intermediate rates after the initial 12-month promotional rate period, converging to a fully priced rate after an extended period.



Source: Company Reports, GORA Calculations

Given NYT product divisions' resource base data insights, we maintain there exists optionality to further deploy bespoke pricing to micro-audiences based on targeted audience segmentation. INMA case studies detail publishers running >100 different pricing tiers, and one with 305. Pricing tiers are composed cross-sectionally based on usage metrics and off-platform characteristics such as age, occupation, region among other 'soft-factors'.

In examining, long-standing subscribers on static rates, WAN-IFRA's 2021 World Press Trends report finds consumers paying in excess of $32 monthly, retain annually at >75%. Although subscriptions priced at >$32pcm likely include print subscriptions and specialist periodicals, which retain at higher rates than digital subscribers at an annual differential of ~5.2%.

Full-priced subscribers in NYT's digital bundle price bucket retain annually at ~72% industry-wide. Our qualitative research suggests NYT's digital-only retention is higher than the ~72% industry retention rate and >83% in H1-22. Since, WAN-IFRAs data include those subscribers paying fully priced subscriptions in each bucket, it likely skews to higher retention as buckets are overweight long-term consumers with propensity to pay only in that given bucket. Hence, NYT's position is even more enviable than a comparison on this basis would suggest.

We conceive of potential mid-term price raises on static subscribers as similar in effect to transitioning subscribers through promotional rates. Our systematic review of industry literature informs this view. CLVs are very sticky, with many consumers identifying personally with their source of news media. In this way, we view longstanding readership relationships as similar to how consumers view cigarette or liquor brands. We view perceived quality and engagement as primary factors in determining retention through price rises. Hence, success in executing a quality flywheel strategy entails pricing power in the later-stage of subscription driven growth. We infer that our view aligns with management here.

As we see it, the pursuit of higher sARPUs through pricing power, presents only a near-term risk to churn. With price rises likely to reduce mid-term churn, as NYT effectively selects for the higher sARPU subscribers it wants. Q2-22 sARPU implies 1 full priced subscriber for ~1.7 lower rate subscribers, inclusive of Lifestyle and promotional rate subscriptions, *see* – Growth Prospects – Bundling & Digital ARPU.

Our research holds in the near-term, NYT can churn up to ~15% above the lower bound of industrywide retention rates without a material effect on y/y revenue growth, provided retained subscribers were successfully graduated to fully priced digital Bundle subscriptions. Such, we hold there is substantial cushioning to top-line subscription revenue in respect of mid-term ARPU paths.

We identify continued improvement in retention through H1-22, in line with product quality. Continued product quality will prove supportive to continued strength in retention above industry levels, and we underwrite mid-term ARPU expansion above consensus, crediting success in Bundling, and on the basis of informed near-term churn indifference.

Bundling & Digital ARPU

Pending successful execution of the bundling strategy, there is significant scope for digital ARPU upside [8]. Digital sARPU expansion will flow through at attractive incremental EBIT margins given NYT's largely fixed cost base.

We estimate drag on sARPU from promotional rates across single and multiproduct subscribers at an implied average quarterly loss per subscription of $12.84. This corresponds to a > 900 bps drag incremental EBIT margin in the quarter (Q2-22).

	NYT Group		The Athletic	
Q2-22	sARPU	aARPU	sARPU	aARPU
NYT Company Digital ARPU	***$10.15***	***$3.06***	***$3.09***	***$0.46***
NYT Company sARPU (incl. churn in period)	***$14.10***			
NYT Company aARPU	***$3.52***			
GORA Calculated Digital sARPU (incl. churn in period) *Monthly*	***$14.10***			
Implied average loss per subscription *quarterly*	***$12.84***			
Total Digital-only Subscriptions	***9.81***			

Source: Company Reports, GORA Calculations

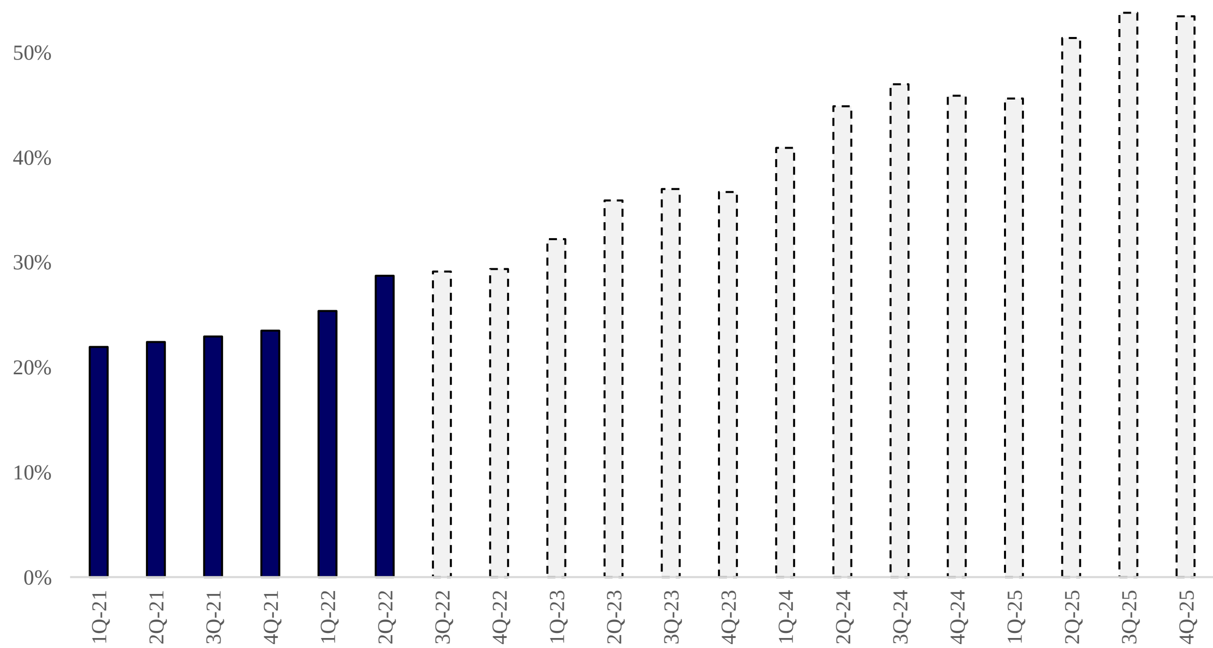
Digital multiproduct subscribers, includes both, digital bundle subscribers, and digital subscribers holding multiple standalone subscriptions. These digital multiproduct subscribers account for < 25% of outstanding digital subscriptions at Q2-22. When thinking in terms of incremental sARPU contributions, a matrix proves useful.

Incremental subscriber additions (m)	**0.25**	**0.50**	**1.00**	**1.25**	**1.50**	**2.00**
Digital basic - *promotional*	$12	$24	$48	$60	$72	$96
Digital bundle - *promotional*	$18	$36	$72	$90	$108	$144
Q2-22 sARPU	$30	$61	$122	$152	$183	$244
Q2-22 *sARPU - excl. Promotional drag*	$42	$85	$169	$212	$254	$338
Digital basic - *full rate*	$51	$102	$204	$255	$306	$408
Digital bundle - *full rate*	$75	$150	$300	$375	$450	$600

Source: GORA Calculations

[8] We distinguish between print and digital ARPU, where management use 'ARPU' when speaking in terms of digital ARPU. Digital ARPU to the company is composed of digital subscription and advertising ARPU, which we label digital sARPU and aARPU respectively. We decompose digital ARPU by segment. Company digital ARPU is reported as a monthly metric and we also calculate it as such in respect of segments and revenue lines. Digital aARPU is a function of subscriber growth, prevailing market rates and long-term integrated deals, *see* – Growth Prospects – Digital Advertising as a Mid-term Growth Driver.

NYT Digital multi-product Subscribers as % of Digital Subscribers



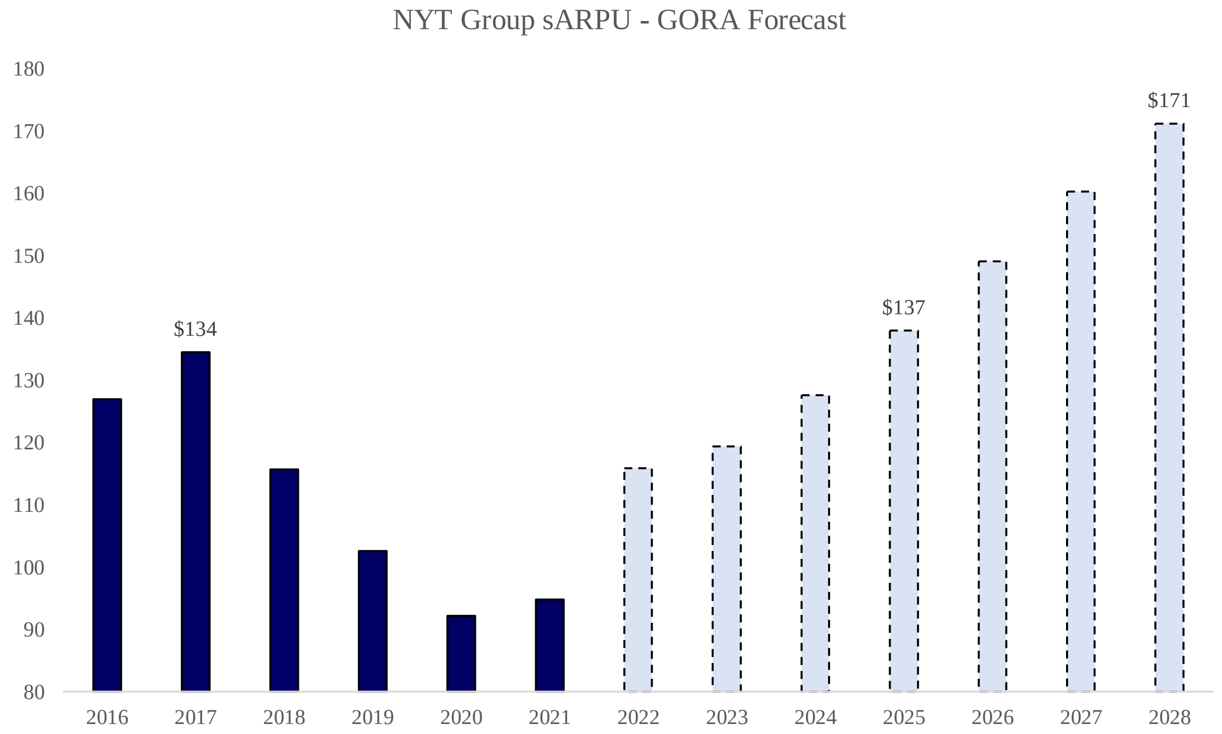
Source: Company Reports, GORA Calculations

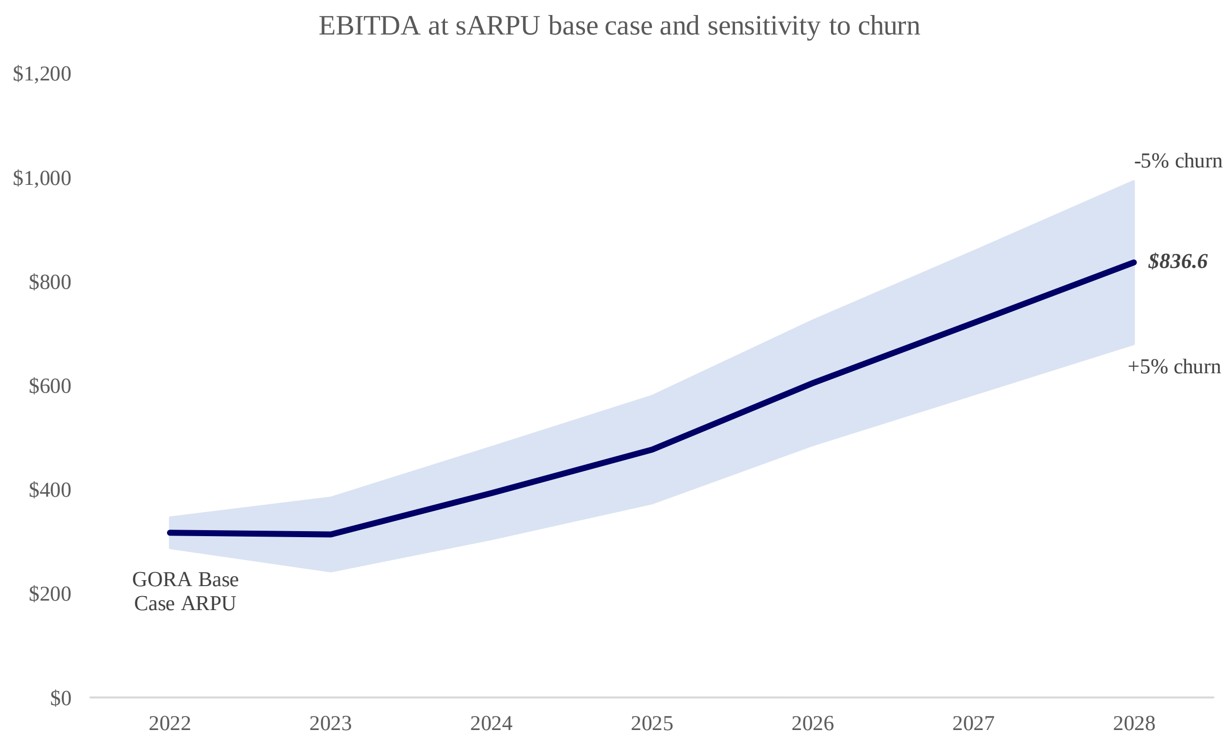
In turn, it is possible to recover implied discrete quarterly bundling for existing subscribers Q2-21 to Q2-22 and we can draw forward implied sARPU paths inclusive of promotional rates for different levels of bundling as a share of outstanding subscriptions. Consequently, we have much improved visibility into sARPU paths and potential margin expansion than can be extracted from NYT's reporting by unfocused work on the idea.

	2021	**2022 E**	**2023 E**	**2024 E**	**2025 E**
% Full Priced Subscribers	*49%*	*58%*	*60%*	*61%*	*> 61%*

	Q1-21	**Q2-21**	**Q3-21**	**Q4-21**
Implied Churn	23.1%	21.8%	22.5%	23.2%
	Q1-22	**Q2-22**	**Q3-22 E**	**Q4-22 E**
Implied Churn	17.3%	14.7%	16.3%	17.5%

Sources: Company Reports, GORA Calculations & Estimates





Source: Company Reports, GORA Calculations

Role of the News Cycle

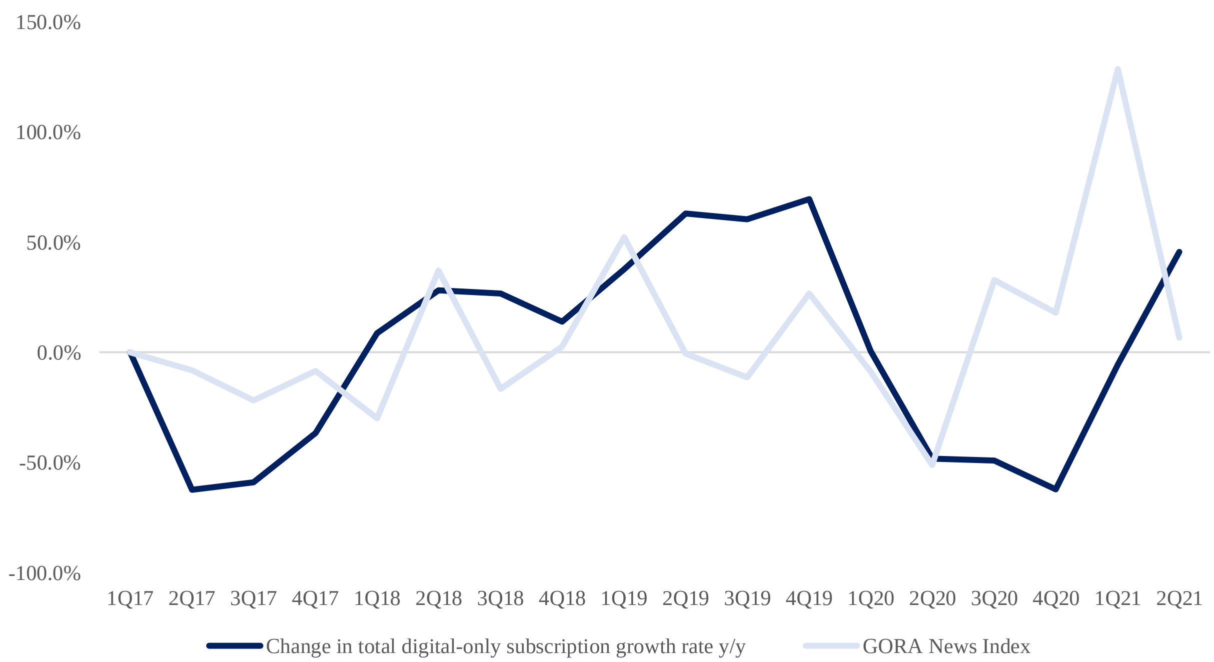
News media has benefitted from a strong news cycle in the past 6-years. Historically, subscriber acquisition has closely tracked the news cycle, and the market sees a slowdown in news intensity as a downside risk to subscriber adds and retention. However, this fails to identify the resilience management have built into NYT's product portfolio.

As discussed in **Durable Competitive Advantage – Quality Flywheel**, NYT is increasingly moving beyond the news cycle and determining engagement and retention on its own terms, with particular strength in retention of existing subscribers. NYT's Lifestyle products such as T Magazine, Cooking, Games and Wirecutter, alongside The Athletic, tend to this, and compete for different consumer timeshare and mindshare than the core news product.

Historically, subscriber acquisition has closely tracked the news cycle. and we contend the news cycle remains important in drawing new users into NYT's top-level funnels. However, the new subscriber reach of off-platform experiences such as 'The Daily', and organic distribution via personal networks, is increasingly acyclical. We hold a similar effect extends also to long-term registered users who are not subscribed; with NYT able to leverage ecosystem control to push curated current content to the users' registered email address, independently of the news cycle.

Our analysis of historic web traffic shows a contraction in our imputed visit ratio, tied to a larger than normal share of incremental unique visitors during periods of high news intensity. Combined with average changes in average visit times around peaks in the news cycle, this is consistent with our view that increasingly the news cycle will prove more important in determining new user and long-term registered user engagement over existing subscriber engagement.

Whilst, the news cycle remains important in drawing new users into NYT's top-level funnels, NYT is moving beyond the news cycle, determining engagement and retention on its own terms. We hold continued acyclical ARPU expansion as indicative of strong retention, validating our view.



Source: Company Reports, GORA Calculations

Print : Hiding in Plain Sight

Conventional thinking is that digital editions and online news websites are a substitute for print news. By this view, newspapers cannibalize print demand in pursuit of a digital first product with differing economics and an untested strategy. However, this narrative misunderstands the consumer and leads to the generalist missing the print business hiding in plain sight.

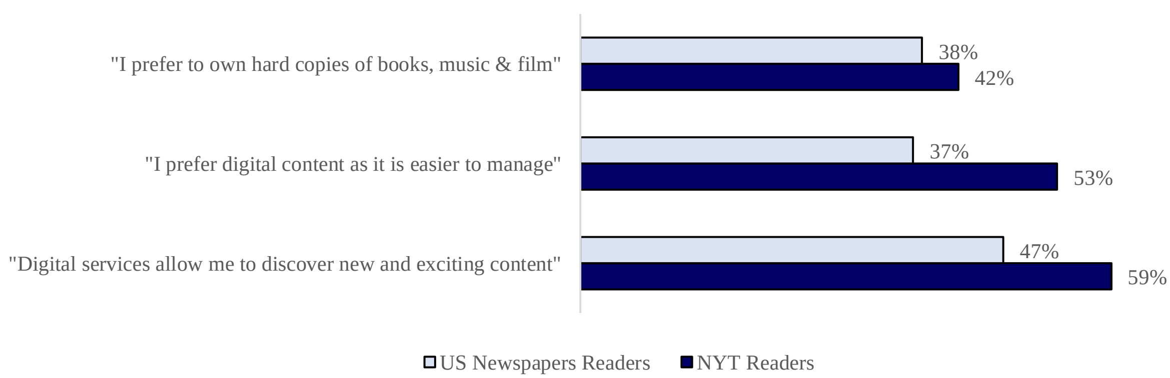
"Newspapers are cannibalizing themselves"

— Frederick Searby, JP Morgan, *quoted in* NYTimes.com (2005)

Early iterations of digital news products were 'shovelware', - simple digital repackaging of print stories. As is intuitive, the more 'shovelware-like' the digital companion, the more readily substitutable it is. However, through developing a differentiated digital product portfolio, print and digital products are better viewed as complements.

Our systematic review of the existing theoretical and empirical research suggest, that relative product positioning and audience characteristics are key to determining substitutability of print products. We also find greater dispersion in rates of 'cannibalization' among magazines than news media, favoring specialist publications with longer-content lifespan. We believe NYT has been successful in positioning print and digital offerings as complements, whilst extending the lifespan of material to create a 'magazine-like' digital experience for readers, in line with our framework of duality in news story-life span. *See* – The Changing Economics of Print Media and Durable Competitive Advantage – Quality Flywheel.

The average Times reader is relatively more affluent, metropolitan and disposed to engage online. Similarly, the Times draws on a comparatively deeper base of readers under 40. *See* – Understanding The Times' Audience. Digital products are presented as differentiated offerings, through engaging multi-format digital canvases. Meanwhile, the Times print Bundle offering, which includes complete access to all online products, effectively impels print subscribers, many of whom are long-standing, to view NYT's products as complements.



Source: Statista Global Consumer Survey

NYT's digital product portfolio may also have a weak effect on single copy news demand both during peak news intensity, and through intermittent sampling of the print product by digital-only users. The digital product increases brand awareness which tracks to increased single copy sales during high news intensity. We note the reported number of US adults who 'read' the Times weekly in print has tracked up from 6% to 10% (2014-2021), despite falling print subscriptions.

As discussed in – The Changing Economics of News Media, in the traditional print model, advertising revenues subsidized low circulation sticker prices. We propose a model by which print subscribers effectively subsidize digital only subscribers.

With the cost of journalism fixed, the only cost to the Times in providing the physical paper at the margin, is the incremental cost of print production and distribution. But, print advertising attracts materially higher rates, such print subscribers generate >5x the ARPU of digital subscribers. Meanwhile, our complement model holds we should expect a fully engaged print bundle subscriber to generate additional digital impressions and in turn, advertising revenues. As such the likely true ARPU of a full priced print bundle subscriber is greater than can be backed out of financial statements.

"We had a print newsroom with a few digital people, they'd make a wonderful print newspaper out of which they could get a website … my notion was it's … exactly the opposite of that … we want to make a great smartphone news product, out of which we can get a website and then we can curate a great physical paper.."

— Mark Thompson, *formerly* CEO, New York Times Company

Q1-22	GORA Imputed Subscription ARPU ($)	GORA Imputed Advertising ARPU ($)	ARPU ($)
Print (incl. Single Copy)	58.03	19.68	77.71
Digital (incl. Lifestyle & The Athletic)	11.94	3.27	15.21

Source: Company Reports, GORA Calculations

	2018	2019	2020	2021	Q1-22
Production Costs (Digital & Print) ($m)	**654.2**	**706.4**	**682.0**	**710.9**	**206.4**
Pre-2020 Reporting	A	A	**E**	**E**	**E**
Print Subscription Revenue (incl. Single Copy) ($m)	**642.0**	**623.4**	**597.1**	**588.2**	**145.2**
Print Advertising Revenue ($m)	**299.38**	**270.2**	**163.8**	**188.92**	**49.3**

Source: Company Reports, GORA Estimates

Our view here is underscored by former-CEO Mark Thompson's 2019 comments in conversation with Lydia Polgreen then Editor-in-Chief at the Huffington Post, and formerly Editorial Director at NYT Global.

"[We are] able to use our wonderful print product and the cash it throws off as an internal investment bank to pour into both content and engineering."

— Mark Thompson, *formerly* CEO, New York Times Company

What likely exists in NYT's printing operations is a business achieving 50% gross margins. Our view here is informed by the gross margins achieved over a 14-year period from the launch of NYTimes.com in 1996, to NYT's shift to a subscription based digital first model in 2011, with 2010 representing the last year digital content was not 'paywalled'. For much of its early life, NYTimes.com content was mostly 'shovelware', hence we assume the significantly larger share of production costs are attributable to printing operations and print journalism production. We guide down our present gross margin assumption from historic levels to account for diminished returns to decreased scale.

NYT Gross Margin

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
48.2%	*55.0%*	*53.8%*	*56.3%*	*56.7%*	*53.8%*	*56.1%*	*55.7%*	*55.5%*	*56.8%*	*56.4%*	*58.0%*	*55.4%*	*58.2%*	*59.3%*

Dow Jones 2021 Paid Print Circulation (000)	National	North East Region (incl. NYC)	NYC Metro Area
Wall Street Journal - *Daily*	810.1	132.0	86.5
	A	A	A
Wall Street Journal Magazine - *Weekly*	810.1	132.0	86.5
Distributed in WSJ Weekend Edition	A	A	A
Barons - *Monthly*	220.0	35.8	23.5
	A	***E***	***E***

Source: Company Reports, NewsCorp, GORA Estimates

Adding back net-income from NYT's commercial printing activities, is an effective subsidy, and partially offsets decreased returns to diminished scale, giving potential for further margin expansion. Third-party commercial printing is largely attributable to Dow Jones publications' NYC circulation, beginning in FY-21and increasing in H1-22.

Historically, general circulation print prices have exhibited significant stickiness. Newsstand sales data from 1953-1979 suggests that publishers allowed the real prices to fall up to 25% before making price adjustments. This is attributable to the high frequency nature of newsstand sales, and the desire to price in round increments; - the US consumer has not needed pennies to pay for major national newspapers for over 50-years. Given the increasingly elastic demand of advertisers due to the ready availability of substitutes and superior targeted offerings, this now offers an unattractive combination for traditional print businesses.

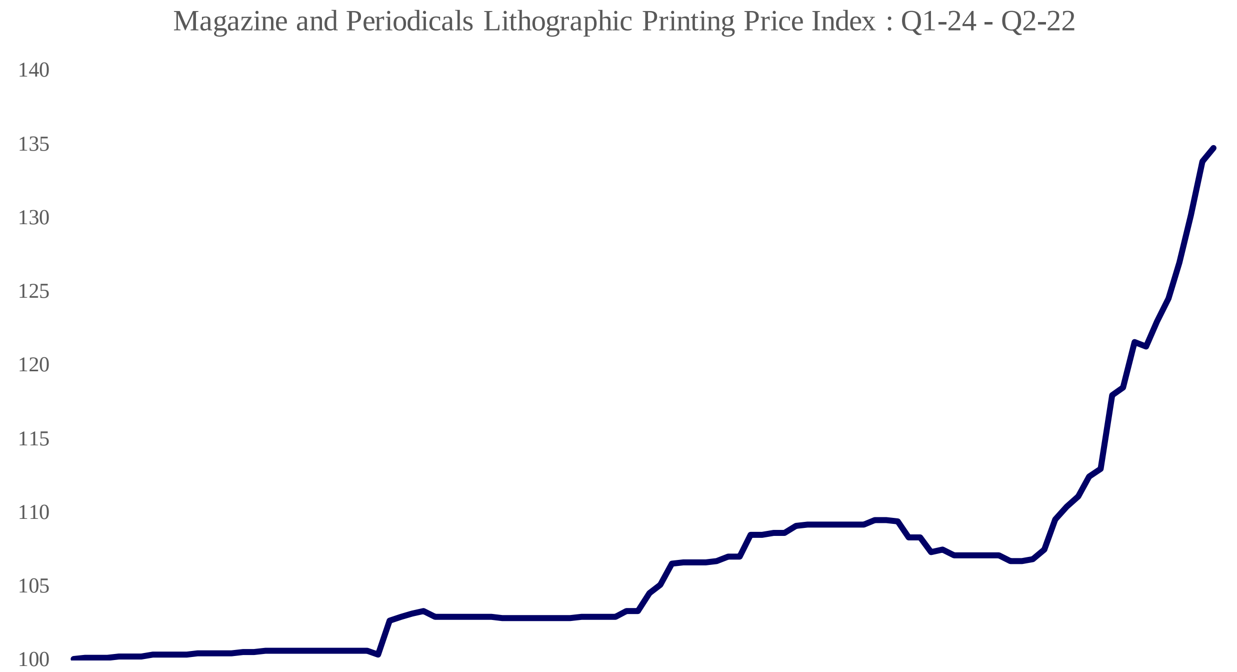
By successfully transitioning readers into a bundled subscription product with access to NYT's digital product portfolio, NYT is better able to exert pricing power than through newsstand sales. This has manifested in three successive price rises for home-delivery subscriptions, Q1-16 (6%), Q1-19 (6%) and Q1-21 (13%).

