The Truth Is Out There:

Company Financial Reports

as Primary Sources for

Media Management Research

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A PAPER FOR PRESENTATION TO THE EUROPEAN MEDIA MANAGEMENT ASSOCIATION, WARSAW, 14-15 JUNE 2018

ABSTRACT

Media reports of newspaper company finances have often portrayed an industry in "crisis" and suffering huge annual losses. Recourse to primary sources in the form of company financial statements, however, can tell a much different story. Stock market regulators legally require quarterly earnings reports to be filed by all listed companies in order to provide investors with reliable information. The UK registrar Companies House requires annual financial statements from all companies, whether publicly listed or privately owned. This can provide a much more granular portrait of company financial health, as separate reports are required of even subsidiary companies. Listed companies also produce annual reports which can often provide more fulsome results in order to attract and encourage investors. Consulting all of these sources where available is the best way of getting an accurate depiction of company financial performance in a process of "triangulization." Before scrutinizing company accounts, however, some understanding of accounting rules is advised.

Keywords: Media economics; media industry studies; media companies; newspaper publishing

Most public interest research, be it journalism or scholarship, does not involve bringing secrets to light but instead entails simply connecting the dots between available but overlooked or suppressed facts. One of the most overlooked or suppressed facts of all, a Canadian Senate report noted in 1970, has been the profitability of newspaper companies. The Special Committee on Mass Media forced owners to open their books and described what it found as "astonishing" (Canada, 1970, 47). Newspapers made before-tax profits of 23-30 percent between 1958 and 1967. "Owning a newspaper, in other words, can be almost twice as profitable as owning a paper-box factory or a department store" (Canada, 1970, 47). The secrecy surrounding the lucrative nature of newspapers, the Senate report declared, was delicious in its hypocrisy. "An industry that is supposed to abhor secrets is sitting on one of the best-kept, least-discussed secrets, one of the hottest *scoops*, in the entire field of Canadian business – their own balance sheets" (Canada, 1970, 47).

Ben Bagdikian cited this revelation a few years later in an article for the *Columbia Journalism Review* titled "The myth of newspaper poverty." This myth also featured prominently in his 1984 book *The Media Monopoly*, which he updated for six editions over the next sixteen years.

> American publishers have always felt obligated to pretend that they are an auxiliary of the Little Sisters of the Poor. This was always amusing, but now that so many papers are owned by publicly traded companies which have to disclose their finances it is taking on the air of slapstick. (Bagdikian, 1973, p. 20)

Precise figures on newspaper profits had until recently been hard to come by, noted Bagdikian (1973, p. 21), because "of all industries, newspaper publishing is the most obsessed by financial secrecy." Increased public ownership of newspapers, however, had opened a window into their hitherto secretive finances. Highly profitable independent newspapers were then being bought up by fast growing chains such as Gannett and Knight

Ridder. In order to raise the capital needed to make these acquisitions, most chains began selling shares of their ownership on stock markets. To prevent investors from being swindled, stock market regulators require regular financial disclosure from listed companies, so these newspaper owners were thus obliged to issue quarterly earnings statements and more fulsome annual reports detailing their operations. As Bagdikian observed, this lifted the veil of secrecy somewhat, but little seemed to change in terms of public perceptions. Mandatory financial reporting by newspaper companies did not necessarily bring awareness of the lucrative nature of their operations because the focus of media reporting continued to be on the supposed hardships faced by the industry. Thus the myth of newspaper poverty only seemed to grow.

The myth had been instrumental, noted Bagdikian, in passage through the U.S. Congress of the 1970 Newspaper Preservation Act (NPA), which exempted competing dailies from antitrust laws by allowing them to go into business together. The closure of many second- and third-place dailies was seen as evidence of financial hardship, as first advertisers and then readers gravitated to the largest newspaper in a market under the so-called "circulation spiral." This led to a perception among lawmakers and the public that newspapers were dying and thus required regulatory exemption. The disappearance of competition, however, only made the surviving newspapers more profitable, especially those operating jointly under the NPA and publishing morning and afternoon titles to blanket a market, as they could now legally conspire to set advertising rates and circulation prices and then split the profits.

Despite their profitability, however, hard economic times in the U.S. brought by high unemployment and runaway inflation in the early 1970s caused newspaper publishers to complain loudly of financial woe in order to justify cutbacks in hiring. "This is mostly hogwash," railed Bagdikian (1973, p. 19), who found U.S. newspapers averaged 15.6 percent

profit margins over a five-year period in the late 1960s and early 1970s. "American daily newspapers are one of the most profitable of all major industries in the United States." While publishers complained publicly about rising costs, noted Bagdikian (1973, p. 19), "privately most have had a different kind of problem: how to get rid of profits." That was because the U.S. government had introduced controls on profits, wages, and prices in the early 1970s to fight inflation, and despite their public pleadings of poverty, newspapers were in danger of exceeding the profit limits.

> Gannett plants [have] been painting everything in sight in a crash program to soak up profits that exceed guidelines. In an almost unprecedented move for newspapers, the Harris papers in Kansas, Iowa, and California actually reduced advertising rates, though their circulation trends didn't force them to; otherwise their profits would have been beyond limits designated by the Government. (Bagdikian, 1973, p. 21)