Underlying the print operations are an attractive asset base, which effectively backstop the print business in the event of a shutdown. College Point facility is the superior strategic printing asset in the NYC metro area, and remains the only facility globally owned by the Times. Operational from 1997, it consolidated operations from Times Square (closed 1997) and Edison, NJ (closed 2008). Combined with a skilled workforce, and plant, College Point affords NYT considerable optionality to expand third party commercial printing operations to offset further diminished scale in its own print news business.

Pandemic related falls in demand for printed media resulted in the destruction of many smaller printing operations. Our conversations with print brokers, suggest the Pandemic resulted in permanent plant closures of as much as 10-15% of global printing operations. 2022 management surveys gives 67% of US publishers plan to divest in their print operations[9]. Against a backdrop of increasingly constrained wood pulp and newsprint supply, rates on third-party printing have continued to rise

[9] WAN-IFRA World Press Trends 2022

sharply. We use the magazine and periodicals lithographic printing index for illustrative purposes over the broad commercial printing index, as research informs it better represents the trajectory of rates on future third-party deals.



Source: FRED, GORA Calculations

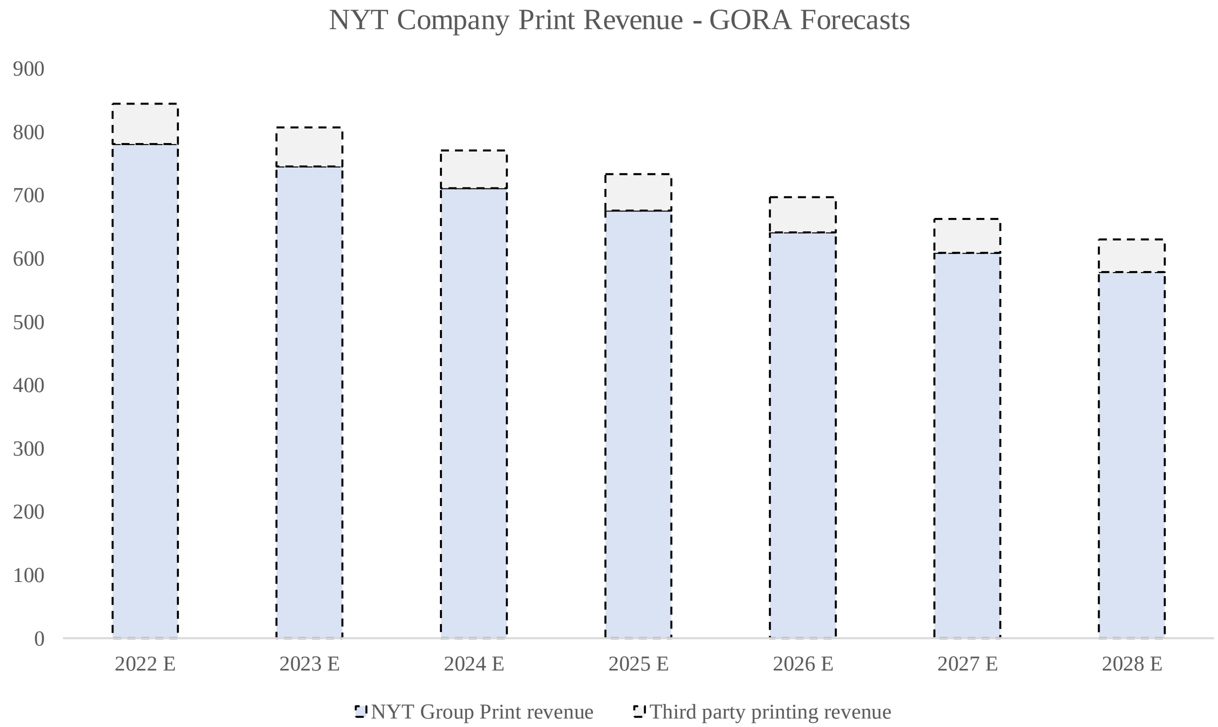
Q2-22 NYT completed $34.5m sale of a 3.5-acre plot adjacent to College Point, which proves illustrative as to the freehold land value. The property is M1-1 zoned, permitting construction of commercial office and retail, industrial, medical or community facilities, granting the freeholder considerable optionality. Given its location at the Whitestone Expressway and Linden Place intersection, with ~3200ft (after Q2-22 sale) of frontage along the Whitestone Expressway users are afforded visibility and access to nearby highways and LGA. These unique attributes would likely prove further supportive of realizable value on sale.

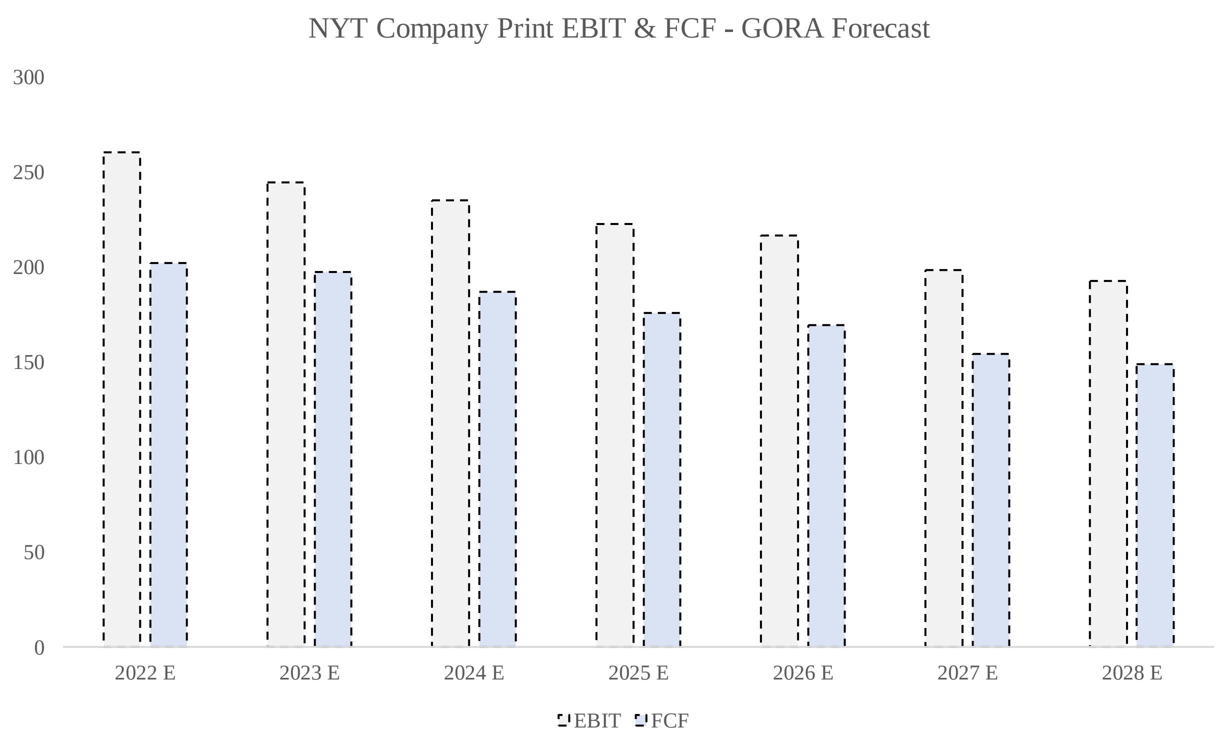
"As far as getting nearly 4-acres of land for industrial use, it's highly unusual to identify a property like that and especially very close to transportation and expressways ... The great part about having a piece of land this rare, we are approaching everyone."

— Stephen Preuss, *formerly of* Cushman & Wakefield *commenting on* Q2-22 land sale

Despite the natural first pass expectations, the print business is not a terminally declining business weighing on AOP. Rather, it remains an attractive cash generative business delivering ~$1bn of free cash flow on probable ~25% EBIT margins through to 2028, exclusive of any commercial printing activities. Upside optionality exists in more frequent incremental price rises than by a general circulation print model. Meanwhile College Point backstops the value of the print business in the event of any shutdown decision.

Risks related to increased production costs as a function of rising newsprint stock and fuel, and secondly to an increased rate in the deterioration of print advertising rates with associated downward pressure on ARPU premia are sources of potential offset. *See* Risks – Increased Print Production Costs and Risks – Increased Deterioration in Print Advertising Rates.





Source: GORA Estimates

Growth Prospects – Digital Advertising as a Mid-Term Growth Driver

In old-economy print models, all else equal, advertisers favor higher circulation, in part linked to the pass-along multiplier, *see* – The Changing Economics of News Media. It is not clear whether the inverse is true, that readers prefer publications with more advertising. However, it follows readers should be relatively indifferent, since there is no trade-off between content quantity or quality, and advertising. Similarly, the cost to readers is negligible since readers can leaf-over advertisements. For the two-sided market business model to holds both in print and digital, it follows readers must at least be indifferent to advertising.

Our systematic review of academic research gives that readers' attitudes towards advertising vary by country. However, we find that readers *broadly* appreciate advertising. This effect is strongest in publications where advertising aligns closely with content, such as for Lifestyle or specialist publications. The effect is also strong, where advertising is perceived as informative. NYT's own Wirecutter product is the most brazen example of this, with affiliate marketing embedded into informative product recommendations.

Advertising rates in news media both in print and digitally are determined in large part by age and relative affluence. For digital rates, we also propose an additional factor, tied to the propensity for readers to 'multi-home' their news consumption. This view is supported in theoretical literature, and by generalizing empirical research on advertiser behavior across from broadcast advertising markets.

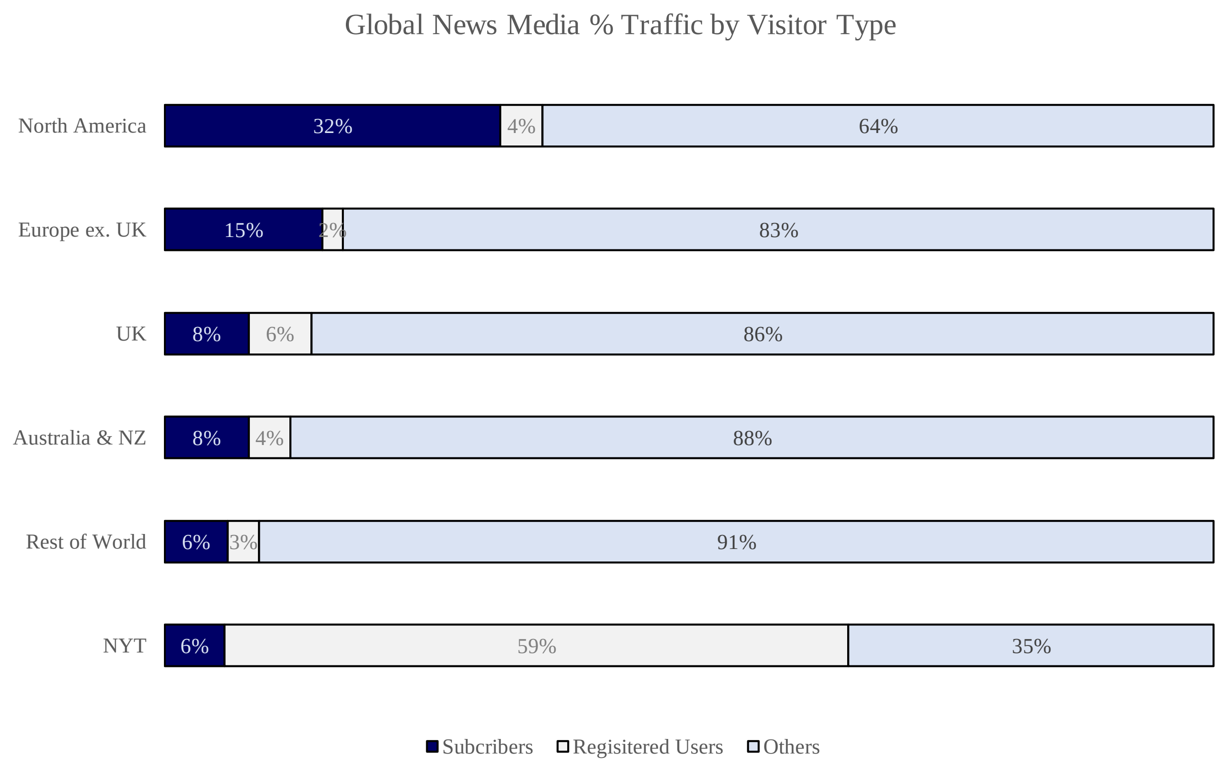
Despite growing from less than 20% of total advertising expenditure globally to >55% 2010 – H1-22, digital advertising has assumed a deflationary trend over period. This fact is largely driven by efficiencies delivered by programmatic buying, now accounting for >62% of digital advertisements sold. NYT's own business tracks to trend. Whilst, digital advertising revenue constituted 22% of total advertising revenue in 2011, and 62% by 2022, $ digital advertising revenue per digital subscriber (aARPU) fell by more than 4x 2014-2021.

Management hold digital advertising revenue as a mid-term growth driver in spite of current macro headwinds. As a base case, we broadly support this view, although remain sanguine, and propose digital advertising only as a modest mid-term growth driver, underwriting it from a subscriber growth perspective. Print declines provide a partial offset.

In a post-GDPR context, digital news media publishers are reliant on proprietary first-party data to support advertising products. As such, publishers need to understand not just their subscriber base, but also their reach.

NYT was an early adopter of the metered-paywall, by which users could access a limited number of articles before being compelled to register to view more content. Consequently, NYT has been aggregating 'registered users' alongside subscribers, with these 'registered users' delivering incremental digital advertising revenues. NYT currently counts >100m registered users globally. The advantage of NYT's early move into a metered-paywall model is clear when we consider how NYT's registered user base compares to peers.

Growth in NYT's product portfolio drives increased subscriber growth and engagement. Increasing engagement is supportive to first-party data collection on subscribers, with frequency and session duration as outcomes are tied to NYT's quality flywheel. As such, successful execution of management's ongoing strategy will prove supportive to advertising revenues as a function of subscriber growth. Further, NYT's bundled offering and strategic focus on creating daily habitual engagement, we expected a greater rate of 'single-homing' readers than peers, which should prove further supportive, both to ad-rates in the near term and long-term rates as a function of superior data.



Source: Press Gazette & GORA Estimates

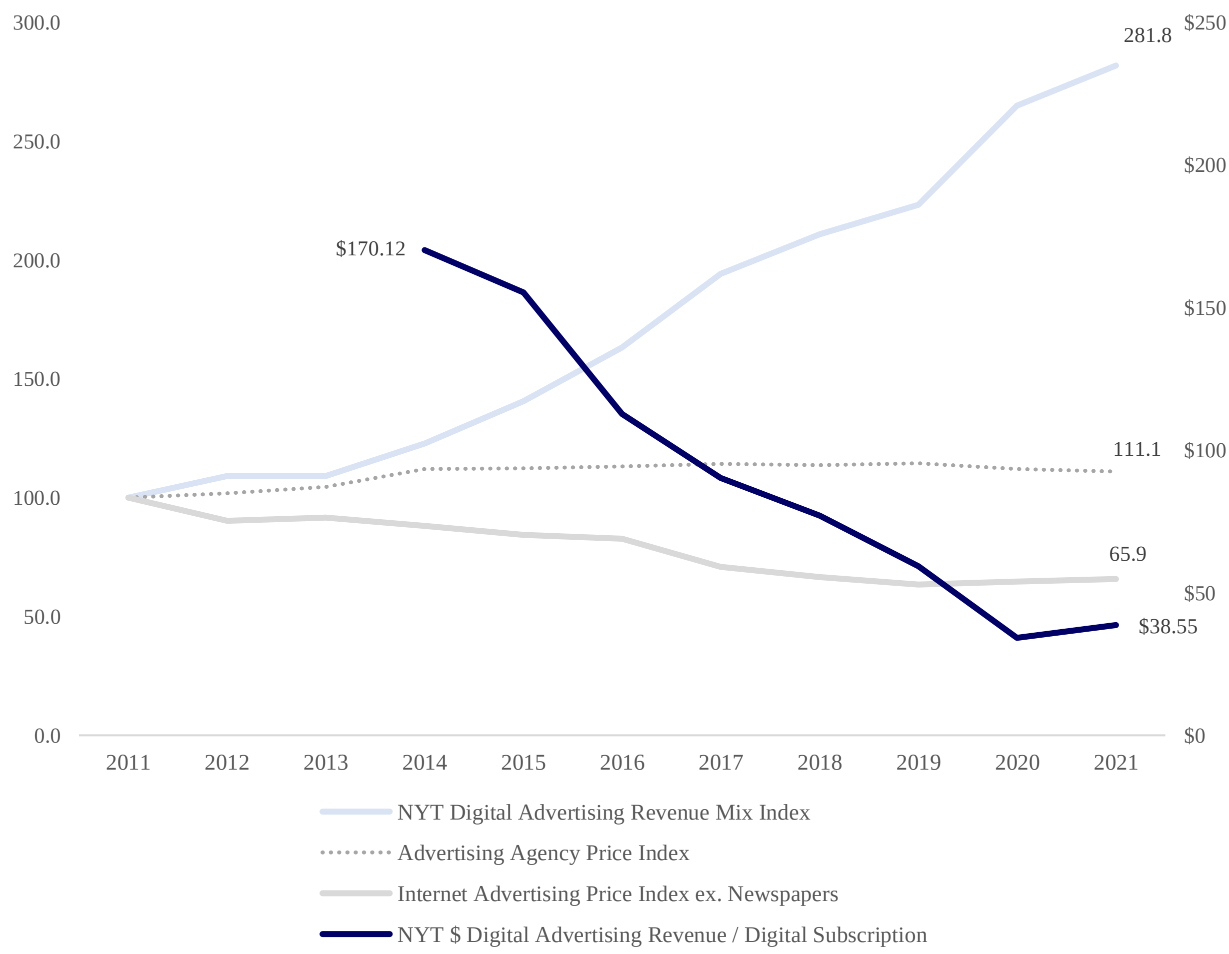
Since 2018, NYT has been strategically reducing the inventory it clears through open market programmatic auctions, instead pursuing deeper integrations. This serves as an attempt to reinstate the relationship between publishers and marketers as disrupted by the open-market auction system. If successful, this has the potential to deliver long-dated strategic partnerships, with stickier marketer relationships and higher value more predictable revenues. The merits of such a strategy are hard to asses given Pandemic related disruptions to the advertising market and its relative uniqueness. However, the 2018 Google Cloud partnership, may provide an early illustration of the kind of projects NYT can support.

Optionality exists in the provision of agency and creative services, which bundle well with long-term partnerships, and offer a potential offset against declines in digital advertising rates. NYT's t-Brand studio offers among the most well-resourced content marketing studios of any traditional news media organization. However, this business remains pro-cyclical, and invites risks related to impaired brand trust, *see* – **Risks – Impairment of Trust in News Media – Native Advertising**.

We also believe there is optionality in NYT's audio and video journalism products, given their reach and the strength of the NYT brand. Currently, NYT's podcast catalogue is not monetized by advertising outside of the US. We view audio and video formats as increasing gross time spent consuming news media, rather than directly replacing time spent reading text based news. The Athletic brings with it an extensive podcast and video content catalogue, and long-runway for audio and video content creation, with podcasts tied to regular in-season reporting. For a further discussion on audio and video advertising, *see* – **Growth Prospects – Digital Advertising as a Mid Term Growth Driver**.

We expect near term weakness in the digital advertising market to flow through to advertising revenue, but is most detectable by digital-only advertising ARPU (aARPU), an imputed metric. Advertising rates in digital news media are determined in large part by age and relative affluence. Hence, NYT's relatively more affluent average subscriber and comparatively deeper base of readers under 40 provide some downside protection against a broad downturn in digital advertising rates. *See* – Understanding The Times' Audience.

Over the mid-term we expect softening aARPU to be more than offset by subscriber growth, delivering mid-term advertising revenue growth in the low single digits as a base case, inclusive of print declines. Potential for revenue upside relates to success in pursuing deeper brand integrations and the cross-selling of creative services, however the impact on the cost structure of the advertising business is difficult to quantify, and EBIT flow through hard to determine at this stage.



Source: Company Reports & FRED, GORA Calculations

Growth Prospects – Wirecutter

Wirecutter is a digital consumer guide acquired in Q4-16 (October) for $30m cash. Wirecutter was founded in September 2011 by technology writer Brian Lam, as an impartial technology focused 'buyers guide'. To maintain impartiality, Wirecutter was independent of manufacturers and monetized exclusively through Amazon affiliate links.

Before Wirecutter, Lam had an impressive track record of 'intrapreneurship' where as editor of Gizmodo, he grew monthly reach from ~2-3m to ~100m. Infamously, he 'came across' an early proto-type of the iPhone 4G resulting in a terse email exchange and panicked phone calls from then Apple CEO Steve Jobs seeking the handset's return.

In a 2011 interview with VentureBeat on founding Wirecutter, Lam said:

"I think the gadget news cycle is not very good at floating the best gear … the rumble of a large tech publication generally means a high noise to signal ratio – what the trolls call a slow news day. And in gadget land, almost every day is a slow news day."

— Brian Lam, *founder* Wirecutter

As operations expanded and post-acquisition, Wirecutter moved into adjacent categories. NYT's initial strategic restructuring of Wirecutter's operations sought to better align Wirecutter's audience with the core news product, resulting in the shelving of the Outdoors desk Q1-18 (March). Currently Wirecutter provides coverage of 18 product categories, including a relaunched Outdoors category. However, most popular categories include Tech, Home & Garden, Sleep, Kitchen, Appliances and a popular Deals category.

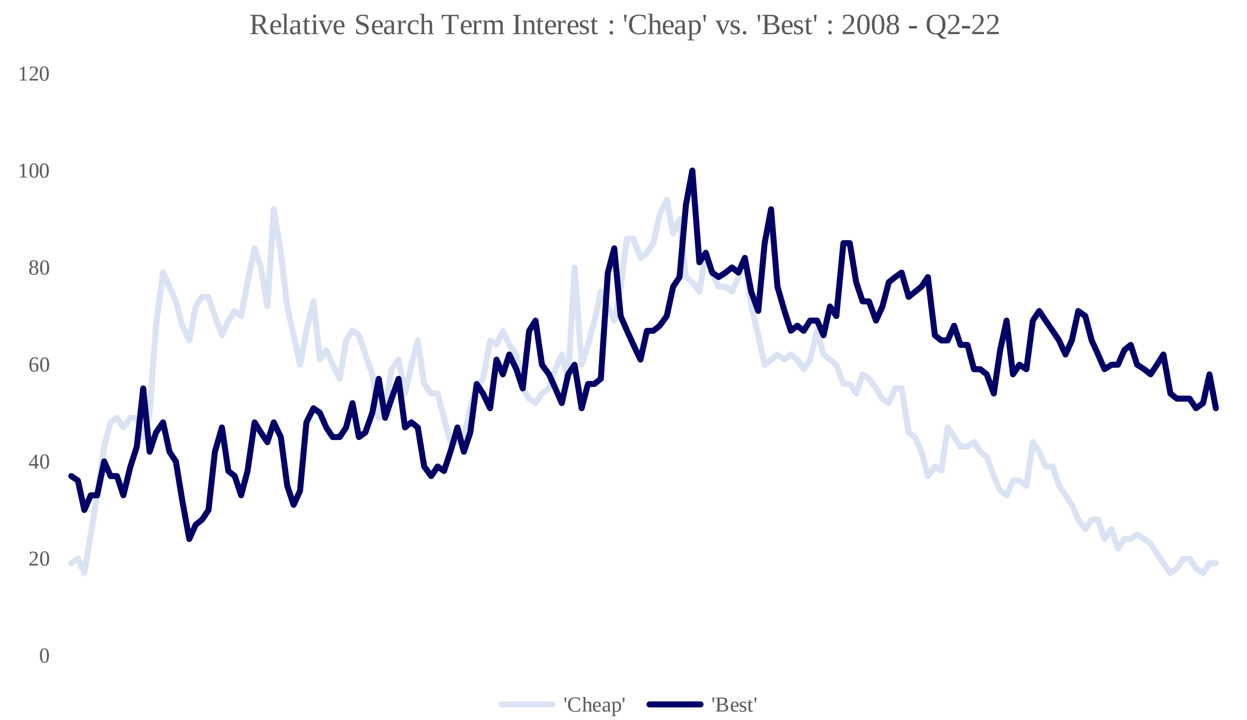
NYT successfully integrated Wirecutter into the Times' branded 'Smarter Living' supplement in 2018, and onto the homepage of the core digital news product NYTimes.com in 2020, driving increased traffic. NYT offers both standalone Wirecutter subscription, and access through its Bundled products.

Affiliate revenues remain as Wirecutter's primary revenue source, and constitute a large share of NYT's 'Other Digital' revenue disclosure line. Since the Wirecutter acquisition in 2016, Other Digital revenues posted an impressive 5-year CAGR 37.5%, constituting 5.4% of total revenues in 2021.

Two key trends associated with the rise of eCommerce are important in understanding the growth in Wirecutter over the period. eCommerce expanded the number of products per category available to consumers to the entire market. Consequently, purchases were no longer intermediated by the 'expertise' of knowledgeable shopfloor staff; most acutely felt by consumers shopping for high-ticket items such as electronics and home appliances. So, consumers increasingly turned to the internet for expertise and guidance beyond merely price comparison. Wirecutter, and similar products, were unequivocal beneficiaries, with 93% of consumers checking online reviews before making a high-ticker purchases in 2020.

Consumer guides long-predate the internet, with the scale of the category's most successful publication Consumer Reports, giving an indication of Wirecutter's potential audience, and a point of comparison.

Consumer Reports is an 86-year old not for profit consumer guide, serving a total of ~ 5.5-6m print and digital subscribers. CR has ~550 employees across editorial, product development and engineering, a large asset base inclusive a 327-acre auto testing facility in Colchester, CT, and an annual testing budget of ~$25m. The depth of CR's consumer base and extent of its operations clearly outline both the enduring appeal of consumer guides, and the potential for a well-executed digital product. Nevertheless, CR has struggled both to transition to a digital first model, with an ageing audience, and weaker-appeal among younger readers.



Source: Google Trends

The plurality of Consumer Reports readers are 65+ versus 30-50 for NYT. CR acquired consumerist.com in Q4-08, however synergies failed to materialize, and the property was shuttered in Q4-17 (October). Consequently CR's subscriber count has fallen more precipitously than other specialist publications in the period, which as a broad category have generally fared better than news media properties.

"The belief was we could adapt better than anyone else could … This was different. The old-fashioned media people didn't get [tablets]. They were completely ill-prepared for smartphones."

— Jeff Fox, *formerly* Technology Editor, Consumer Reports

Since acquisition Wirecutter has been growing at the expense of CR's strategic digital efforts. CR's focus on proprietary benchmarks and lab-test data is both expensive to produce, and less appealing to the average consumer. By contrast Wirecutter's recommendations are based on qualitative factors, and draw on existing consumer reviews on sites such as Amazon. In Wirecutter's view this more accurately represents the experience of the average user than an arbitrary benchmarked index score based on lab testing.

"We are really evaluating stuff, in general, from a usability standpoint."

— Jacqui Cheng, *formerly* Editor-in-Chief, Wirecutter & The Sweethome

Similarly, we contend Wirecutter's articles more closely resemble the research process of the average consumer, who will consult a range of sources beyond a single review. As such, we hold Wirecutter functions as a pseudo-aggregator, rather than producing reviews and 'best-buy' lists that will be aggregated elsewhere. With monetization determined by affiliate link conversions, success in retaining the reader through the research process is critical.

By effectively crowd-sourcing part of the research process, Wirecutter operates on comparable scale in terms of output per product category, but with 1/5th the headcount of CR. Further, Wirecutter effectively filters *pre-testing* the universe of reviewable iterations within a product category, whereas CR starts from the entire universe and tests all models. Consequently, Wirecutter's testing budget is substantially lower per category, in line with Wirecutter's comparatively lower cost of journalism.

CR is also active in automobile reviews, for which an outsized portion of CR's ~$25m annual testing budget is allocated. The category remains of little interest to Wirecutter since it is not monetizable by affiliate referral revenue. We view this as a competitive advantage. Auto reviews are highly competitive, with well established brands including CR. We believe there are higher synergies between NYT Lifestyle supplements and Wirecutter's current category coverage.

Wirecutter's affiliate referral business is an effective reconstruction of traditional news media two-sided markets, with articles constituting advertising that is monetized *ex-post*, as a function of conversion. The success of Wirecutter's content is closely linked to its perceived informativeness, the primary determinant of readers' relative taste for advertising, *see* – Growth Prospects – Digital Advertising as a Mid-term Growth Driver.

Relative search interest suggest Wirecutter has increasingly been taking digital share at CR's expense. We hold Wirecutter subscriptions function as an effective funnel into the NYT ecosystem in respect of first-year promotional rates.

	Wirecutter Standalone	Digital Bundle (Monthly)	Digital Bundle (Annual)
New York Times Bundle	$5.00	$4.00* / $17.00	$48.00* / $204.00
Consumer Reports		$10.00	$39.00

Source: Company Websites

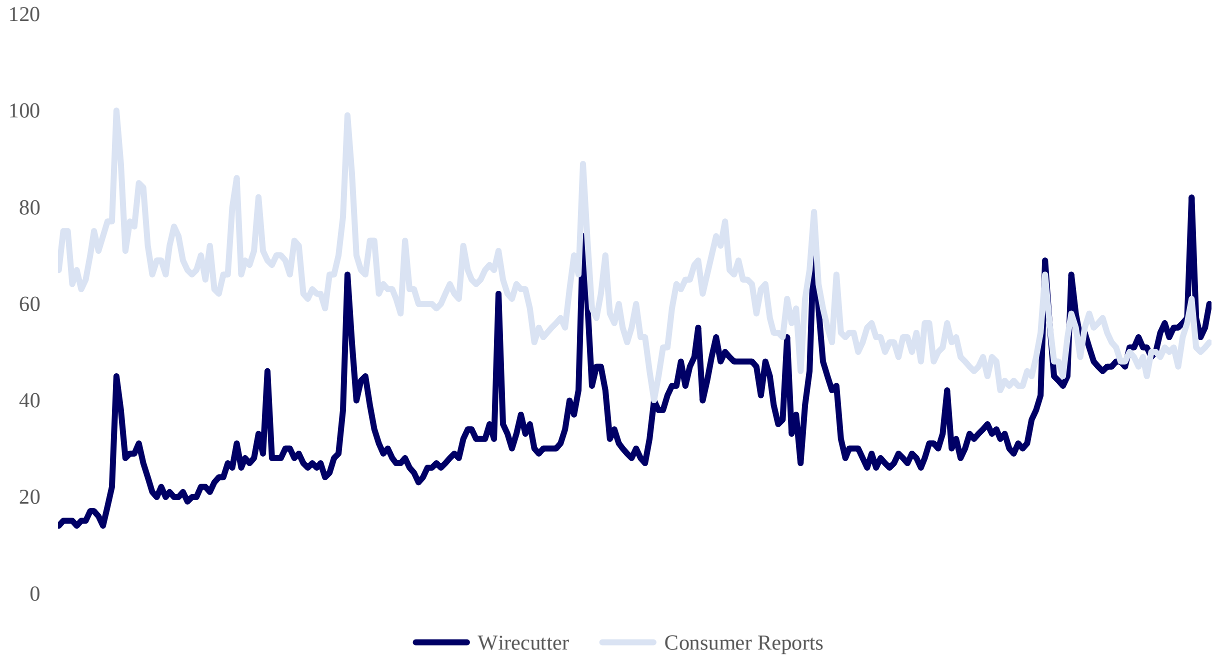
Wirecutter's reach compared to the core news product is overweight domestic US readers. Suggesting there exists upside affiliate revenue optionality even in leveraging international subscribers, as well as developing the standalone Wirecutter brand internationally. Continued integration of Wirecutter content into NYTimes.com, mobile app and newsletters is further supportive to total brand engagement time. As such, we expect increased traffic through affiliate links, as NYT's timeshare of individual daily internet usage is increased.

Additional optionality is found in licensing. Under this model manufacturers license the right to use Wirecutter reviews in marketing materials, *eg. 'Wirecutter's favorite' or 'Wirecutter recommended'*. Our research suggests in high-ticket categories such as autos, this can run as high as ~$300,000 per review per product. As a policy, CR does not license its reviews licensing revenue, suing when manufacturers have referenced a favorable CR review. Such, we view licensing as offering potential for increased brand recognition beyond revenue generation. We view the integration of 'Expert Recommendations' ribbon into Amazon's search result page as an early prototype of the model.

We underwrite continued growth in Wirecutter affiliate revenues, on the basis of strong standalone performance and as a function of subscriber growth. Digital other revenue growth is partially offset by other lines as reported in 'Other revenue', hence decomposing Other revenue into its components is useful. As a base case, we hold 15 - 30 bps of incremental EBIT contribution at the company level through to 2025. Upside optionality lies in success in developing the standalone Wirecutter brand outside the US.

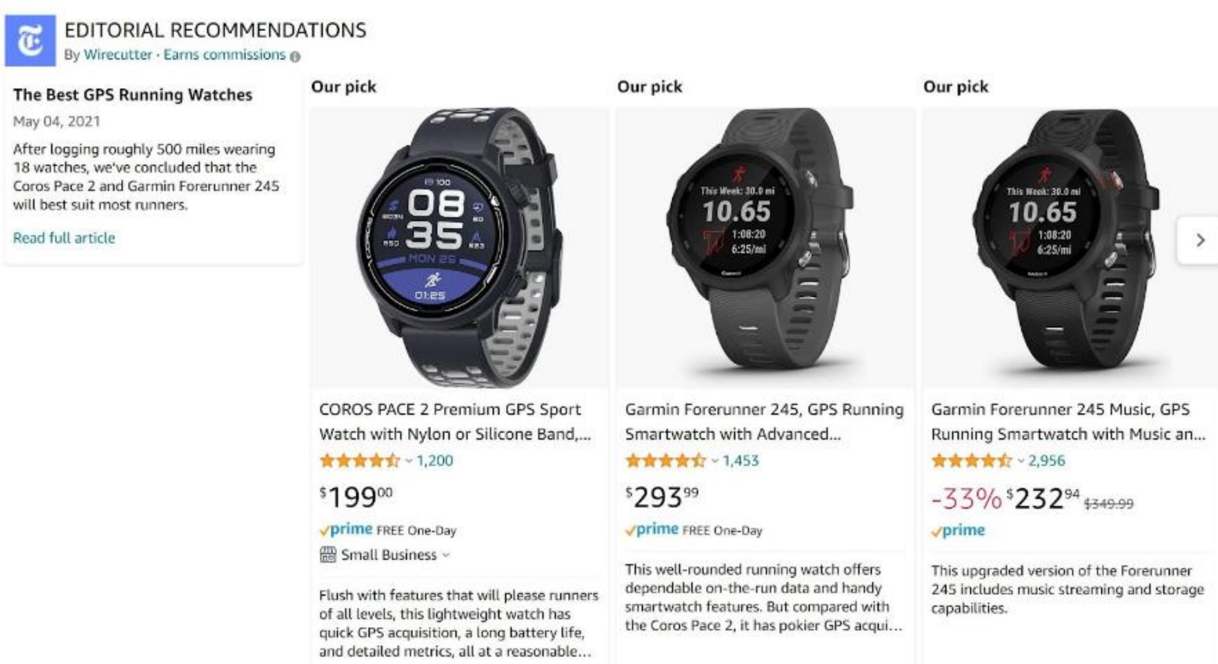
See also – Risks – Impairment of Trust in News Media – Wirecutter.

Relative Search Interest : Wirecutter vs. Consumer Reports : 2017 - Q2-22



Source: Google Trends

Amazon Expert Recommendations – Wirecutter Integrations

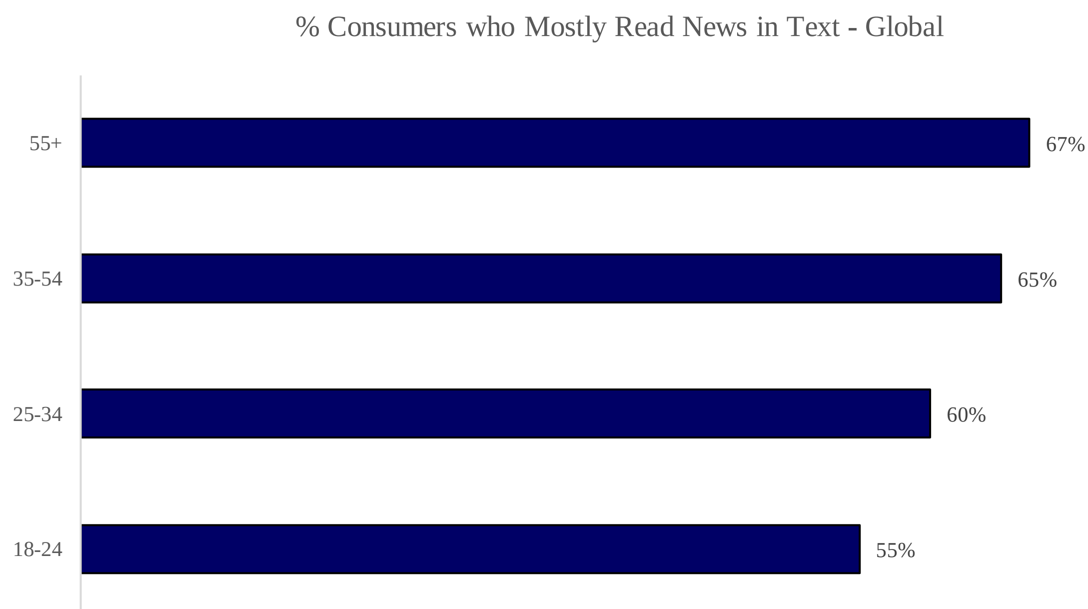


Source: Sellics

Growth Prospects – Audio & Video Journalism

In our view, video and audio journalism do not compete directly for timeshare and mindshare with text format news products.

Preference for text as the primary medium for news consumption remains strong globally, with variance between countries tracking to historic news consumption patterns and the prevalence of direct access. Increased consumption in audio and video content is better understood as growth *in spite*, not *instead*, of the popularity of text based news media. Prosaically, audio and video formats increase gross news media timeshare, rather than directly replacing time spent reading text based news. Such, we view audio and video content as both accretive to NYT's brand value, and as a revenue growth driver through advertising. Currently, NYT's podcasts are not monetized for many international listeners, inclusive of English speaking geographies such as UK, ANZ and S/SE Asia (HK, SG, India).

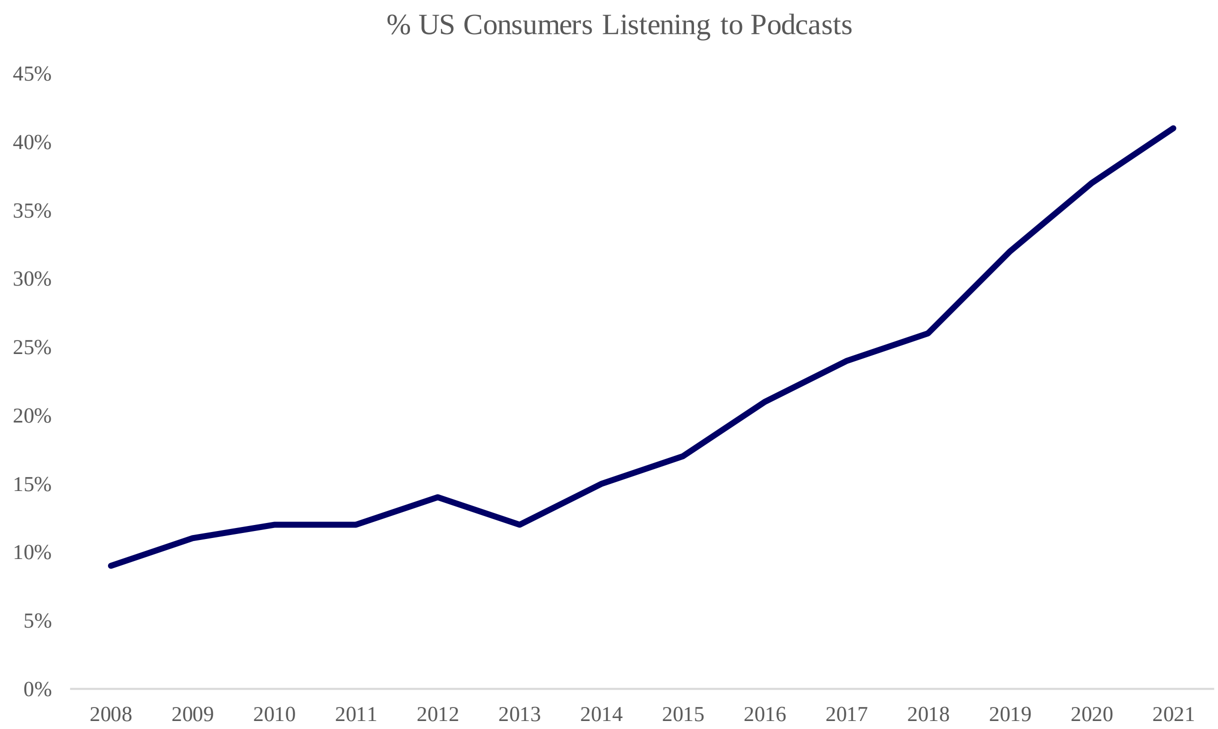


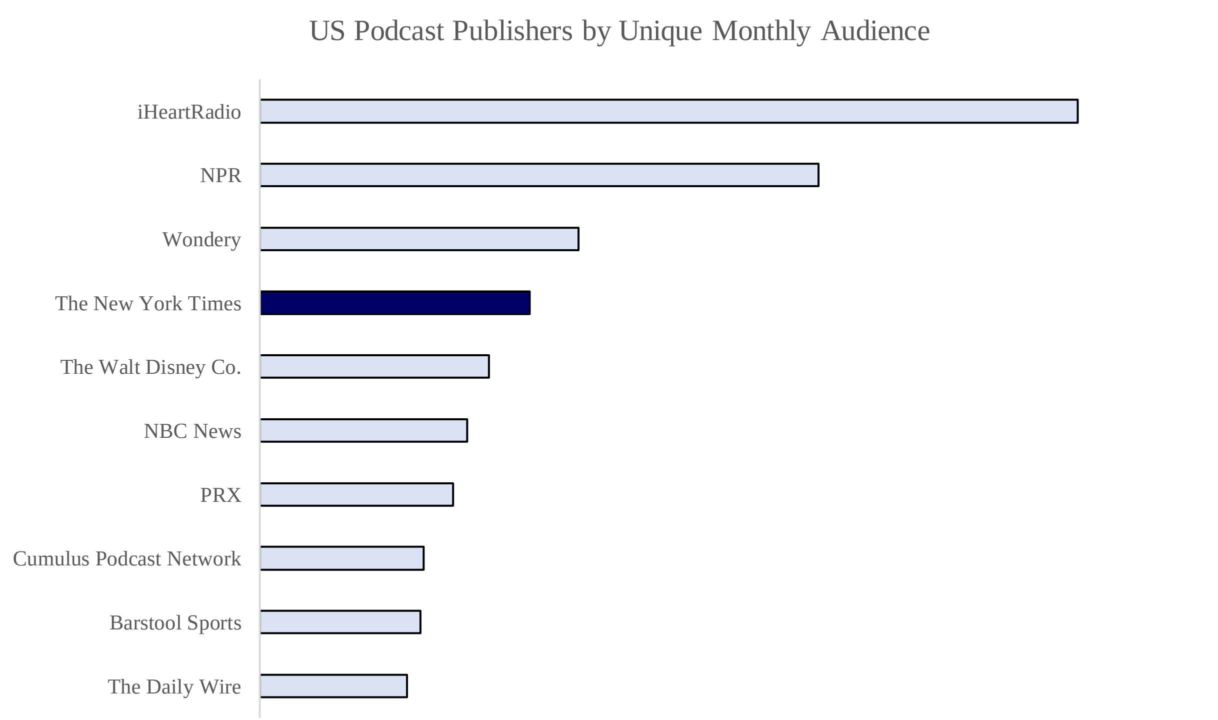
Source: Reuters Institute – University of Oxford

As off-platform experiences, we see audio and video content as accretive to top-level funnels, whilst increasingly '*perceived quality*' among existing subscribers, *see* – Durable Competitive Advantage – Quality Flywheel. Audio and video content are particularly useful in increasing NYT's reach among younger audiences.

Podcasts are the primary medium for audio journalism, and news, the second most popular podcast genre among US audiences. NYT is a major podcast publisher, with significant advantages over specialist publishers stemming from NYT's 'digital content' stack. NYT has continued to compound this advantage with acquisitions of Serial Productions and Audm in 2020.

Serial Productions is an award winning publisher specializing in investigative docuseries, and Audm provides read-aloud long-form news and magazine articles. Both Serial and Audm provide companion content to the Times brands' most popular pieces, underscoring the role of off-platform experiences in widening top-level funnels and enhancing '*perceived quality*'.





Source: Reuters Institute – University of Oxford, Pew Research Centre, Chartable

"One of the great achievements of The Daily has been to deeply engage… millions of millennials… for 20-plus minutes on smartphones … a new audience … and an extremely cash generative activity for us through advertising."

— Mark Thompson, *formerly* CEO, New York Times Company

The Daily Rankings	US : All Podcasts	US : News	UK : All Podcasts	UK : News
Apple Podcasts	***2nd***	***1st***	***40th***	***5th***
Spotify	***12th***	***1st***		***17th***

Source: Chartable

Of NYT's 12 active podcast feeds, The Daily is NYT's foremost property. The Daily was launched in 2017, with ~20-minute episodes released each weekday covering current stories published by the Times and interviews with staff journalists. NYT Opinion produces popular opinion and debate shows such as The Ezra Klein Show, First Person and The Argument. Across its properties, NYT Opinion's output in episode terms, is comparable to The Daily. NYT's Q2-20 (July) acquisition of Serial productions acquired unique domain expertise, as well as a popular podcast studio brand and established audience. More broadly, we note NYT is engaging a similar strategy in building out the audio division to the newsroom, acquiring top talent from existing audio studios.

"The Daily keeps expanding, the audience keeps growing ... as the audience grows, there's more high CPM advertising to sell… So I think audio will be something to watch in our ad business for some time to come.."

- Meredith Kopit Levien, CEO, New York Times Company

Credited team per episode

	Host	Producer	Editor	Research / Fact Checking	Composition & Sound Design	Engineering
The Daily	1	2 - 3	2	*	1 - 2	1
The Argument	1	2 - 3	2 - 3	2	1 - 2	1
Ezra Klein Show	1	2	2	1	1 - 3	1
First Person	1	1 - 2	1 - 2	1	1 - 3	1
Serial Productions	2 - 3	2 - 3	2 - 4	2 - 3	1 - 3	1 - 2

** at story reporting stage in Newsroom*

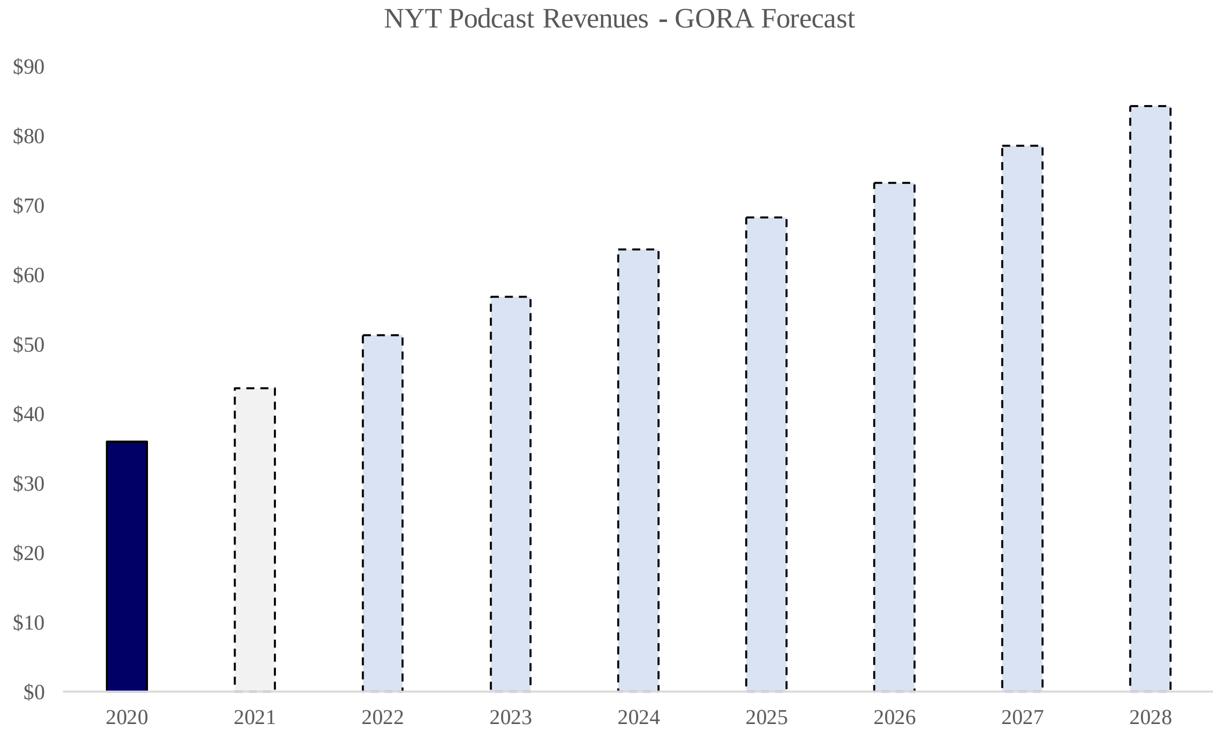
	Executives	The Daily	NYT Opinion	Serial Productions	Production Supervisors	Composition & Sound Design	Audio Engineers
NYT Audio Headcount	***9***	***18-22***	***18-22***	***10-15***	***3-5***	***4-6***	***4-6***

Source: LinkedIn, GORA Estimates

	WNYC	NPR	Gimlet	BBC	CBC	Wondery	Audible	APMG	This American Life
NYT Audio Hires	***11***	***9***	***8***	***5***	***2***	***2***	***2***	***2***	***2***

Source: LinkedIn

Currently, NYT's podcasts are not monetized outside of the US. With 141.5m streams and downloads globally in July 2022, we hold to management's view that audio advertising is a promising revenue driver, with uplift provided upon execution of international ad integration.



Source: Earnings Calls, GORA Estimates

The Daily and NYT Opinion's current affairs shows leverage off the fixed cost base of journalism production, drawing on newsroom reporting and interviewing the journalists covering the story on the show. As such, podcast revenue flows through at very attractive incremental EBIT margins.

	H1-22	2022	2023	2024	2025
Monthly Downloads & Streams - *Global*	141.5	147.7	161.0	173.9	185.2
CPM	$20.00	$20.00	$21.95	$22.71	$22.88
Incremental EBIT contribution		**185 bps**	**178 bps**	**175 bps**	**170 bps**

Source: Podtrac, LibSyn Advertisecast Marketplace, GORA Estimates

The Athletic brings an extensive podcast and video content catalogue, and long-runway for audio and video content creation, with podcasts tied to regular in-season reporting, and the TIFO football video properties with >1.2m subscribers.

NYT partnered with FX and Hulu to launch investigative docuseries 'The Weekly', now 'The New York Times' Presents, first airing in Q2-19 (June). Each episode premiered on FX, and was available to stream on Hulu for five weeks exclusively, before becoming available to NYT subscribers. Production was disrupted during the Pandemic year 2020, and distribution remains weak outside the US. As such, we attach greater uncertainty to the property, however view it as offering similar dynamics to NYT's podcast properties, pending continued development.

Whilst NYT enjoys ecosystem control over its text news given its ownership of the full 'digital content stack', the same is not true in respect of audio and video content. Such, we are encouraged by the development of New York Times Audio, NYT's proprietary audio platform. A beta version was made available in 2021, with roll-out scheduled for late 2022. Development of NYT Audio is led by Development Editor Zoe Murphy, formerly of the BBC. At present management do not intend to paywall the Audio app which will host NYT podcasts, as available elsewhere, and exclusive Audm content.

The UI resembles that of other popular audio streaming products. Three tabs, 'Today', 'Browse' and 'Following', sit beneath a mini-player bar and a content carousel. In addition to podcasts, the 'Today' tab acts like a feed with short-form content from the newsroom. Such short-form is clearly distinguishable from conventional news podcasting.

The 'Magazine Stand' section features Audm narrated content from licensee third-parties. As such, the Audio app holds to NYT's tested digital engagement strategy of playing to audience attention at both ends of story lifespan. Longer form pieces and the uploading of 25-years' worth of archived content from 'That American Life' and other historic Times brand audio content, aligns with a strategy of moving beyond the news cycle, *see* – Durable Competitive Advantage – Quality Flywheel.

Despite launching a product in the same category, it is not correct to view the Audio app as competing directly with major streaming services such as Spotify or Apple Music. Rather, we see Audio as a specific complement streaming service to a major podcast platform, in the same way, as the average US digital news subscriber holds two news subscriptions, one national and one local or specialist. A look to international podcast platform market share supports this view. In the UK, the BBC Sounds app, serving only BBC content is the leading podcast platform. In Australia and Germany, ABC and ARD Audiothek respectively, hold significant market share.

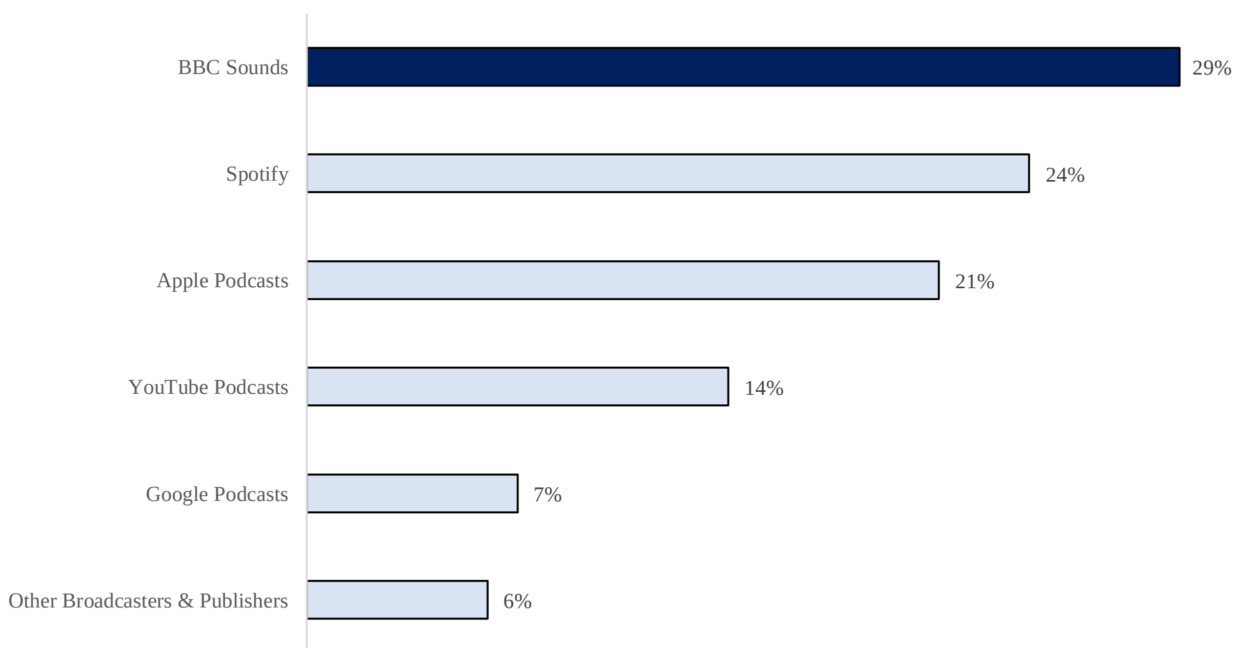
We underwrite continued growth in Other Revenues, on the basis of strong standalone performance and subscriber growth. Digital other revenue growth is partially offset by other lines as reported in 'Other revenue', hence decomposing Other revenue into its components is useful. As a base case, we hold 165–185 bps of incremental EBIT contribution through to 2025. Growth in audio downloads and streams above the rate of subscriber growth and monetization of international listeners offer upside optionality, with a potential partial offset from near-term decreases in CPM advertising rates.

Through 'Magazine Stand', we view the Audio app as offering nascent platform optionality, and an early iteration of a potential multi-format platform model, as discussed in Growth Adjacencies – Beyond the Sunday Edition.

Audm Licensee Publications

Source: Company Website

UK Podcast Platform Marketshare - 2021



Source: Reuters Institute – University of Oxford

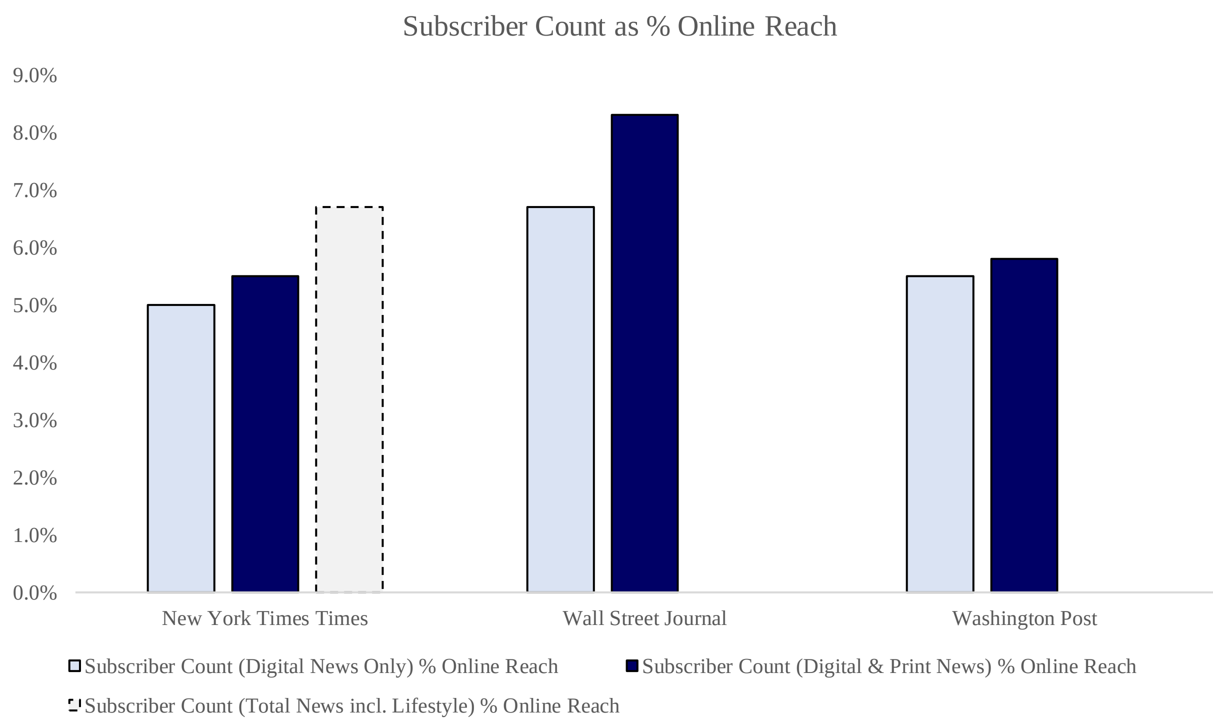
Addressable Market & Subscribers

Management identify a top-down TAM of ~135m. We impute a 'GORA realizable TAM' of ~55.25m. Given our view that Cooking and Games are better understood as complements to news subscriptions, rather than a source of substantial continued standalone subscriptions growth, our realizable TAM is constructed bottom-up in respect of the core news product; *see* – **Durable Competitive Advantage – Quality Flywheel**. Our realizable TAM includes -9.75m adjustment to account for sticky subscribers at adjacent domestic and international publications. H1-22 ~18% of subscribers were international, our TAM is exclusive of any international demand.

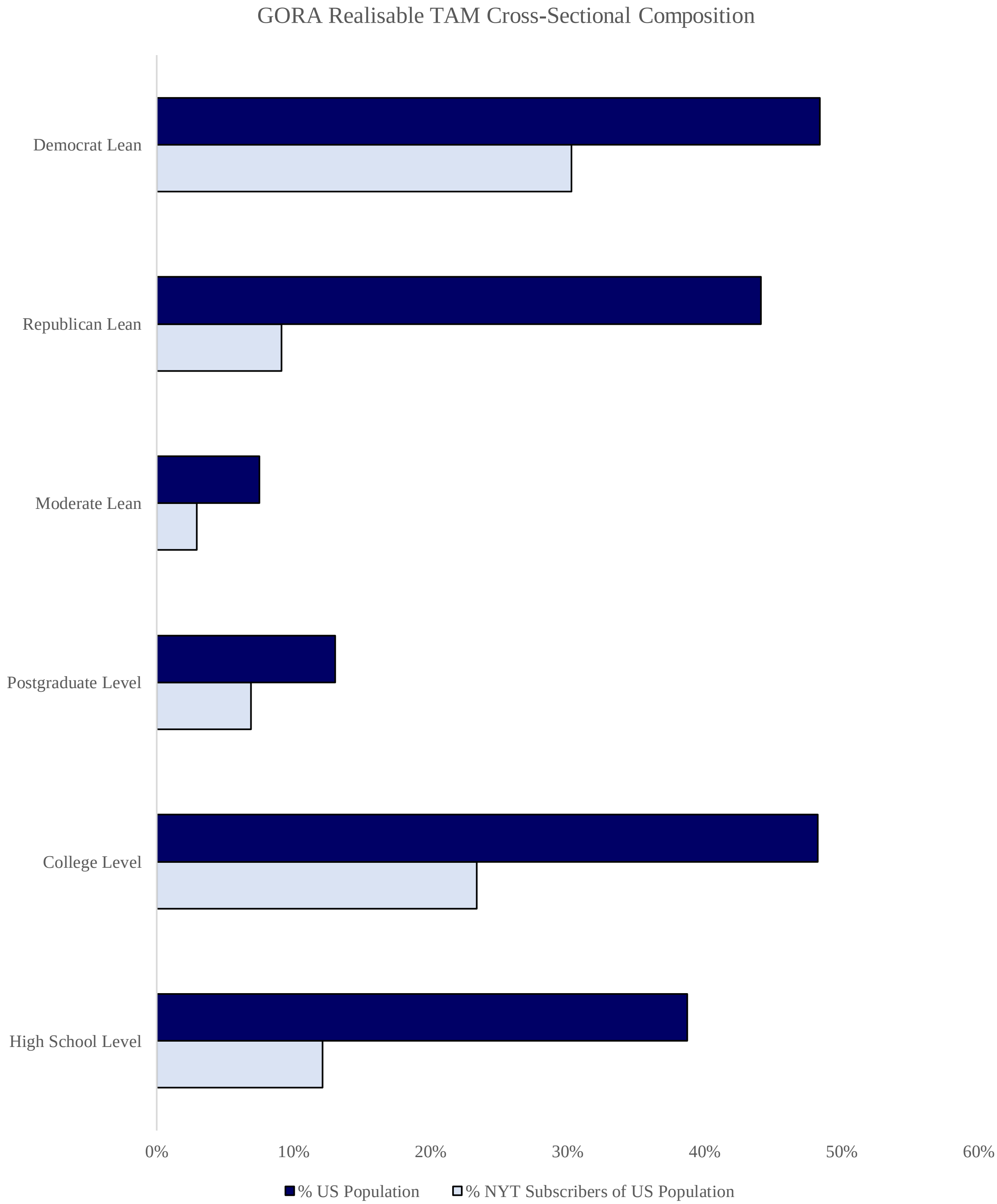
More simplistic analyses use the college educated population as a proxy. However, we view this as a weakness which overlooks political lean and its interaction with propensity to subscribe. As such, our realizable TAM is sensitive to changes in favorability among different user groups towards the Times brand, which in turn can vary with perceived partisanship and the prevailing public discourse, *see* – Risks – Impairment of Trust in News Media – Perceived Bias.

	New York Times	Wall Street Journal	Washington Post
AAM Recorded Reach (m)	136.0	43.5	64.9

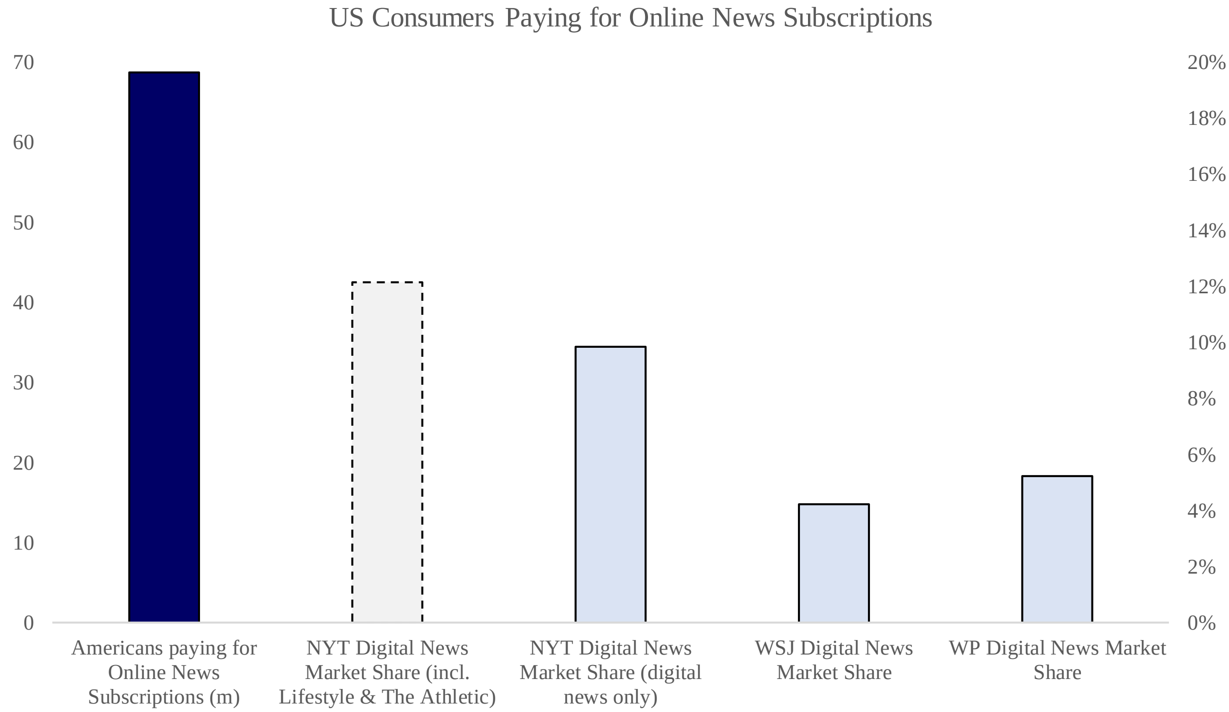
Source: Alliance for Audited Media

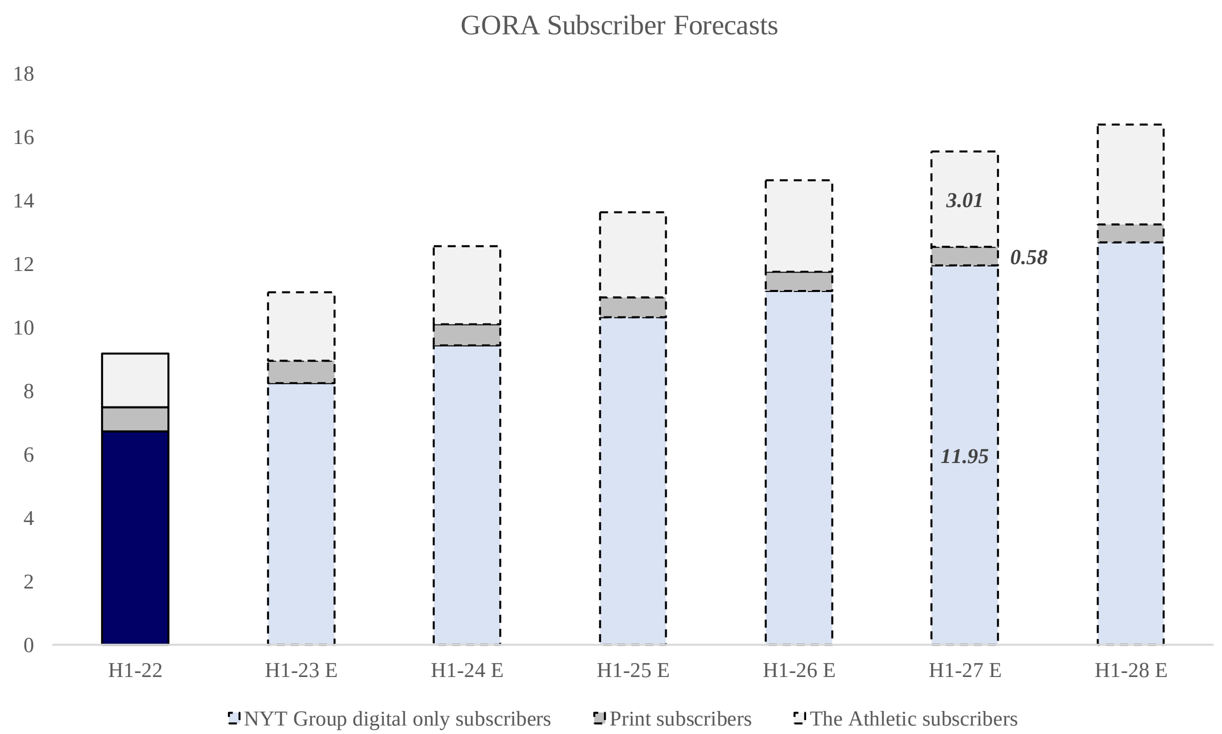


Sources: Company Reports & Reuters Institute – University of Oxford, GORA Calculations



Source: GORA Research





Sources: Reuters Institute – University of Oxford, Company Reports, GORA Calculations & GORA Estimates

Subscriber count as a percentage of online reach can also serve as an inferior proxy for TAM, whilst allowing for comparisons to US national peers. When comparing NYT's online reach to peers, it is important to question whether these comparisons imply headroom for further growth, or whether NYT is further along its growth curve; *see* – Fishing in a Small Pond – True Scale of Subscription News Market.

We identify strong underlying momentum, and improved retention metrics in H1-22. Such, we credit management's long-term target of 15m subscribers by 2027 end, and model NYT achieving 15m in early Q2-27. Management re-articulated this target at the Q2-22 (June) investor day. On current data, we hold this target as proportional to current momentum, albeit potentially conservative.

Notably, we hold print subscription declines as slowing sequentially from H1-26, identifying a residual base of sticky print subscribers, providing uplift to this target. *See* – Print : Hiding in Plain Sight.

NYT Group Subscriber Composition	**H1-22**	**H1-27 E**
Print Subscribers	***~ 10%***	***< 5%***
Digital multi-product subscribers[10]	***~ 25%***	***~ 61%***
Standalone digital news subscribers	***< 40%***	***~ 23%***
Standalone lifestyle product subscribers	***~ 25%***	***< 12%***

Source: GORA Calculations & Estimates

[10] Digital multi-product subscribers includes both Digital Bundle subscribers and subscribers holding multiple standalone subscriptions.

Growth Adjacencies – Beyond the Sunday Edition

As discussed, in Durable Competitive Advantage – Quality Flywheel, the digital-Bundle product is a digital reimaging of the Sunday print edition, where supplements added differentiated value through the breadth of content, and in effect tapped into dualities of story life-span and reader attention. NYT's Lifestyle products such as T Magazine, Cooking, Games and Wirecutter, alongside The Athletic, tend to this, and compete for different consumer timeshare and mindshare than the core news product.

Whilst this model engenders powerful ecosystem control, combining organic product development with acquisitions will ultimately prove balance sheet constrained. As a feature of the Bundling strategy, products are brought under the New York Times brand, and positioned as complement goods. Such, irrespective of growth in the product portfolio, NYT Company TAM remains a function of 'New York Times' brand TAM. Our view here informs our bottom-up TAM construction, *see* – Addressable Market & Subscribers.

Long-term a platform based strategy would allow for the aggregation of multiple brands across formats, genres and geographies, leading to an increased NYT Company TAM, whilst providing runway for long-term revenue growth tandem with Bundling. NYT's reach, operational scale and technology expertise render it better placed than any legacy news media publisher to execute on such a strategy.

The Washington Post currently had licensing arrangements with local publishers to distribute regional reporting. As such, there is both precedent and appetite for the two-sided market dynamics required to support a news media platform, beyond sub-stacked distribution deals with social medias. NYT's first moves would necessarily involve a re-platforming of current off-platform experiences. New York Times Audio, in beta testing, is an attempt to re-platform NYT Podcast listeners from major streaming services. We hold Audio is jointly a beta test of the platform model, distributing narrated stories from other publishers through Audm license deals. True platform dynamics would begin to manifest upon the complete multi-format integration of all NYT content, at which point aggregation of third-party content across segments of media would be possible.

A platform based strategy effectively trades a degree of ecosystem control for enhanced scalability. Typically, one would expect corresponding downward pressure on operating leverage. But, due to the '*winner takes more of most*' dynamics of news media, NYT may be able to negotiate more preferable deals with content creators than platform based businesses in other media categories such as SVOD and Music.

Acquisition of The Athletic

NYT acquired The Athletic in Q1-22 (January) for $550m (8.5x 2021 revenues) in an all cash deal. Management expect the acquisition to prove accretive to revenue growth, and near-term dilutive to operating profit at the company level, as management focus on subscriber growth and developing The Athletic's advertising business, guiding to ~$100m of cumulative losses over 3-years. Founders and key management are to remain in management roles.

Founded in Q1-16 (January) by Strava employees Alex Mather and Adam Hansmann, The Athletic ran a subscription first model with no explicit advertising. Mather had conceived of the idea 4-years prior in 2011, working as VP of Product Management & Design, and met Hansmann upon joining Strava's Business Operations team in 2014. The founders think of The Athletic's addressable market as serving existing devoted and aspirational 'super-fans', targeting a horizon subscriber count of 10m[11].

In the founders' view, The Athletic replaced what a sports fan could have received 20-years ago from a subscription to well-resourced sports desk at a local publisher and a subscription to a specialist periodical like Sports Illustrated. The Athletic has focused on recruiting top local sports desk talent to follow a single local team, such that when aggregated nationally The Athletic offers an unparalleled combination of depth and breadth, across multiple formats including audio and video. This includes general interest sports content through 'The Athletic Ink', 'Sports Business' and 'Culture' sections. Within our framework, The Athletic plays both sides of the new duality in news story lifespan, adding particular value in the long end of this duality with quality commentary driven pieces, *see* – The Changing Economics of News Media.

The US sports news market is more fragmented than other English speaking sports news markets. Most outlets focus on either a single team or a geographic area. For example, the Boston Sports Journal or DK Pittsburgh Sports, cover only professional and major college teams in their respective geographies. The Athletic's initial city-by-city expansion appeared similar, but was as much a function of a strategic focus on breakeven at the micro-scale, whilst driving continued growth by expansion at the corporate level.

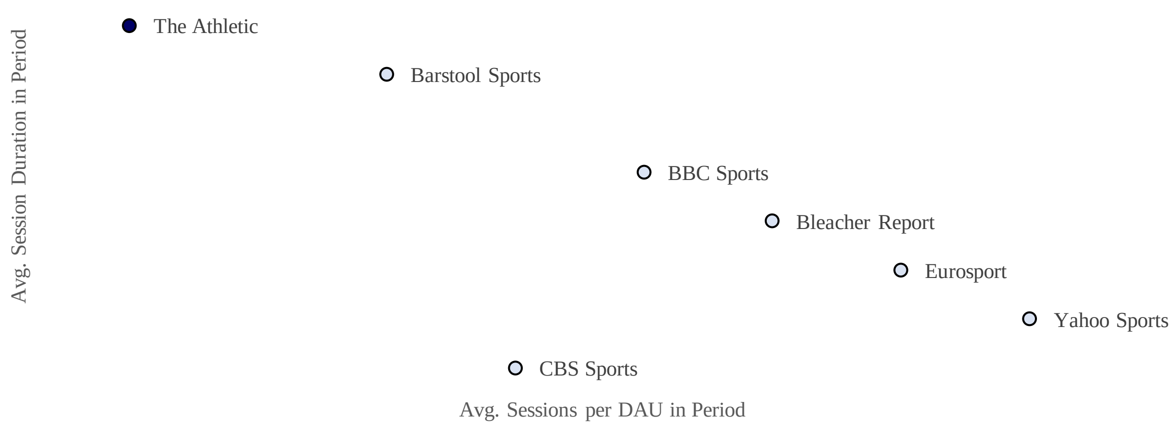
The founders identified three factors which underscored The Athletic's appeal. The first two broadly align with the ethos embedded in the core news product, that consumers appreciate good writing and reporting, and that consumers are willing to pay for content in which they have a deep interest. However, Mather and Hansmann believed their core reader had a distaste for advertisements, leading Mather to claim The Athletic would be free from explicit adds forever. This conflicts with NYT running ads on the property since Q3-22.

Third, is Mather and Hansmann's view that sports fans are more willing to pay for high quality sports coverage as a standalone product, than gain access to top local sports journalists via a local publication which bundles sports reporting and commentary with other news categories. Given NYT's strategy of bundling readers into their all access digital and print Bundles, this again appears dissonant.

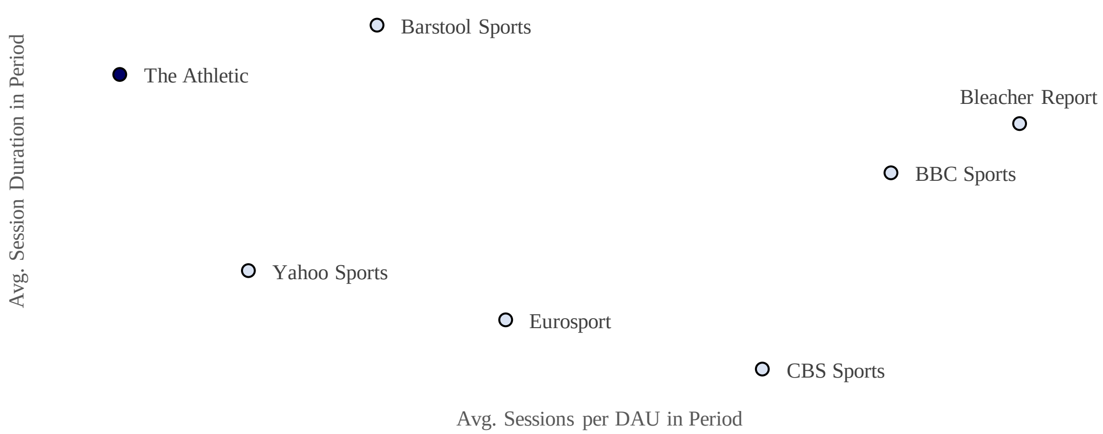
A look to iOS and Android app usage since acquisition bears out the founders view on the sports news market, and our view of The Athletic's positioning relative to the duality in story lifespan. In-app readers have the longest session duration among peers. With sports news apps often used to check live events, we view average session duration as a more instructive metric than sessions per DAU, in understanding The Athletic's perceived quality. Indeed, we note an inverse relationship between session duration and session count per DAU among US domestic and international sports news readers.

[11] Horizon TAM as of 2018

H1-22 : Combined Android & iOS Engagement Metrics - Global



H1-22 : Combined Android & iOS Engagement Metrics - US

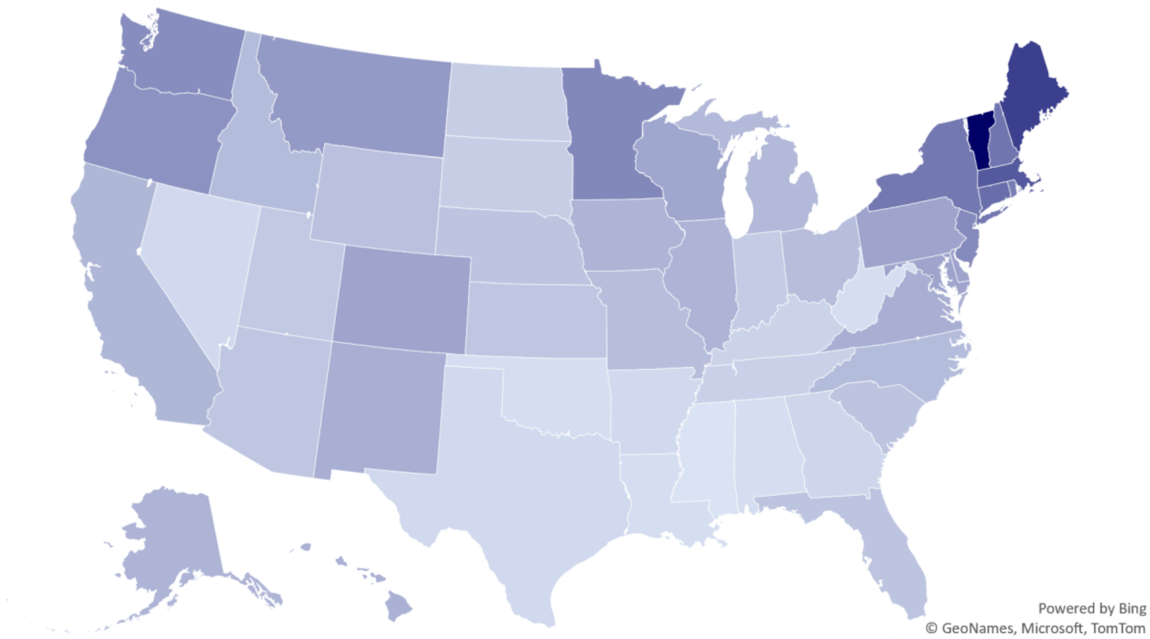


Source: Data.ai

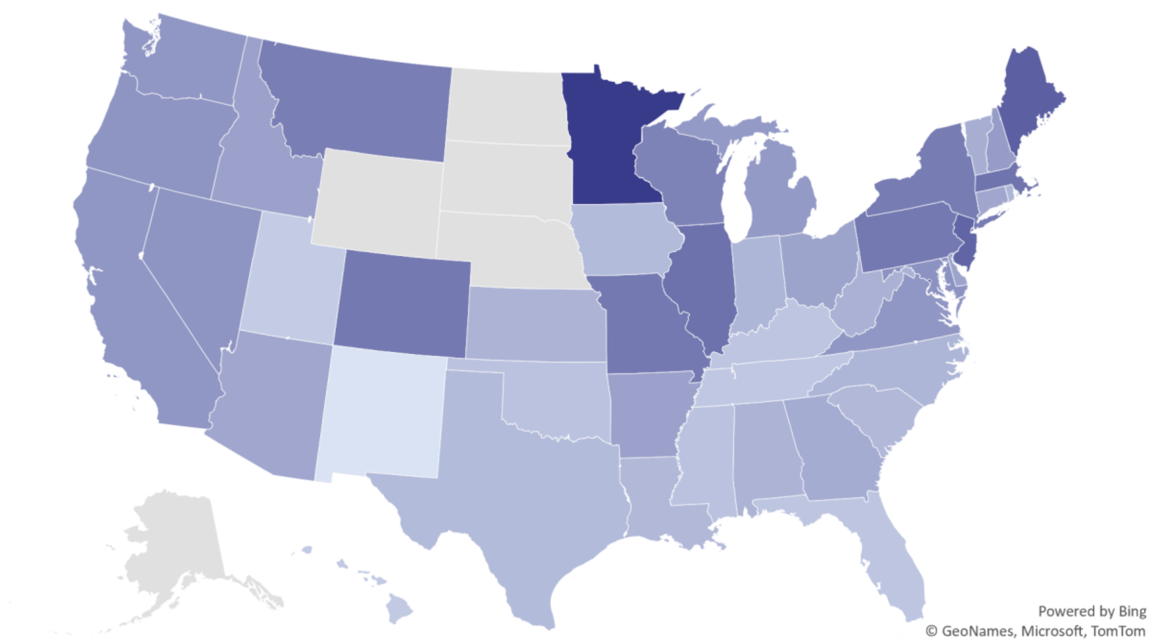
Sports has traditionally been a weak category for the Times. So, principally the acquisition of The Athletic is sensible; - buying a best-in-class specialist newsroom with an established subscriber base. NYT's existing product development ecosystem and audio/video content infrastructure also present obvious synergies.

Additionally, we propose The Athletic offers optionality, with The Athletic's US domestic reach as proxied by search interest, less regionally concentrated than the core news brand. Similarly, The Athletic provides leading coverage of European and British football, so is supportive to international subscriber growth.

New York Times Domestic Reach



The Athletic Domestic Reach



Source: Google Trends

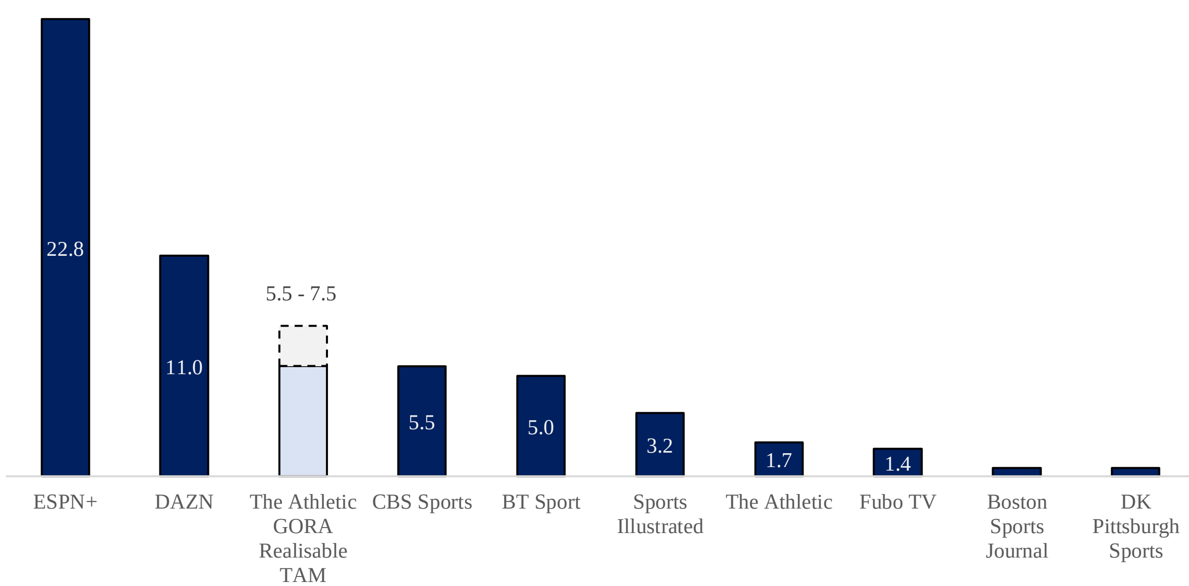
We hold standalone subscriptions to The Athletic function as an effective funnel into the NYT ecosystem in respect of first-year promotional rates. In many ways, NYT's acquisition of The Athletic can be conceived of as a light-footed relaunch of attempts to capture regional news subscribers through acquisition in the early-2000s.

	Digital Only (Monthly)	Digital Only (Annual)
The Athletic Standalone	$1.00* / $7.99	$71.88
New York Times Bundle	$6.00* / $25.00	$72.00* / $300.00

From Q2-22-Mid, NYT began integrating content from The Athletic onto the homepage of the core news product alongside providing all-access to digital bundle subscribers, and from Q2-22-End, print bundle subscribers received all-access to The Athletic property.

The market soured on news of the acquisition, with NYT's EV falling by -$860m, as the market ascribed negative value to the deal. We remain tempered however, and view the potential for The Athletic to prove a sound strategic long-term asset pending near-term execution. Similarly, we view potential for mid-term tailwinds to standalone subscriber count from trends related to sports betting.

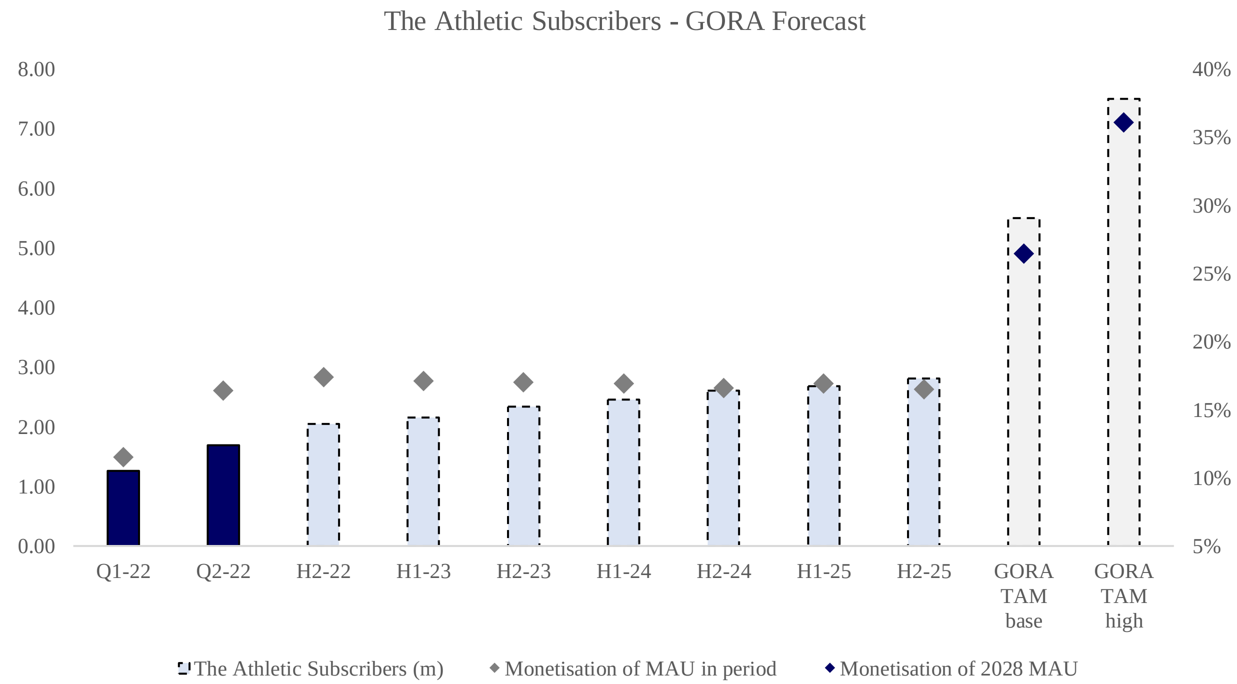
Sports Media Subscription Counts - SVOD, Digital & Print Categories - H1-22



Source: Reuters, Company Reports, Company Websites & GORA Estimates

Standalone, we hold The Athletic's realizable TAM at 5.5m, with upside expansion to 7.5m tied to distribution tailwinds from NYT's network and mid-term tailwinds from sports betting. Our TAM reflects our view that The Athletic has superior global reach potential compared to Sports Illustrated and other nationally constrained sports publications, due to the breadth and depth of its coverage. We view sports as a unique category with potential for greater multi-homing behavior over news media. Further, we hold the strength of The Athletic's multi-format product tend to audio and video format subscriber dynamics whilst proving accretive to top-level funnels. Such, The Athletic is better viewed as a multi-home complement to Sports SVOD services than a substitute to text-based sports news.

Subscriber growth will slow as The Athletic approaches base case TAM, which as a specialist publication is smaller. Hence, we model subscription growth to slow at greater rate than for the core news product from H2-25 onwards.

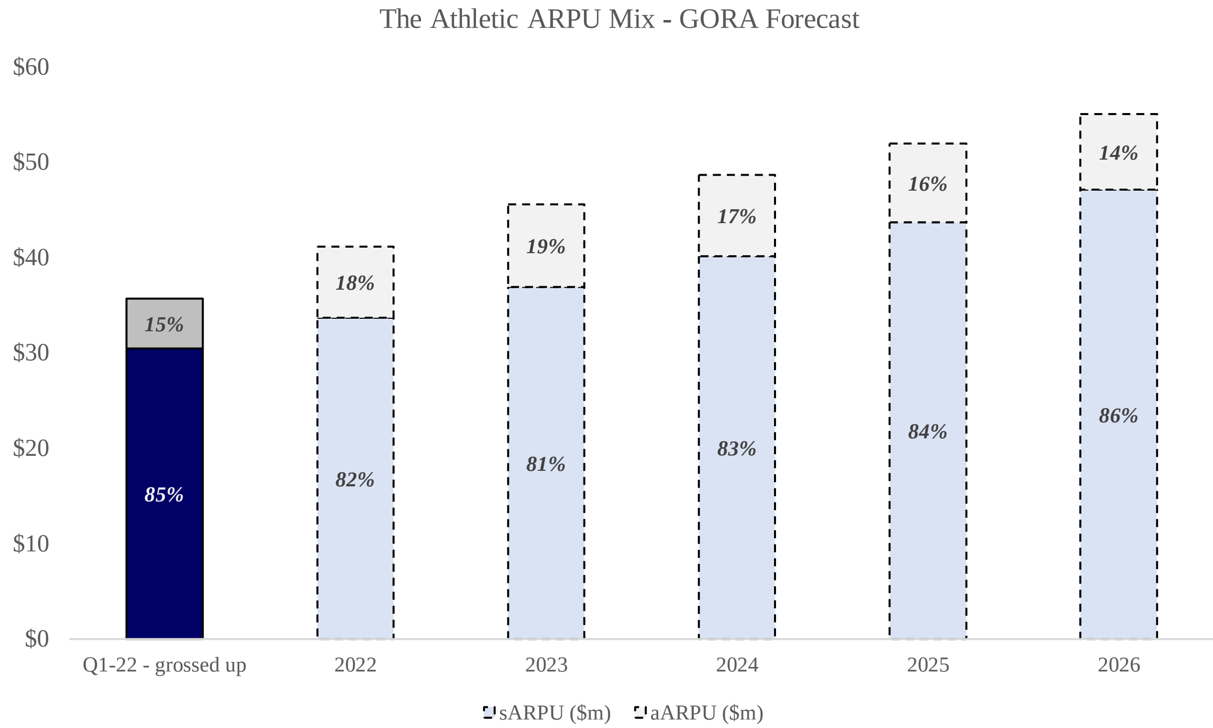


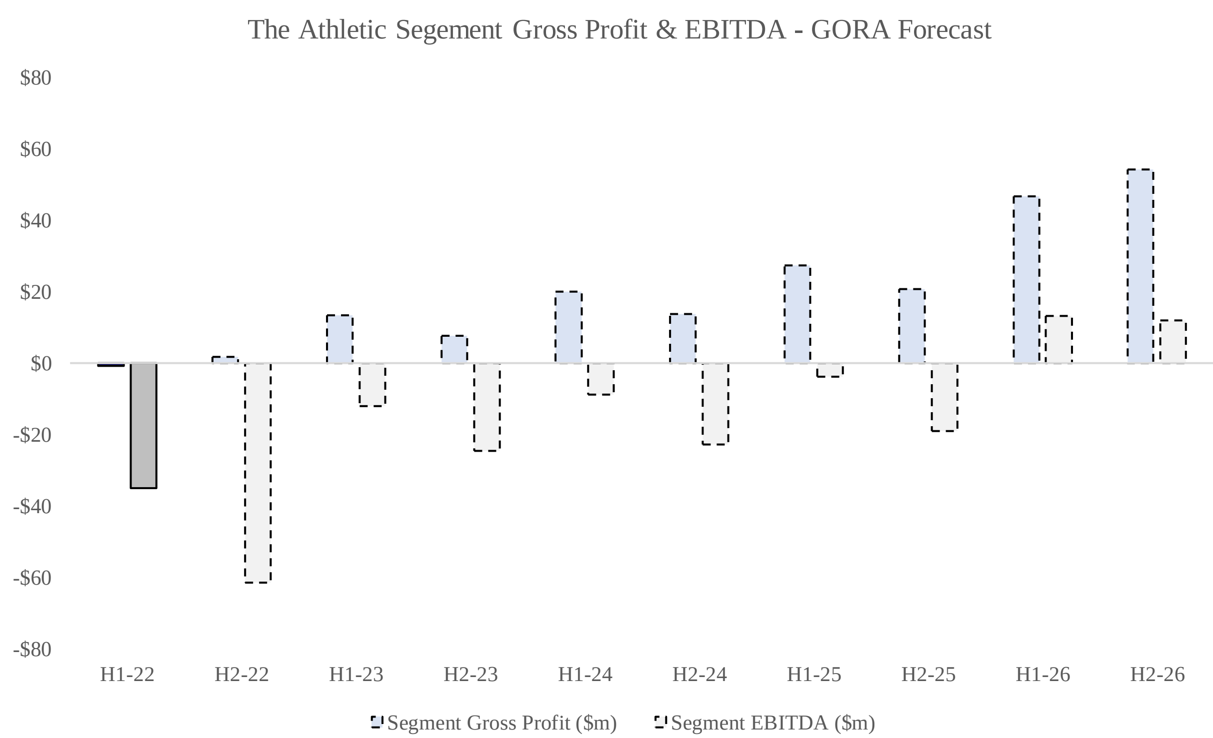
The Athletic has focused on subscriber growth to drive top-line revenue at the expense of ARPU. The Athletic's path to profitability is a function of ARPU expansion as matured subscribers graduate to full priced rates and reductions in cost of journalism premia over the core Times newsroom.

Current, annual ARPU based on Q2-22 ARPU is ~$43, with aARPU contributing ~14.6% to total ARPU. Successful roll out of NYT's advertising playbook offers further potential for ARPU expansion. But, with cyclical headwinds, and sARPU growth, we do not expect aARPU contributions to approach that of the core news product at ~23%. Nevertheless, we credit management's strategy, and the roll out of advertising inventory on The Athletic from Q3-22.

We expect churn to exhibit greater seasonality than the core news product. In line with industry trends, high potential churn related to The Athletic's lower subscription price is positively offset by the specialist nature of its reporting, - a common trend in publishing. Such, we hold The Athletic will achieve positive EBITDA by 2026 in line with the upper bound of long-term guidance. We look to near-term gross segment subscriber additions and mid-term ARPU expansion driven by sARPU and aARPU growth to confirm our view.

Cost discipline remains a source of uncertainty, with potential to more than offset top-line growth from ARPU expansion. We do expect cost premia at The Athletic will be hard to reduce. Cost of Revenue is tied to the structure of The Athletic's newsroom as well as the compensation premia to 'poach' talent. Currently compensation constitutes ~75% of cost of revenue. As such, we model cumulative losses exceeding the upper bound of long-term guidance by ~12% at cumulative LBITDA Q1-22 to 2025-end of -$112m. *See* – Risks – Risks Related to the Acquisition of The Athletic.





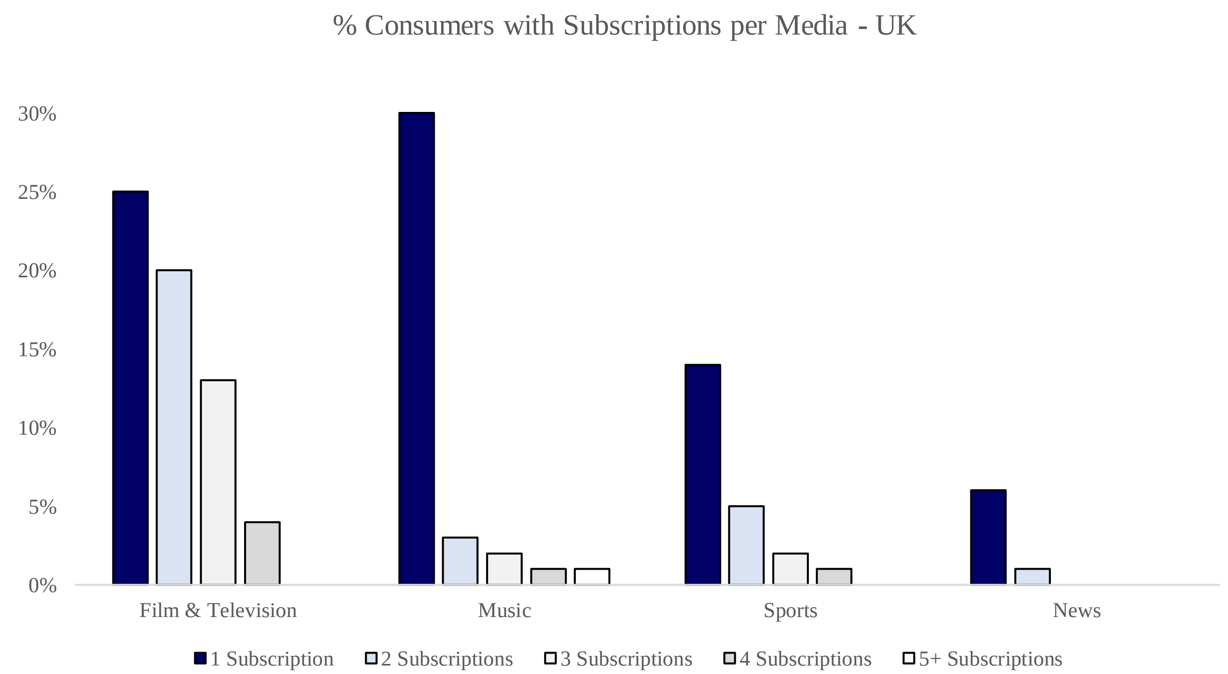
Source: Company Reports, GORA Calculations & Estimates

Risks

Fishing in a Small Pond? - True Scale of Subscription News Market

With the transition to a subscription based model, we think the true scale of the subscription news market is determined by discretionary incomes and time. Across these two dimesions, news media competes for attention and subscription dollars against subscription based medias in other genres. Prosaically, NYT competes across media for mindshare, timeshare and share of wallet.

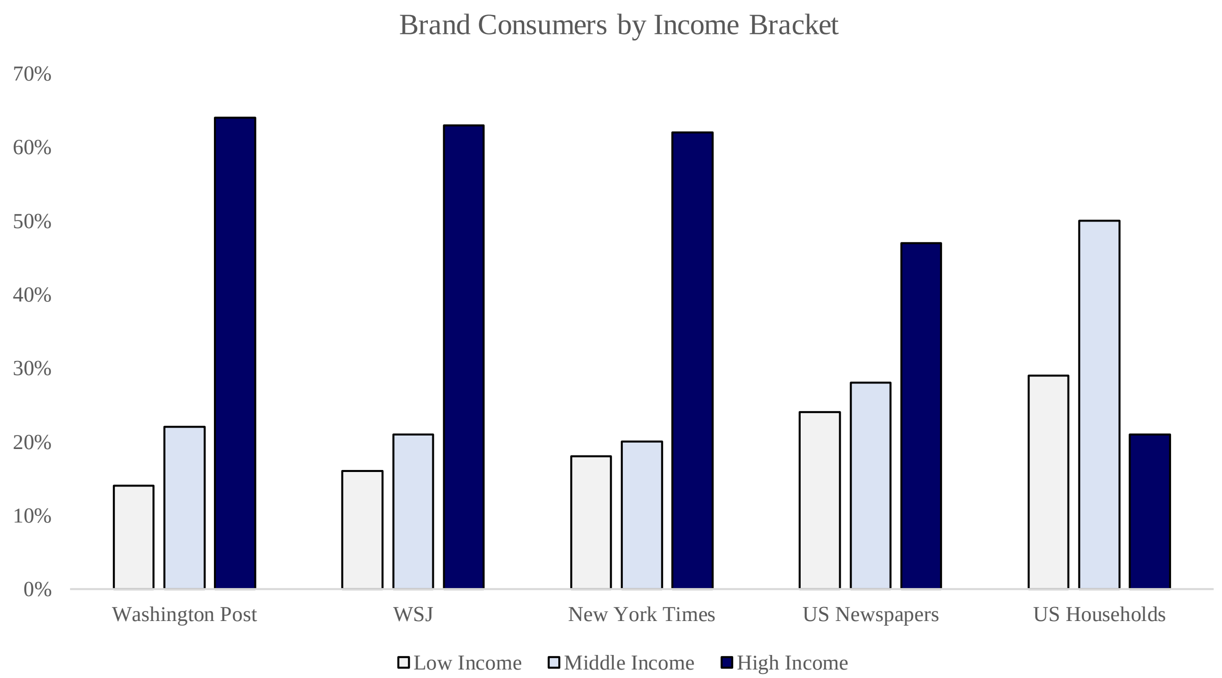
In 2022 the median American household spends > $200 monthly on subscription media services. A view to UK consumer behavior suggests propensity to hold multiple subscriptions is greater in SVOD categories, than Music and News.



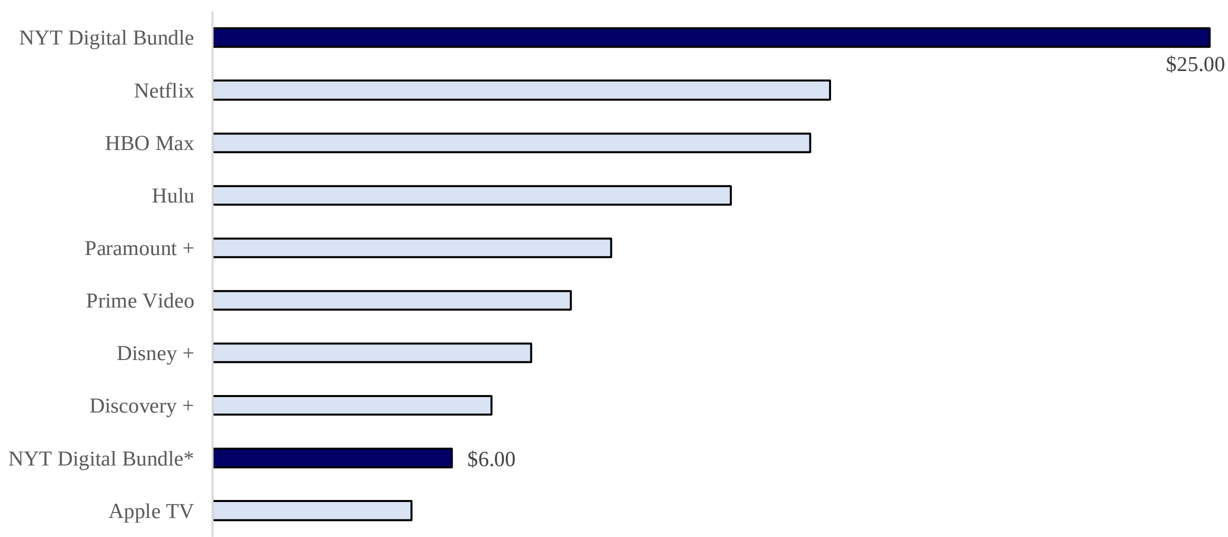
Source: Reuters Institute – University of Oxford

Against a near-term backdrop of squeezed discretionary spending it follows compression in multi-product subscriptions is likely. However, we view subscriptions across categories as less readily substitutable. Additionally, News media subscribers are typically more affluent, with NYT subscribers typically more affluent again, implying further category and brand resilience relative to SVOD and Music categories.

By this same token however, further US news media subscriber growth must increasingly come from the middle and low income brackets. Against SVOD products, and exclusive of promotional rates, News Media products do not compare favorably on price. In our view, reduced discretionary budgets over the mid-term would pose a headwind to subscriber growth rates underwritten on the basis of new middle and low income subscriptions, and revenue growth on graduating subscribers off promotional rates. However, as of H1-22 72% of US consumers expect to have the same number of media subscriptions next year, despite increased pressure on household budgets.



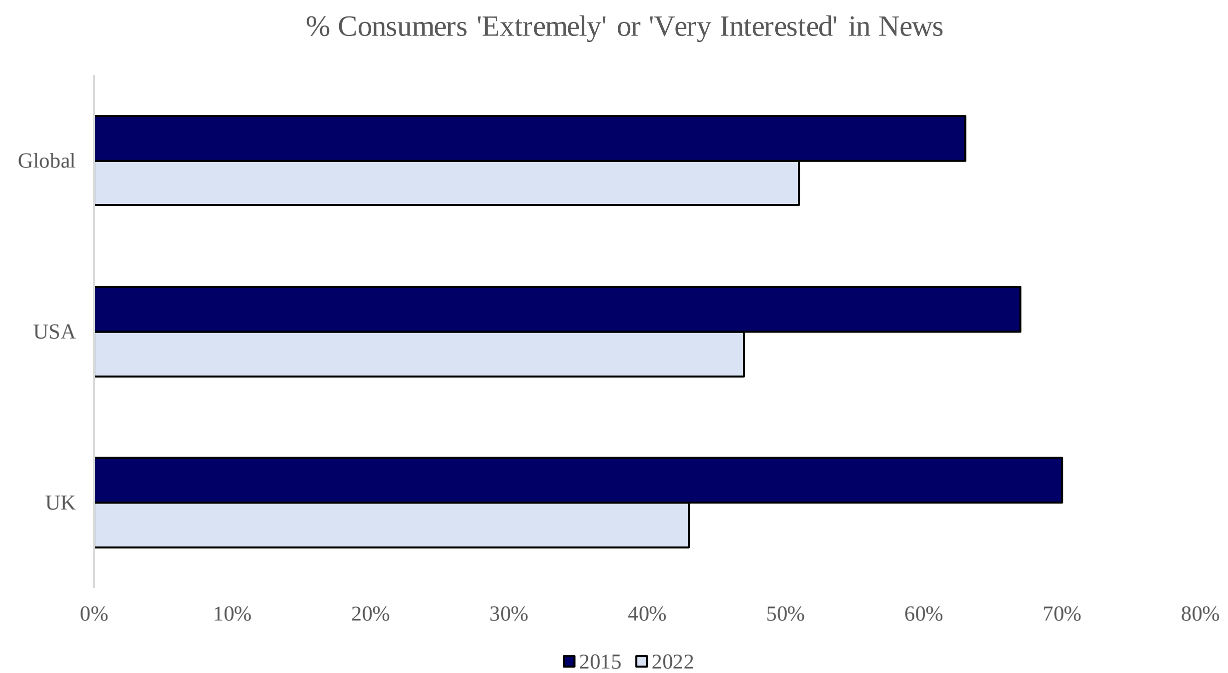
Source: Statista GCS & Pew Research Center



Source: Company Websites

However, if headwinds were coincident with 'subscription fatigue', tracking to a slowing in news media subscription growth globally, we expect continuation towards a '*winner takes more of most*' market. As of H1-22, the US and Australia are the only markets where the median subscription count per subscribing consumer is two, at 56% and 51% of subscribing consumers respectively.

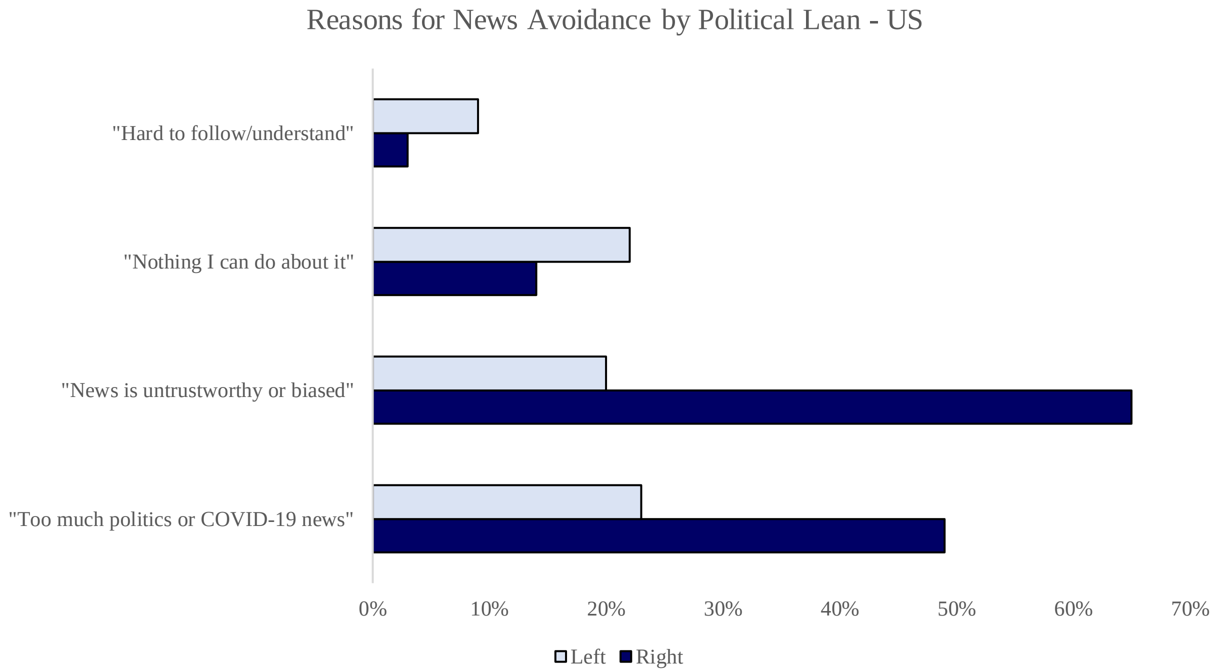
In the US, NYT, WSJ and Washington Post combined account for ~50% of outstanding news subscriptions. Second subscriptions are fragmented, often including a local publication, politico-cultural publications such as The Atlantic or The New Yorker, and specialist publications such as The Athletic. It is difficult to envisage squeezed consumers substituting away from a national paper to one of these three sub-categories. Hence, in our view, the three national majors may enjoy relative resilience compared to US news media as a category.



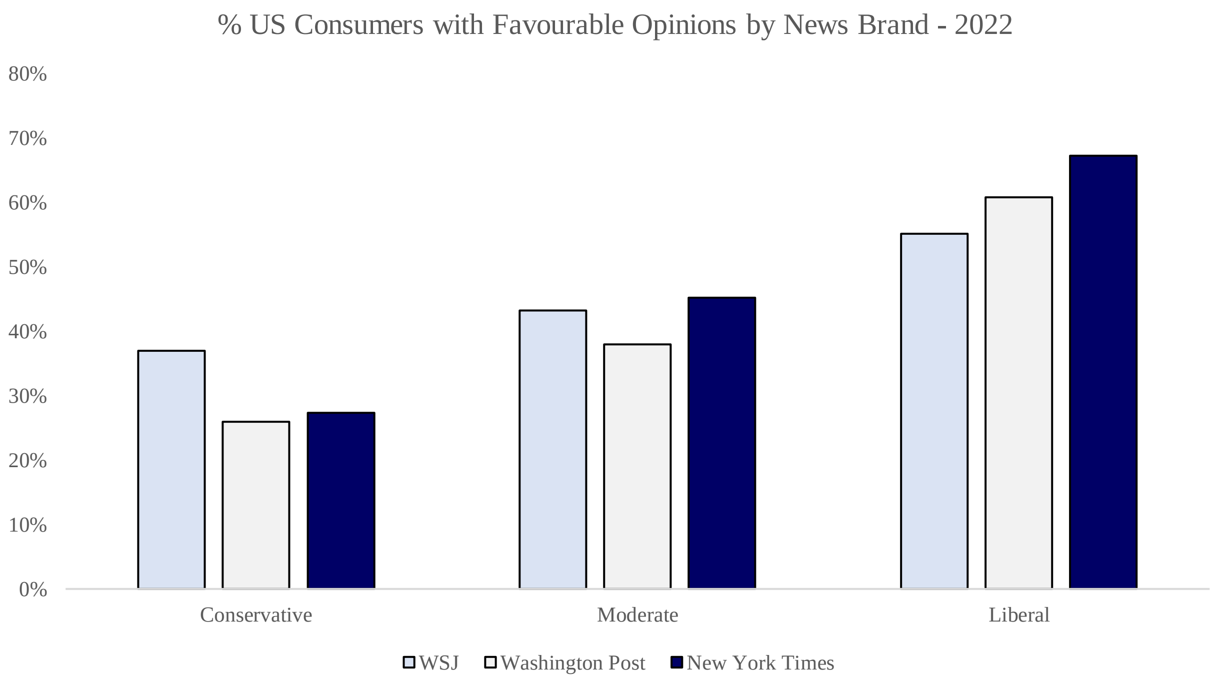
Source: Reuters Institute – University of Oxford

Consumer interest in news is a headwind to time spent on news media, decreasing 12-points globally, and 22-points in the US, between 2017 and 2021. The Reuters Institute at Oxford University associates this decrease with two trends. The first, an increasing minority of consumers who are active online, but consciously disconnected from news believing it to be of little interest or relevance; so called '*news avoidance*' and '*news rejection*' respectively. US news avoidance is the second highest globally. Second, a larger group whose consumption patterns are affected by structural changes in news media distribution.

On aggregate we observe a positive relationship between interest in news and trust in news. We note also that news avoidance/rejection is unevenly distributed by political lean. And, we draw the view that there exists an widening ideological rift in the subscription news market, distorting the market as it applies to publishers individually.

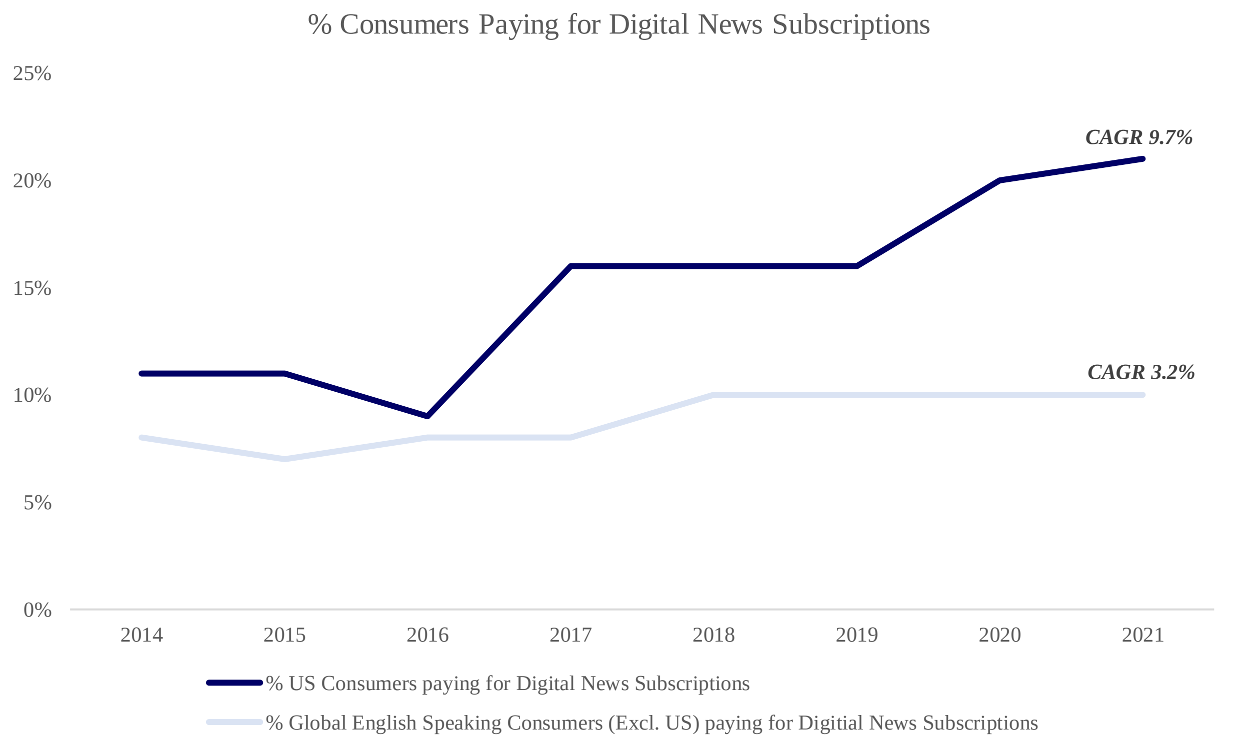


Source: Reuters Institute – University of Oxford



Source: Morning Consult

Observers can either take the view there are two near-mutually exclusive pools of potential news subscribers, or that the pool of potential US news media subscribers is structurally overweight left-leaning consumers. Both invite the same tensions. Near-term there are gains to perceived partisanship, however these gains come at the expense of the a reduced TAM. This we expect would be reflected in a slower growth in headline rates of US consumers paying for news subscription, which already sit above the global average at 17%, and the average of English speaking news markets ex-US.

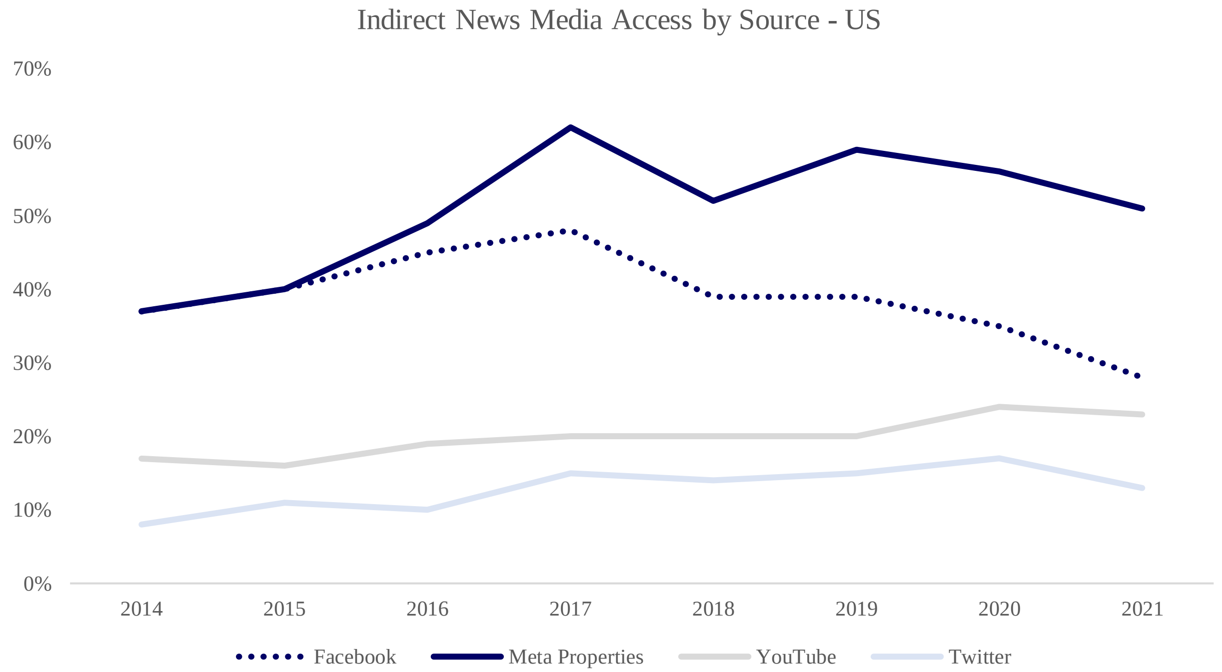


Source: Reuters Institute – University of Oxford, GORA Calculations

Distribution has an effect on time spent on news, and similarly interacts with trust in news media, *see* – Risks – Impairment of Trust in News Media. As such we view distirbution methods as having first and second order affects on the scale of the subscription news market.

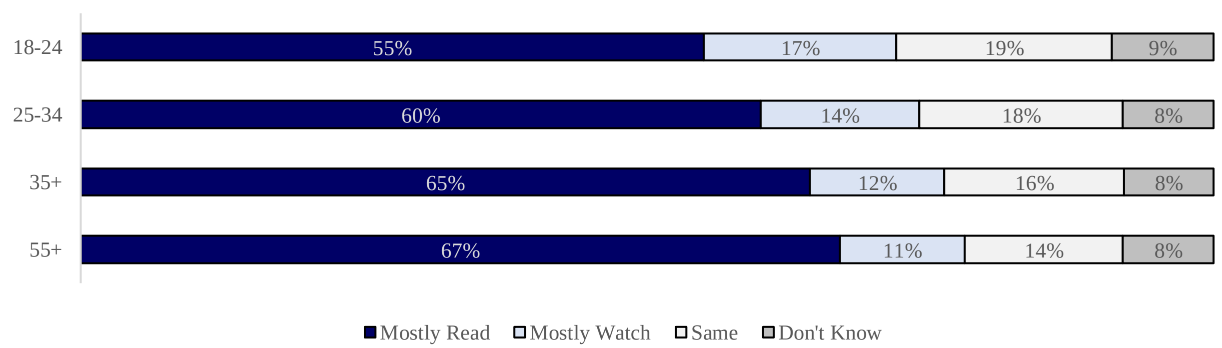
The US has the highest proportion of indirect news access of any major developed news market after South Korea, with 74% of consumers accessing news indirectly. Over the same 7-year period, Meta properties have dominated indirect distrubution, which has provided a modest tailwind to major national papers before terminating deals in Q3-22 (July). Given low US trust in media it is not clear whether the US is a bellweather or an outlier here, *see* – Risks – Impairment of Trust in News Media. Globally, the balance between direct acess and indirect access via social medias, tipped in favour of social in H1-22.

Meta's distribution dominance belies the decline of Facebook as a distribution channel, with increased share reallocated to Instagram, a visual media. This trend is reflected in the broader news media market. TikTok, most popular among 18-24 year old consumers, is used by ~15% 18-24 for news media across all markets. YouTube a long-form video platform has posted a 4.4% CAGR in the period. Combined this trends underscore our view that increased mobile usage and intermittent internet consumption patterns has created a duality in story lifespan, *see* – The Changing Economics of News Media.



Source: Reuters Institute – University of Oxford, GORA Calculations

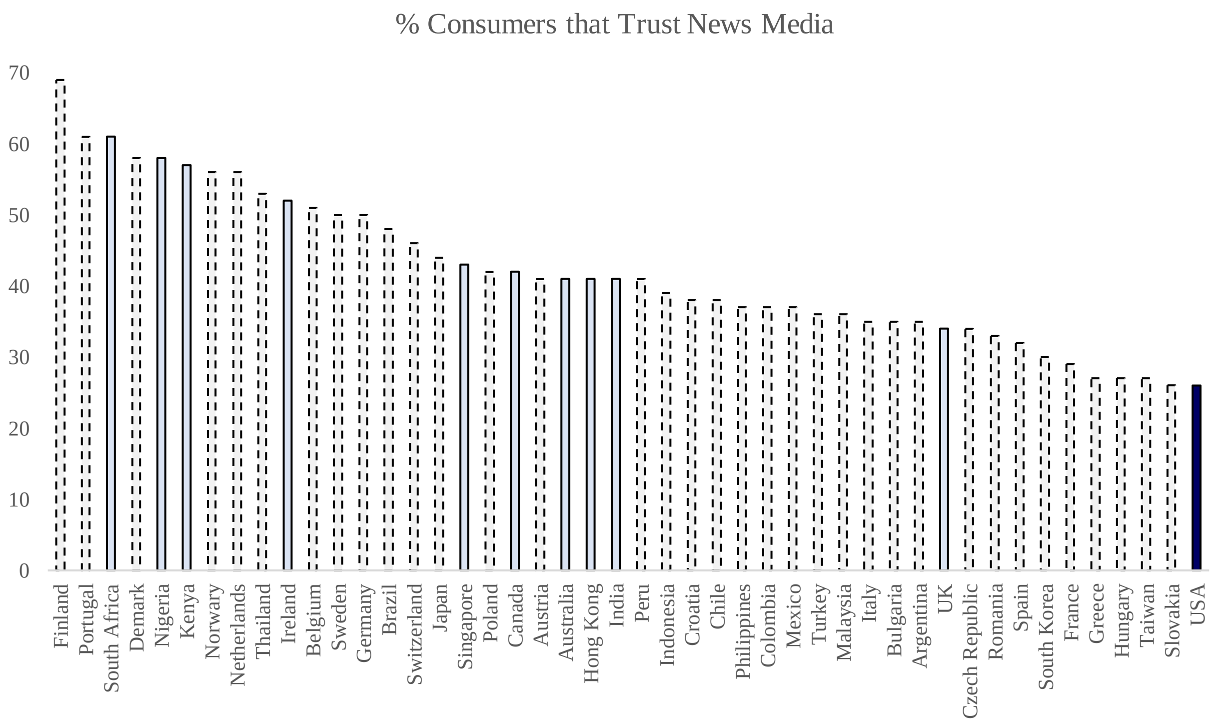
Beyond the duality is an increasing consumer preference for non-text news formats. Since the digital news genre and business model is fundamentally tied to text, determining whether format preferences are largely generation-varying, or not, is key to determining the long-term size of the subscription news market.



Source: Reuters Institute – University of Oxford

Impairment of Trust in News Media – Perceived Bias

Trust in news media has fallen consistently since 2008, the phenomenon is a global one, however levels of reported distrust vary substantially by country. As a US phenomenon, falling trust closely related to news rejection, with 65% of news avoidant Republican leaning consumers citing periceived bias their primary motivation. *See* – Risks – Fishing in a Small Pond? – The True Scale of the Subscription News Market.

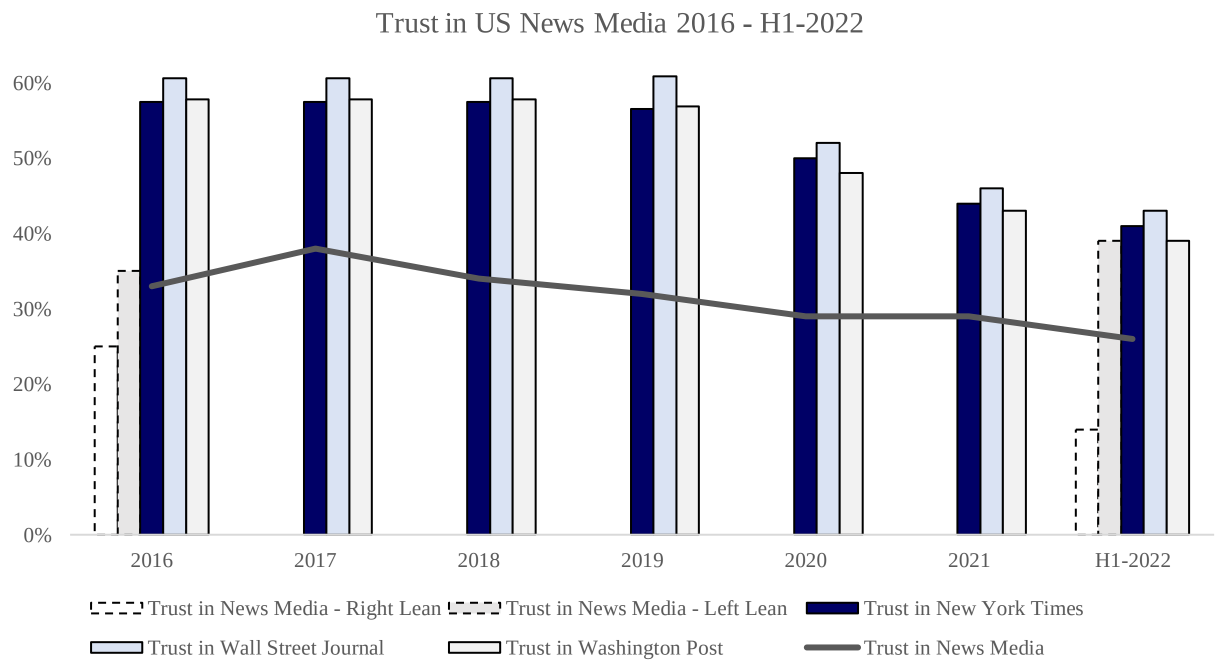


Source: Reuters Institute – University of Oxford

Trust in	FY 2016 - H1-22 CAGR	2022 % Level
News Media	***-3.9%***	***26.0%***
News Media - Right Leaning Consumers	***-9.2%***	***14.0%***
News Media - Left Leaning Consumers	***1.8%***	***39.0%***
New York Times	***-5.5%***	***41.0%***
Wall Street Journal	***-5.6%***	***43.0%***
Washington Post	***-6.4%***	***39.0%***

Source: Reuters Institute – University of Oxford

Whilst trust in news enjoyed positive uplift during the Pandemic years 2020 and 2021, in developed markets it has returned to its downward trend, most acutely in the US.



Source: Reuters Institute – University of Oxford

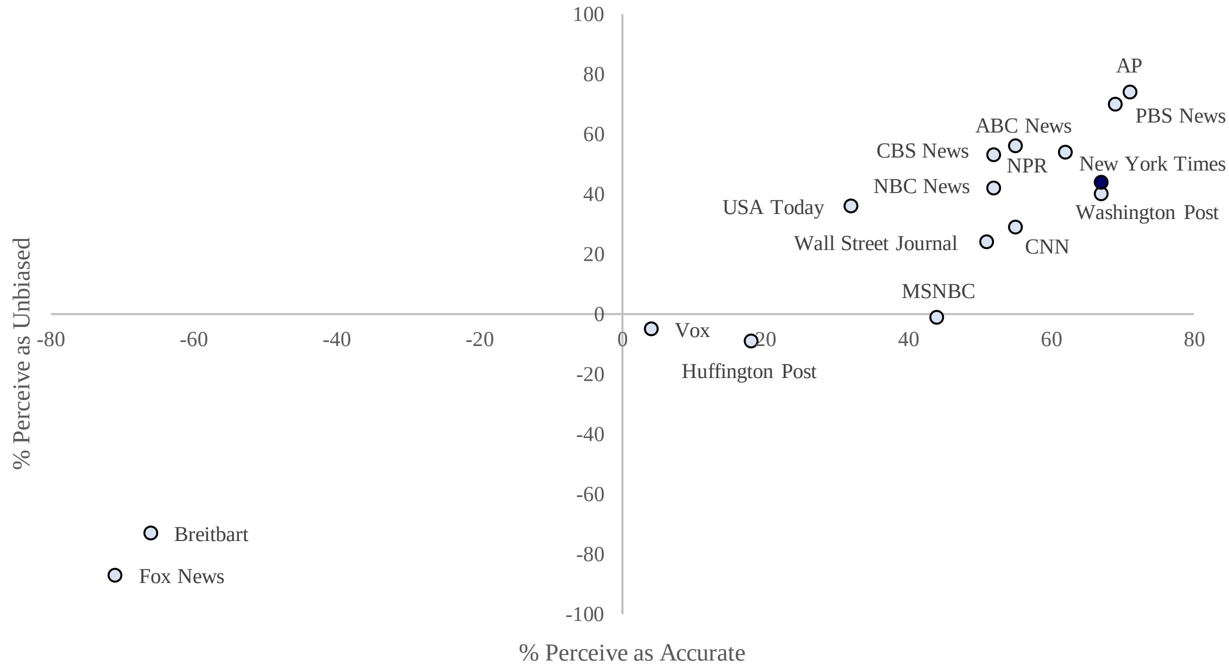
Consumer trust in the Times brand, remains above aggregate trust in US news media, however this is more a reflection of comparatively higher consumer trust at the beginning of the period. As with WSJ and the Washington Post, trust in the Times brand has been eroded at a greater rate than the US aggregate.

Aggregate trust in news media among right leaning consumers has decreased at a substantially greater rate than the US aggregate, whilst in the same period, aggregate trust among left leaning consumers increased. This underlying trend informs our GORA realizable TAM, *see* **Fundamental Considerations – Addressable Market & Subscribers**. Similarly, we draw the view that the so-called 'Trump Bump' was a double edged sword.

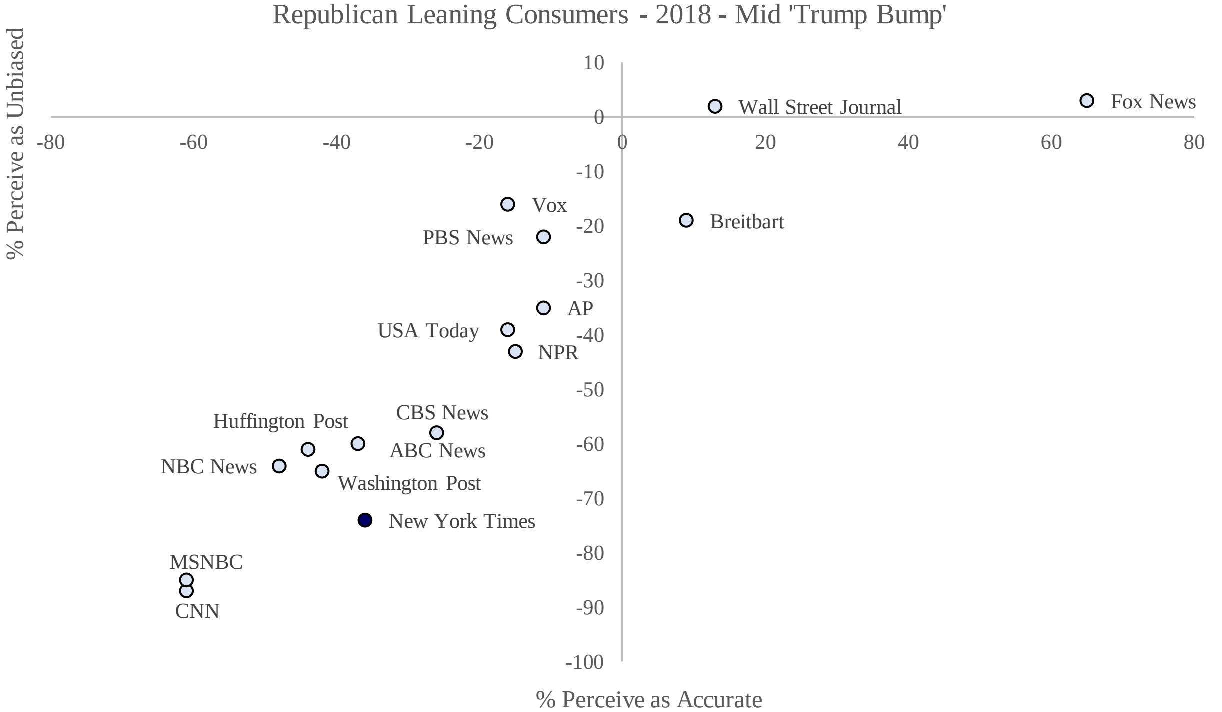
Although providing a tailwind to subscriber additions, the Trump presidency had a corrosive effect on trust in news media. Our systematic review of opinion polls found that by the midpoint of the Trump presidency, self-identified Democrats tended to view the major news organizations as accurate, except for Breitbart and Fox News. Meanwhile, the inverse was true for self-identified Republicans, trusting only WSJ in addition to Fox News and Breitbart. By H1-22, these political trends remained consistent with respect to NYT.

Prima facie, it seems Trump-cycle subscriber additions came at the cost of a reduced TAM. However, high-level analyses ignore the socio-economic divisions underlying broad political leans, which likely provide an overly bearish read on trust in the Times' core news product. For example, perceived inaccuracy and bias in major media outlets was greater among high-school educated low-income rural Republican leaning consumers, than college educated metropolitan Republican leaning consumers.

Democrat Leaning Consumers - 2018 - Mid 'Trump Bump'



Republican Leaning Consumers - 2018 - Mid 'Trump Bump'



Source: Pew Research Centre

NYT Credibility Q1-22	Very Credible	Somewhat Credible	Not too Credible	Not at all Credible	No Opinion
Democrat Leaning Consumers	***40.9%***	***31.8%***	***7.4%***	***2.8%***	***17.1%***
Republican Leaning Consumers	***12.6%***	***24.6%***	***14.9%***	***25.0%***	***22.9%***

Source: Morning Consult

We view political factors as largely exogenous, and not unique to the US consumer. For example, in 2019, the election of Jair Bolsonaro and the Gilets Jaunes protests in France corresponded to -11% declines in domestic consumer trust in digital news media. Over 4-year periods, domestic trust in German digital news media declined -13% against the backdrop of the ongoing European migrant crisis, and in the UK by -11% following Brexit.

We identify direct access and social media intermediation as endogenous factors. Higher rates of digital news access via social media or aggregators track to reduced consumer trust. Overlaying this is trust in social media as a weak effect. Increased direct access tends to a '*winner takes more of most*' market, generating a virtuous cycle of increased brand recognition and visits which in turn allow for enhanced digital product development, a better resourced newsroom and compelling marketing efforts. Schibsted provides an excellent case study, with digital reach exceeding 80% of consumers in Norway and Sweden. In short, distribution matters.

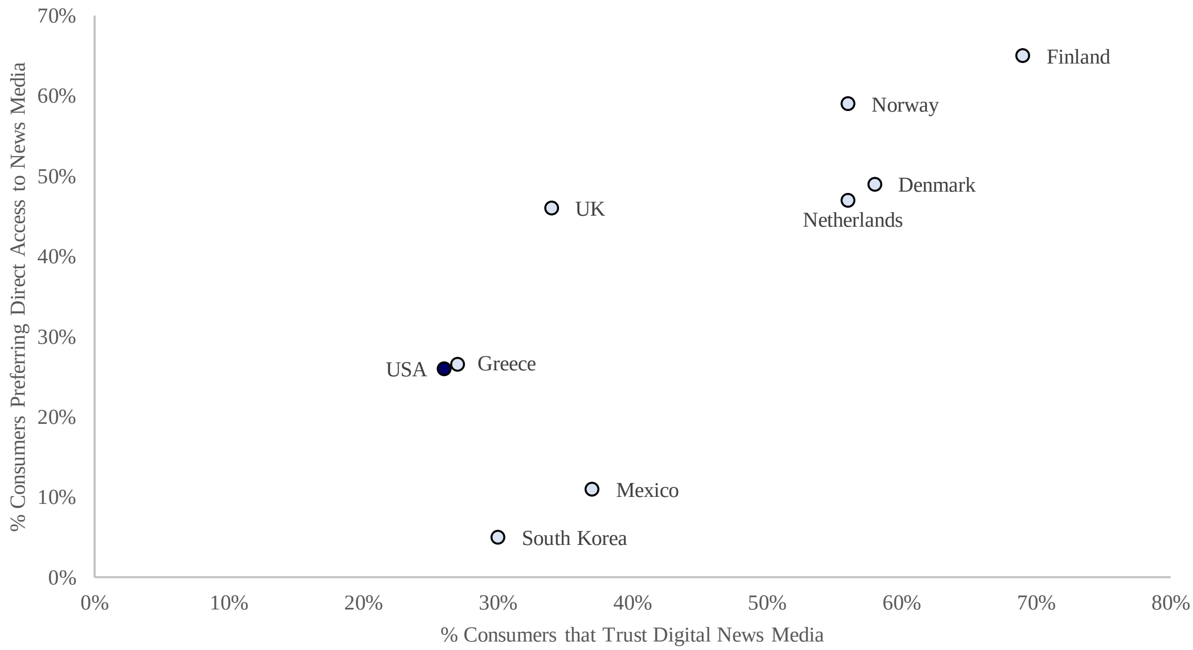
As is intuitive, we observe a positive relationship between the rate of consumers paying for digital news products and trust in news media. On aggregate the US is an aberration, with relatively higher levels of consumers paying for digital news subscriptions (2022: 19%) but the among the lowest level of consumer trust globally. This is explainable largely by the higher levels of partisanship in US news media. Note, that US consumer trust in "*the news source I pay for*" (2021: 57%) fits better with the trend observed globally.

NYT's first-mover advantage on transitioning to a subscription in 2011 has provided tailwinds throughout the period, by effectively selecting for those consumers who trusted the Times brand. However, this implies potential for further TAM compression, if perceived partisanship persists. This read informs our GORA realizable TAM, *see* Fundamental Considerations – Addressable Market & Subscribers.

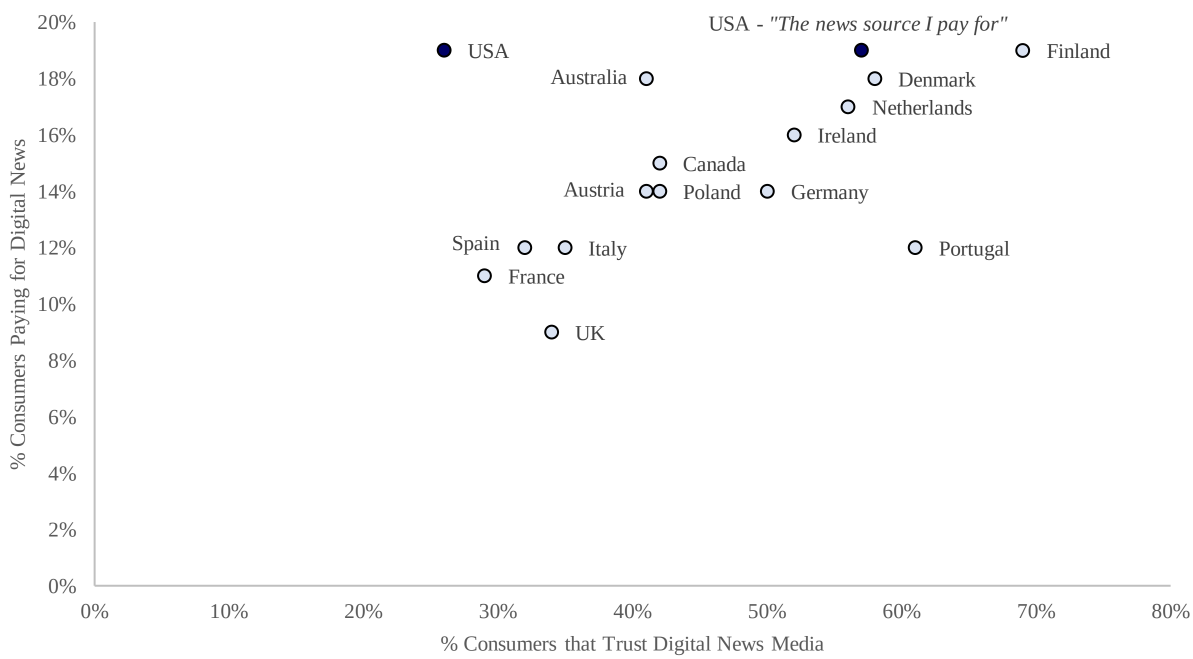
We view NYT's direct access credentials and ecosystem control as creating the strongest connection US publisher-audience connection. Our view is supported by iOS and Android app 'stickiness' metrics, and highest average sessions per DAU.

Continued strength in NYT's direct distribution model will continue to benefit from the structural shift to mobile as primary device for digital news consumption. NYT's presence through the story life cycle is mobile-first. Combined with longer format digital story telling tools such as podcasts and multi-format digital canvases, it has the potential to further entrench direct access among NYT's audience. Once sufficiently entrenched, this may provide a superior offset to deteriorating aggregate trust resulting from exogenous shocks.

Direct Access & Trust in Digital News Media Consumption

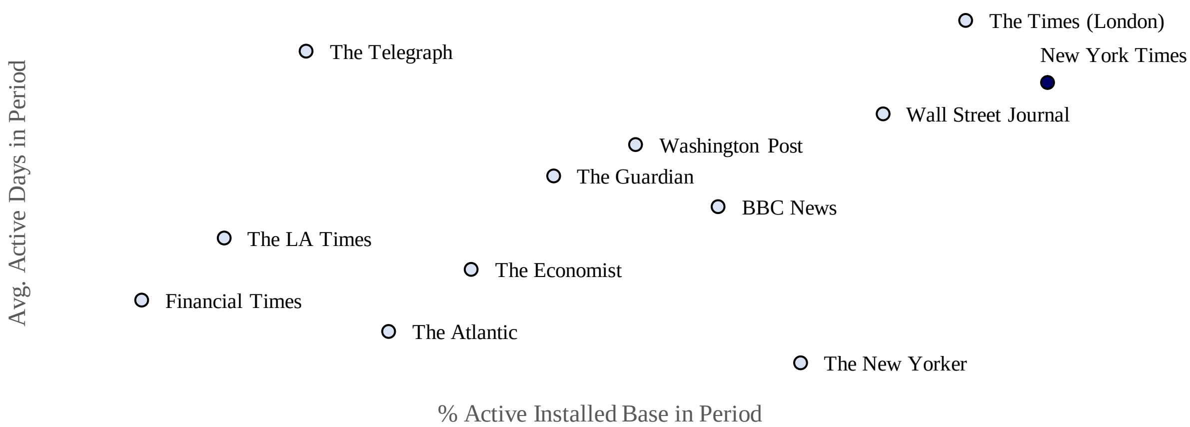


Propensity to Pay & Trust in News Media



Sources: Reuters Institute – University of Oxford, GORA Calculations

H1-22 : Combined Android & iOS 'Stickiness' Metrics - US



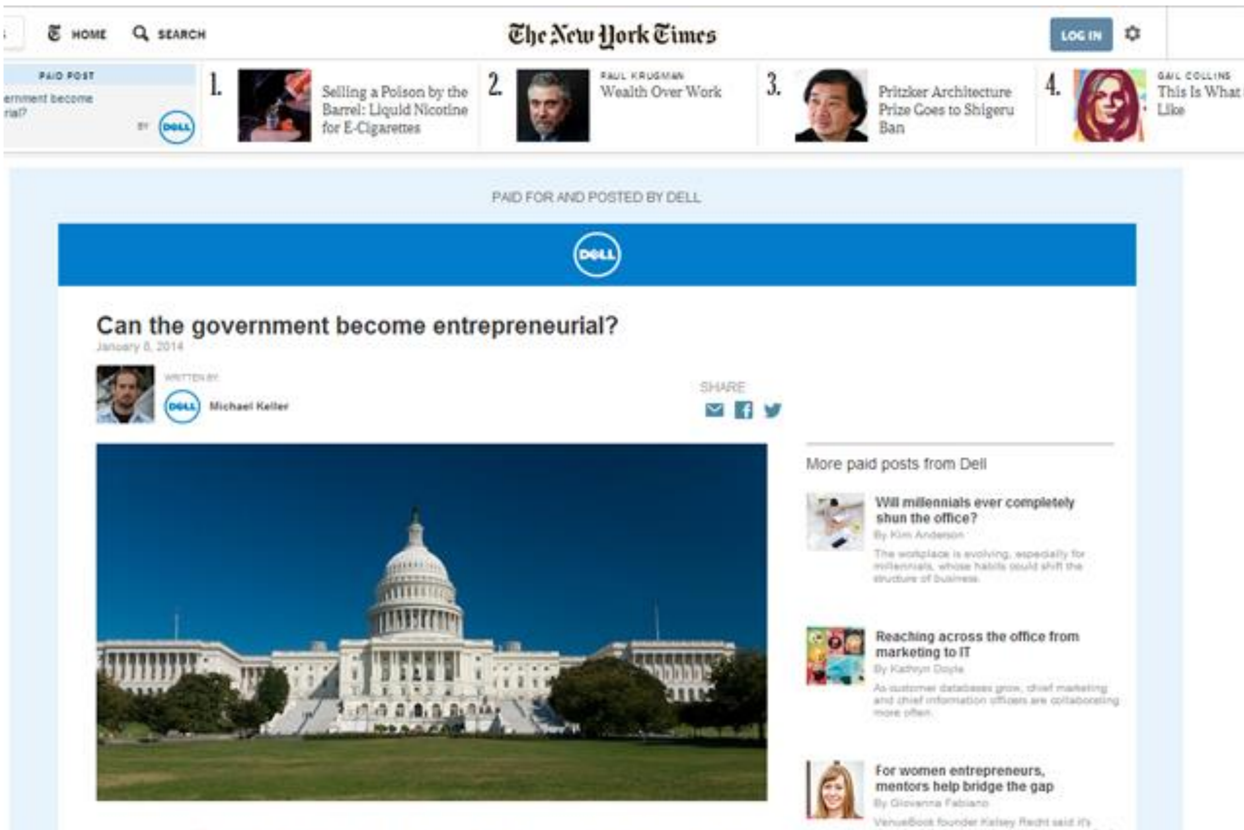
H1-22 : Combined Android & iOS Engagement Metrics - US

Source: Data.ai

Impairment of Trust in News Media – Native Advertising

Native advertising as it first emerged in the early-2010s, presented marketing materials in a format that closely resembled that of editorial content. Native ads were in response to shifting advertising market dynamics, largely attributable to social media, *see* – Fundamental Considerations – The Changing Economics of News Media.

NYT's first Native Advertising Campaign – Dell, 2014



Programmatic buying removed premia attached to context and publisher brand, both inferior by comparison to targeted advertising. Native advertising was a final attempt to make context and brand relevant to marketers again. However, this created a perverse incentive for publishers, by which the more 'native' an advertisement is, the more successful it is. In effect, blurring the lines between advertising and journalism, creating 'advertorial' content. Fundamentally, native advertising is an attempt to portray the opinions or agenda of a third party organization as either news or the genuine stance of a reputable news brand's editorial desk.

By the letter of media economics theory, readers should appreciate native advertising, since when done well it is highly aligned with readers' interests and is generally informative in nature; two factors key to determining relative taste for advertising, *see* – Growth Prospects – Digital Advertising as a Mid-Term Growth Driver. However, in practice native advertising remains controversial with audiences and industry observers.

Current CEO Meredith Kopit Levien's background is in native advertising, serving as Chief Revenue Officer at Forbes Media for five years before joining NYT. Kopit Levien sees digital advertising as a mid-term revenue growth driver, however we note she remains sober of the scope of a potential shift away from programmatic buying towards integrated brand deals.

"We need an ad business that can stand next to the quality of this consumer product and be where nobody's embarrassed that this is our ad business. We don't get it right every day, but I think we have really built an ad business that is kind of consumer-forward, subscription-forward and derives its value from a great consumer experience."

— Meredith Kopit Levien, CEO, New York Times Company

Native Advertising on NYT Today

Our primary concern lies in risks associated with integrating a product that has a differently aligned incentive structure into core news products that ostensibly subscribers are already paying for with their subscriptions. We note from the quote above, that NYT's own CEO, is similarly prescient to these risks. This tension appears particularly fraught when we consider that the same factors which determine subscription business quality, - an active and engaged user base, track directly to native advertising business quality.

The effects of poor execution, would likely assume a slowly corrosive character, however against a backdrop of continued poor native advertising execution, we would expect materialization of this risk to present primarily in increased churn.

Impairment of Trust in News Media – Wirecutter

Whilst Wirecutter has proven to be a shrewd acquisition by many metrics, *See* – Growth Prospects – Wirecutter, it was controversial at the time on account of perceived potential for impairment to the Times brand.

Commenting on the acquisition in 2016, Liz Spayd, then NYT Public Editor commented:

"I hope The Times will move cautiously, not merely assuming readers will view this as a useful new service but actually asking them whether they do. The Times has a lot to gain. And also to lose."

— Liz Spayd, *formerly* Public Editor, New York Times

We feel Public Editor Spayd's advice holds today. Wirecutter editors must strike a delicate balance in serving two masters, both to genuinely inform readers, whilst also driving conversion through the affiliate links embedded in the article. There is an inherent tension between these two ends, and discord with the Times' goal of creating truth seeking journalism without 'fear or favor' by blurring the line between journalism and sales copy.

NYT fully discloses the presence and role of affiliate links in monetizing Wirecutter's journalism. However, when we consider the increasing integration of Wirecutter content, typically via links or in text info boxes, into other NYT products, *eg. cooking*, it does appear to set a concerning precedent and one which may be difficult to reverse. As we view it, this 'spreading' of Wirecutter's blurred content to other areas of the sites tenders risk of impairment to the Times brand. Not least, since the affiliate model favors high-ticket, or relatively higher-ticket sales within a given category, monetizing as a percentage of the converted sale. A reality not too well concealed by such articles as this one recommending a $13 per unit ball point pen for 'enhanced note taking'.

Due to the monetization model, Wirecutter's publisher and editors are incentivized to run a high frequency content schedule. This results in 'low-rent' content such as articles comparing the 'best' ball-point pens, kitchen towels or hair ties. Founder Brian Lam's goal in creating Wirecutter was to distinguish between the signal and noise in tech product reviews. Since, publishers demanded a high frequency of new reviews to fill print and digital spreads, yet most new products were ultimately underwhelming, hence there was a necessary migration down the quality ladder.

It is not clear that Wirecutter has migrated down the quality ladder in terms of the products it reviews, but rather there is a drift to reviewing categories which make for lower quality content. This is disappointing, as it is not clear to us that the affiliate revenue maximizing point is delivered by Wirecutter's current volume/category quality ratio.

In higher quality categories such as tech and appliances, our scuttlebutt work on Wirecutter writers leads us to question the value-add of writers' product knowledge. We recognize the value in writing reviews for the general reader, but do not see how it entails the reviewer, ostensibly a journalist, also needs to be indistinguishable from the general reader in terms of qualification. In our view this risks tending to reviews which are not sufficiently substantial, albeit written and packaged in an engaging and authoritative voice.

We view risks associated with Wirecutter in two broad categories. The first risks concerns NYT's handling of Wirecutter content and its integration into other Times brand information products, such as news or lifestyle. The central risk embedded in Wirecutter is the cumulative probability of poor customer experiences with Wirecutter recommended products, which would prove incrementally corrosive to the Times brand. From which, it follows subscriber acquisition and retention would soften, with impaired trust in the Times brand.

More pernicious, are the potentially poor optics of the including what is ostensibly sales copy, with a differing incentive structure, into core products, that subscribers are already explicitly paying for by their monthly subscriptions. As such, this risk and how we conceptualize it is similar to our views on native advertising, *see* Risks – Impairment of Trust in News Media – Native Advertising. The effects are likely slowly corrosive in character, however we would expect materialization of this risk to present primarily in increased churn.

Second, we identify risks related to long-standing Wirecutter readers who view the product as deteriorating under NYT. Consequently, we would expect such readers to have a reduced propensity to either continue paying for Wirecutter access and/or not upgrade to Bundle products.

Although these two broad categories are difficult to monitor we propose simply searching: "Is Wirecutter reliable/good/trustworthy/legit *et al.*" Monitoring the relative search interest of the above phrases would provide a second order tracker. As of TTM, such phrases are not associated with Wirecutter's search interest. However, we do find not an insignificant number historic posts where self-identified 'long-term Wirecutter readers' discuss what they perceive to be a deterioration in the Wirecutter product, which they associate with NYT's ownership.

[redacted] 7 mo. ago

Wirecutter gets a percentage cut of everything sold through them - which makes then biased toward more expensive items. That's why the "best" sheets are $160. Do your own research - do NOT depend on Wirecutter!

1 Reply Give Award Share Report Save Follow

Just one example... when I bought my sound bar it was their budget choice, at 125 bucks. Their current budget pick costs twice that.

They generally don't even review less expensive options anymore.

2 Reply Give Award Share Report Save Follow

[redacted] 3 yr. ago

Depends on the product category. They're generally still on point. It's gone downhill since they were purchased by the New York Times Company but I still consider their suggestions along with a few other sources when considering a purchase.

[redacted] 3 yr. ago

I think they've fallen pretty far in the past couple years. Maybe their management has put pressure on them to boost revenue by recommending more expensive things and only stuff where they have affiliate links, maybe not.

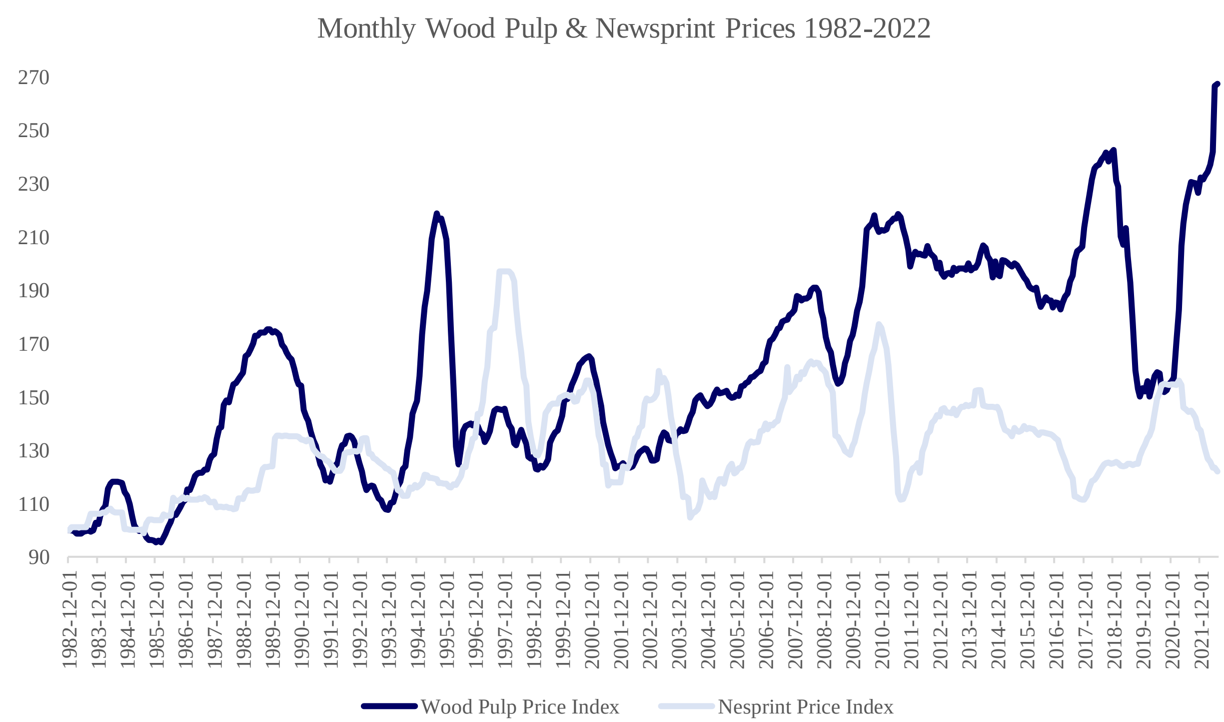
Increased Print Production Costs

Through H2-21 and H1-22, print input costs have been subject to significant inflationary pressures. Input costs include raw materials, newsprint, supercalendered paper (a type of coated paper), energy and labor. Workers at the College Point facility are unionized.

Jul-22	H1-22	*y / y*	*y / 2y*	*y / 3y*
Wood Pulp	***15.5%***	***18.0%***	***68.3%***	***38.7%***
Newsprint	***16.3%***	***31.3%***	***45.9%***	***23.4%***
Coated Paper	***4.3%***	***9.4%***	***15.6%***	***15.8%***

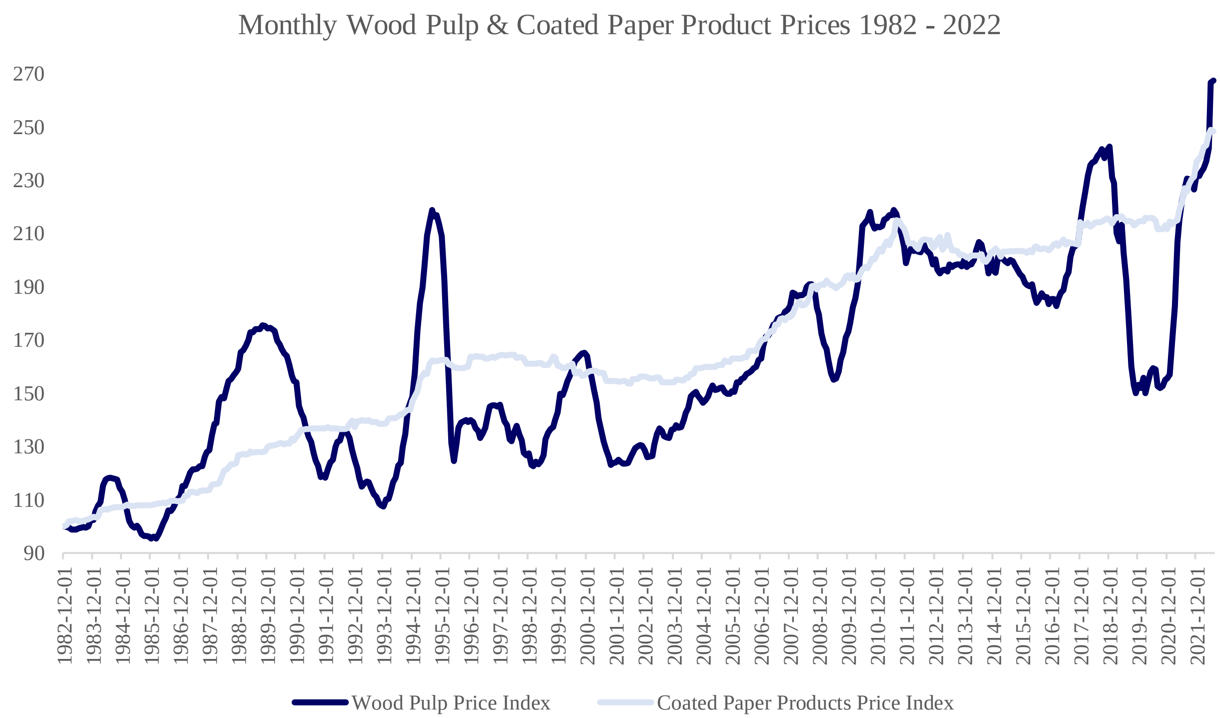
Source: FRED, GORA Calculations

As we understand, newsprint tracks at a delay to the price of Wood Pulp prices. Wood Pulp prices are pro-cyclical, with Coated Paper prices somewhat independent of Wood Pulp and Newsprint over the period we observe (1982-2022).



Source: FRED, GORA Calculations

Rising Newsprint prices are a function of supply-chain tightness, alongside accelerating costs of recycled feedstock. We note current Newsprint prices have risen faster in the EU and UK than in North America, with the UK and Continental Europe subject to an EU-wide crisis in paper product supply. Measured inflation in newsprint prices appear acute as a result of weak comparisons in 2021 and 2020.



Source: FRED, GORA Calculations

Both production of newsprint paper and recycled feedstock, factor energy prices as input costs. As such, rising energy prices impact both on print production as a first order effect, and secondly through impacts on raw materials.

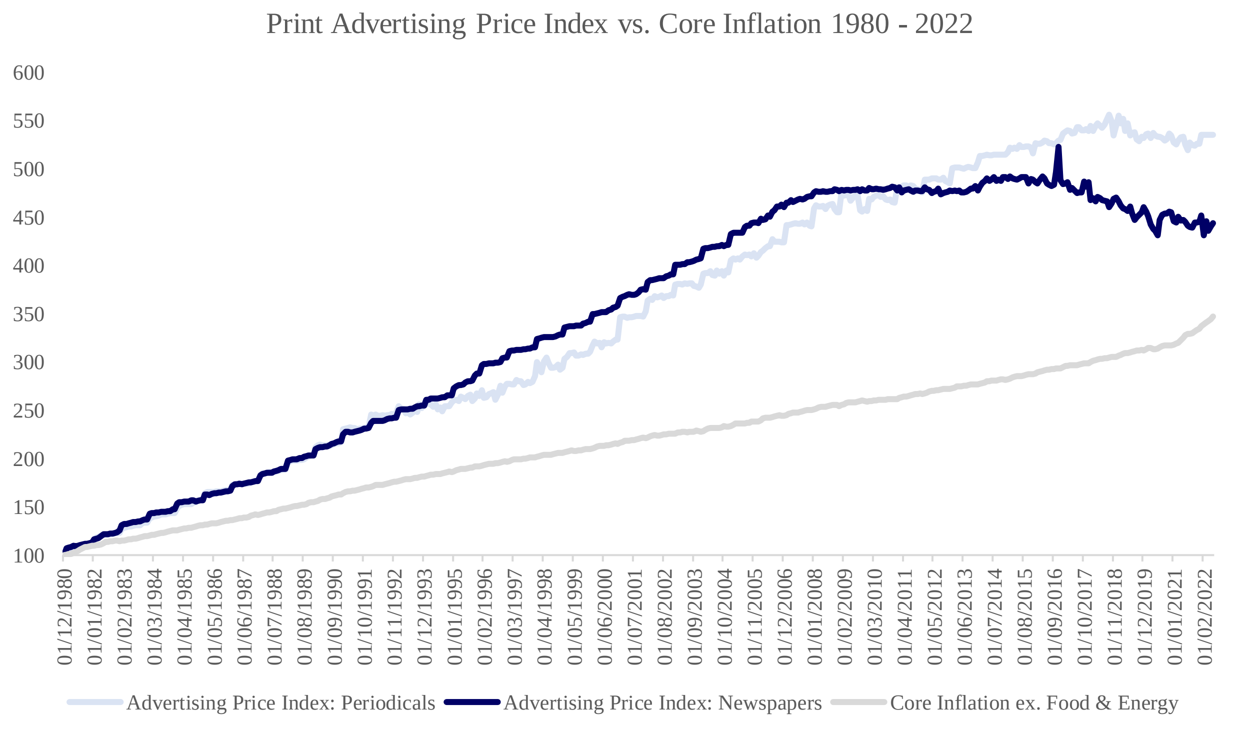
Increased Deterioration in Print Advertising Rates

Conventional analyses present a high-level picture. Global print media expenditure fell from ~58% of global advertising spend in 1996 to ~11% by 2019, whilst online advertising rose to ~54% in the same period, tracking to the changes in news media consumption. However, this obscures a more complex picture. Underlying this structural decline, is a multi-decade inflation-beating surge in print media advertising prices.

Over the same period, print news publishers continued to raise print advertising rates, reaching a high plateau in Q3-14 (July), and only initiating a declining trend in Q2-17 (May). Meanwhile digital advertising assumed a deflationary trend over the 12-year period to H1-22, driven by efficiencies related to programmatic buying, now accounting for >62% of digital advertisements sold.

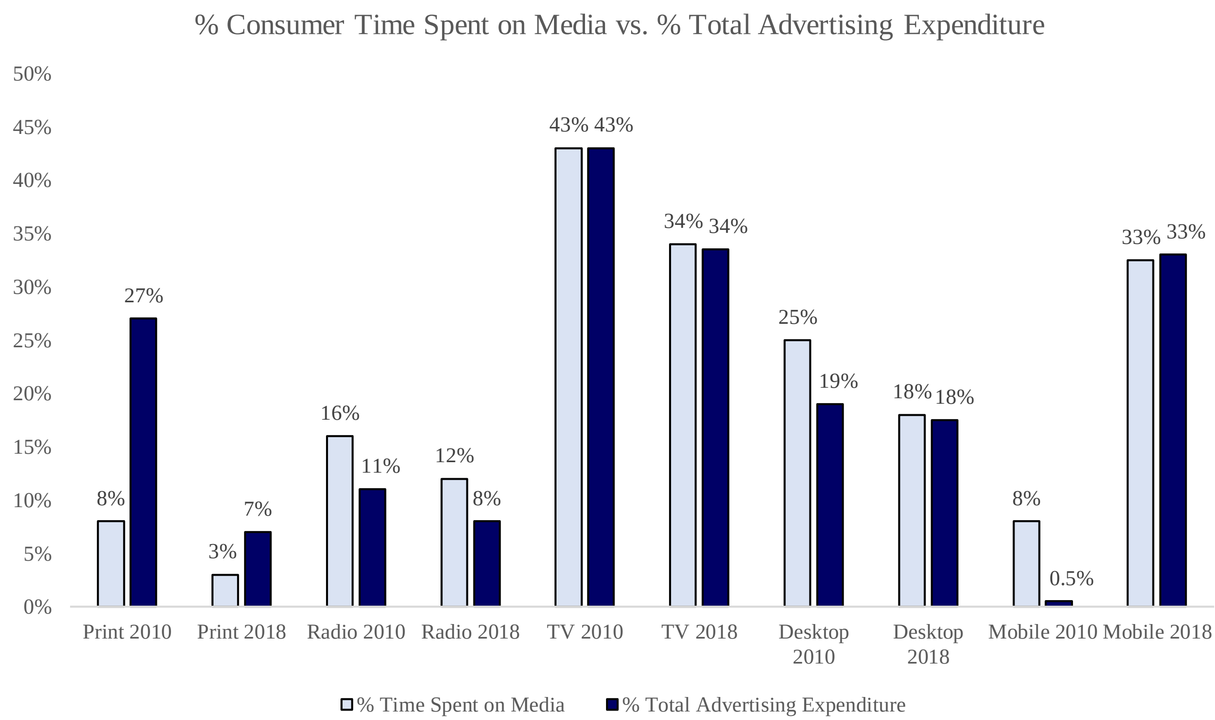
Q1-10 - H1-22	Internet	TV	Radio	Newspapers	Periodicals
% Change in US Advertising Sales Prices	***-21.5%***	***5.3%***	***-1.9%***	***-9.1%***	***14.2%***

Sources: FRED, GORA Calculations



Sources: FRED, GORA Calculations

BOND Capital's 2019 Internet Trends report identifies a disconnect between a media's % consumer timeshare compared to a media's % advertising spend attracted. Meeker suggests a converging trend between % consumer timeshare and % total advertising spend attracted. Naturally, this makes sense; why would ad-buyers deploy budgets where the audience is not? However, over the period given 2010-2018, Desktop and Mobile achieved parity, whilst the gulf in print media persisted.



Source: BOND Capital

A pull to parity appears an eventuality, however given deflationary differentials between print and digital advertising, we view that the greater share of this adjustment must come from a fall in print advertising rates. Such, declines in print advertising revenues during Pandemic years 2020 and 2021, are not material as the generalist suggests, since these are related to declines in general circulation and macro-driven decreases in ad-buying. Intuitively the longer the ad-spend spread persists, the sharper the advertising rate adjustment we expect.

Declines in print advertising rates would flow through to advertising revenue, but would be most detectable by print advertising ARPU, aARPU, an imputed metric. Falls in aARPU would results in compression of the current >5x ARPU premium attached to print subscribers, *see* – Print : Hiding in Plain Sight.

Advertising rates in print news media are determined foremost by age and relative affluence. Hence, the demographic composition of NYT's audience, provides some downside protection against a decline in aggregate print advertising rates.

Risks Related to the Acquisition of The Athletic

NYT's acquisition price of $550m (8.5x 2021 revenues) offered a small premium above the $530m valuation assigned to The Athletic in its last funding round (Q1-20), but lower than the $750m-$800 in Q2-21 and Q3-21. Enthusiastic observers were quick to note the 'cheap' implied per subscriber cost of the deal, considering the long-term strategic compatibility, *see* Fundamental Considerations – Acquisition of The Athletic. However, we suspect ~43% discount per subscriber is likely favorable to The Athletic in respect of differences subscriber cohort quality.

	Q4-21 *E*		Q1-22 A	
	Subscribers (m)	Implied per Subscriber Valuation	Digital-only ARPU	Digital-only Churn
The Athletic	1.20	$ 458	$ 2.98	*High - Seasonal*
New York Times	7.45	$ 797	$ 12.24	

Q1-22 A	Subscribers (m)	Digital-only sARPU	Digital-only aARPU	Digital-only ARPU
The Athletic	1.26	$ 2.54	$ 0.44	$ 2.98
New York Times	7.85	$ 9.40	$ 2.83	$ 12.24

Sources: Company Reports, GORA Calculations

In pursuit of growth The Athletic's founders onboarded subscribers at aggressively discounted rates. The Athletic's average subscription revenue per subscriber (sARPU) implies, 1 full priced subscriber for > 3 variable promotional rate subscribers. For comparison, we impute 1 for ~1.7 variable lower rate subscribers for NYT core products, inclusive of Lifestyle products and promotional rate subscriptions. It is well reported that The Athletic has high levels of seasonal churn given its focus on northern hemisphere sports franchises.

Additionally, our scuttlebutt research found that many promotional rate subscribers are long-term subscribers, who intentionally churn at the end of their teams' seasons to trigger promotional offers. The below are discussion threads from reddit fan pages, and are reflective of similar conversations in fan forums for many of the US major league sports covered and British premier league football.


Posted by [redacted] 7 months ago

21

Theathletic.com price increase, with retention offer for $22/year

FYI, got an email today from theAtlantic.com (source of excellent DCU and MLS coverage) announcing a price increase from $60/year to $72/year. Went to cancel my subscription online and it immediately offered a discounted rate of $21.59 for the year. So if you're interested in an athletic subscription, that same offer may be available to you, too.

I have no affiliation with the athletic, but it has good coverage of DCU and thought this might be of interest to the sub. If this is not allowed, please delete this post.

227

Posted by San Francisco Giants [redacted] 9 months ago

Heads up, The Athletic are running their $12/12 months promotion again

Link to tweet.

This is not the only reason that you should subscribe to them, but it's a very good reason to. Their tweet says that it's only for new subscribers, but I was previously subscribed and received an email with the offer for previous subscribers as well, so be on the lookout!

73 Comments Award Share Save ...

[redacted] 9 mo. ago
Atlanta Braves

I'm a current subscriber. One of the tweet replies said to cancel, and they'll offer a $20/year option today so that's what I did. Saved me $40, thanks OP

75 Give Award Share Report Save

[redacted] 9 mo. ago
Los Angeles Dodgers

Make sure to set yourself a reminder to cancel at the end of the 12 months otherwise it auto renews for the full price. You will get offered a discount if you try and cancel before then.

10 Give Award Share Report Save

[redacted] · 9 mo. ago
Chicago Cubs

You can also sign up, and then immediately cancel. You'll still have access until the subscription period expires. Just be careful of their tricksy UI since they do the typical flip the buttons around dark pattern.

10 Give Award Share Report Save

[redacted] · 9 mo. ago

I believe this link gives you a one time payment of 9.99 deal for a full year

https://theathletic.com/checkout/?plan_id=428&pc=999usplpwin&curr=USD

25 Give Award Share Report Save

Beyond subscribers, reach also matters, which we estimate at ~5.7% of the core news product NYTimes.com. Our estimate is based on global monthly average site traffic. It is our view that the per subscriber discount should in part also reflect reach differentials.

As discussed in Fundamental Considerations – Acquisition of The Athletic, for The Athletic to function as a top-level funnel into NYT's ecosystem, there must be a core cohort of The Athletic subscribers with latent propensity to subscriber to NYT's other products. However, we believe there are likely substantial frictions in bundling subscribers across.

By the typical two subscription model of US news media consumers, we hold The Athletic is a secondary subscription, *see* – Risks – Fishing in a Small Pond? The True Scale of the Subscription News Market. Given the median US news consumer holds two subscriptions, we assume also that ~50% of Athletic subscribers' primary news subscription is to one of the three national publications. Assuming no differences in political lean in The Athletic's subscriber base, which may not be sound, up to ~36% of acquired subscribers who already hold a primary news subscription, are subscribers at either WSJ or Washington Post. We know news habits to be entrenched, corresponding to a sticky subscriber base. Suggesting bundling across Athletic subscribers who would also be interested in a news subscription is no easy task.

The Athletic's coverage of premier league football provides access to the UK's market of English speaking news subscribers. However, similarly, it is not clear bundling UK subscribers into NYT's US-focused news product lacks friction. The percentage of UK consumers paying for news is 11-points lower than the US at 9% (2022). Of this 9%, the median number of subscriptions is 1, with only 8% of these paying consumers holding international subscriptions. Additionally, the UK has a number of strong news media brands, including The Guardian and the BBC, both of which are free at the point of use, boasting strong investigative and international coverage in text and multi-media formats.

Viewed as a talent acquisition play, the deal price implies a value of $1.22m per journalist for the ~450 journalists. The Athletic's Chief Content Officer Fichtenbaum claims The Athletic's moat comes from sourcing and paying a premium for top-local sports desk talent. Founder Alex Mather, put it less eloquently, when he stated his desire to "*suck dry*" local papers.

In a 2018 interview, Mather communicated a goal of covering every professional and major college team, which would entail by his estimate ~1,000 journalists covering only US sports. For comparison, NYT's core news operation is staffed by ~1,750 journalists, or ~11% of all US newspaper newsroom staff. This clearly highlights a flaw in The Athletic's model. Segment Cost of Revenue in Q1-22 was at a 27.6% per subscriber premium, largely attributable to cost of journalism. Our high estimate suggests a relative ~6x cost of journalism premium, where cost of journalism is a component of cost of revenue.

It is arguable that cracks were showing in The Athletic's high-cost model prior to acquisition. In 2020, The Athletic laid-off ~8% of total headcount, and in 2021 a further 46 beat writers, ~10% of 2022 newsroom headcount, as well as pivoting to include a sports gambling desk segregated from the core newsroom. Reports also detailed increasingly "*aggressive*" negotiations between staff and The Athletic's talent retention and acquisition team throughout 2020 and 2021, resulting in sharp pay cuts from 'teaser-rates'. The same reports claimed the existence of "*levels*" within the newsroom, by which writers were segregated into tranches and pay scales set accordingly. Observers have referenced the potential for organizational friction between The Athletic and NYT's core newsroom, given relative premia paid to Athletic journalists. Whilst we do not discount this potential, we think there also exists organizational friction *within* The Athletic segment, which poses a risk in its own right. We reflect these concerns in our model at the segment level.

Additionally, our scuttlebutt research leads us to question founders' claims hiring only top-local talent. Instead what we find is a two-tier newsroom, with brand name sports writers 'poached' from local papers, and a second tier of recent graduates based in the San Francisco head office with little discernable journalism experience or any connection to the teams on their beat.

Intuitively, this tracks to the profile and likely fan based of respective teams, with coverage of minor league and smaller metro area teams are covered by these second-tier talent. Our observations here aligns with and explains reports of explicit "*levels*" in the newsroom. Crucially these realities are not going unnoticed by readers.

[redacted] · 9 mo. ago

Miami Marlins

It's a good deal for sure, but I think it depends on who covers your teams basically. For the most part The Athletic for new hires and beat writers have been just really hiring young fresh out of college writers from the MLB internship program. Most of these people are from California or Arizona etc and are hired to cover random teams who they have never even had any affiliation with the city no less. It really stands out when you start to read the content they write.

29 Give Award Share Report Save

The narrative presented in Fundamental Considerations – Acquisition of The Athletic, is compelling, however given management's desire to run The Athletic as a standalone publication, and founders remaining in key management positions, it is not clear how or when these above issues might be resolved. NYT management discussion around the acquisition has been focused on revenue growth, through bundling and advertising. However, insufficient discussion is given to stemming seasonal leak, aggressively discounted promotional rates, or trimming excessive costs. We view these latter concerns as central to meeting with cumulative loss guidance of ~$100m through to 2025. Similarly, we remain concerned by potential for organizational friction across the two segments' newsroom, and within The Athletic's newsroom.

We expect churn to exhibit greater seasonality than the core news product, reflected in depressed sARPU growth. Such, we hold The Athletic will achieve positive EBITDA by 2026 in line with the upper bound of long-term guidance. We look to near-term gross segment subscriber additions and mid-term ARPU expansion driven by sARPU and aARPU growth to confirm our view.

Cost discipline remains a source of considerable uncertainty, with potential to more than offset top-line growth from ARPU expansion. we expect cost premia at The Athletic will be harder to reduce than long-term guidance suggests. Consequently, we hold The Athletic will achieve positive EBITDA by 2026 in line with the upper bound of long-term guidance, but we model loses exceeding the upper bound of long-term guidance by ~12% at cumulative LBITDA Q1-22 to 2025-end of -$112m, *see* – Fundamental Considerations – Acquisition of The Athletic.

The Opportunity

We believe, the market now misunderstands the opportunity presented, with NYT offering sustainable mid-term revenue growth and margin expansion on the basis of mid-term ARPU uplift, underwritten by NYT's differentiated value add, and powerful dynamics of the digital news media market.

Based on our differentiated view of mid-term ARPU paths, NYT trades at ~40% discount to intrinsic value with potential to deliver attractive mid-teens compounded returns through to 2028, at a conservative >14.5x P/FCF multiple.

With Q1-22 acquisition of The Athletic dilutive to near term operating profit and distortive to KPIs, NYT looks expensive. However, we believe the current share price offers an attractive entry point ahead of consolidated company level margin improvements and a significant ROIC inflection in H1-24.

Oct-22	Share price	Market Cap	EV	P/E	*growth*	EV/EBITDA	*growth*	FCF	Div
NYT	30.13	5,009	4,788	26.6x	*-25.8%*	15.0x	*3.8%*	*4.8%*	*1.2%*
Average				9.2x	*49.4%*	7.3x	*14.3%*	*14.3%*	*0.6%*
NWSA	16.00	9,303	11,471	17.3x	*-11.7%*	6.6x	*5.8%*	*11.2%*	*1.3%*
GCI	1.51	221	1,355	-6.9x	*-54.7%*	5.0x	*-10.0%*	*69.6%*	*0.0%*
LEE	18.26	109	558	6.4x	*69.3%*	5.6x	*18.4%*	*0.0%*	*0.0%*
DIS	101.03	184,184	236,185	21.0x	*174.8%*	13.8x	*41.8%*	*3.7%*	*1.1%*
FOX	29.10	15,979	18,209	8.2x	*69.1%*	5.4x	*15.4%*	*15.7%*	*1.8%*

DCF	WACC	Terminal growth rate	Intrinsic value	Upside	6-year CAGR
NYT	*10.3%*	*5.3%*	***> $55.50***	***> 80%***	***> 13%***

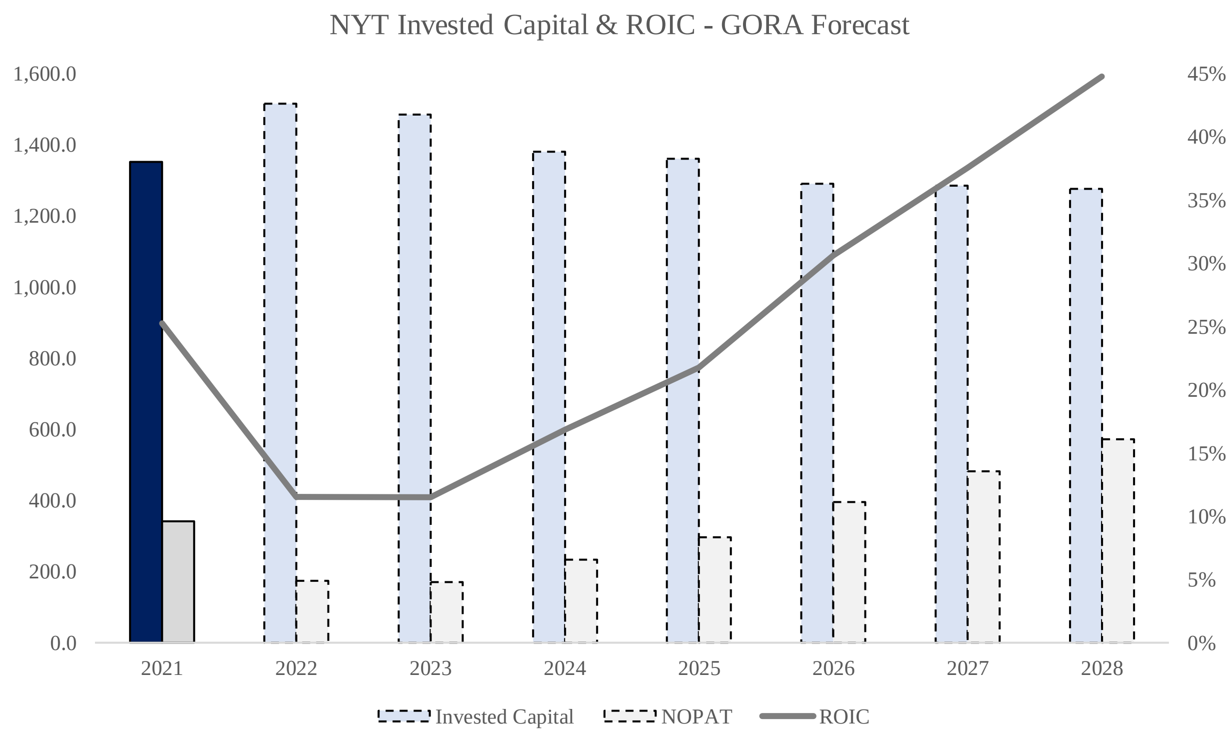
Due to how NYT recognizes subscription revenue, with subscription revenue in respect of forward periods booked as 'unexpired subscriptions', a liability, underwriting continued strong growth in net subscriber additions implicitly underwrites FCF per share greater than EPS in the mid-term.

Support from the growing FCF profile, is supportive to a stable and growing dividend, leaving considerable scope for accelerated repurchase programs.

In our view, continued success in execution positions the stock as an attractive fisher compounder set-up. The ability to back out imputed KPIs which give a better reflection of NYT's progress, is an attractive feature to diligent watchers of the stock and considered long-term investors.

Catalysts

- Continued strong net subscriber additions in H2-22 and H1-23
- Increased rate of international subscriber additions in H2-22 and H1-23
- ARPU uplift driven by imputed sARPU component
- Improved cost discipline and LBITDA profile at The Athletic from H2-23 onwards
- Consolidated margin improvement from H1-24
- ROIC inflection in H1-24
- Accelerated share repurchases from H1-24


NYT Invested Capital & ROIC - GORA Forecast
1,600.0
1,400.0
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200.0
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Invested Capital
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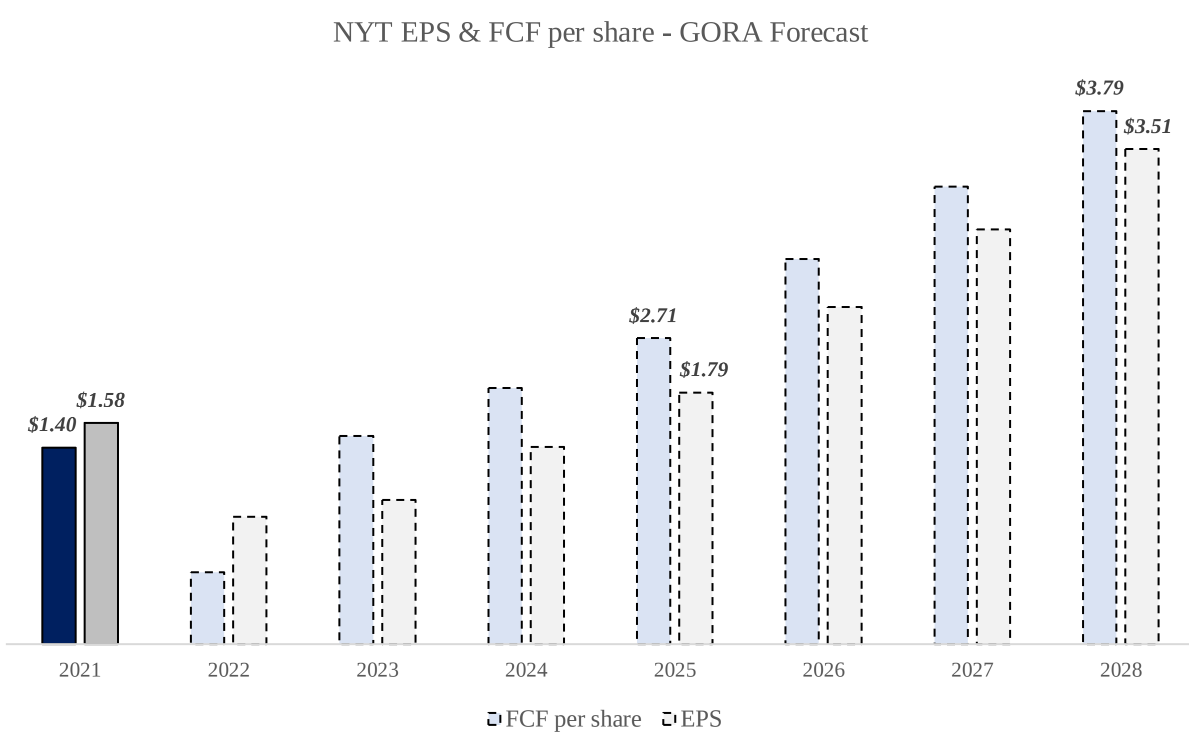
ROIC


NYT EPS & FCF per share - GORA Forecast
$3.79
$3.51
$2.71
$1.79
$1.58
$1.40
2021
2022
2023
2024
2025
2026
2027
2028
FCF per share
EPS

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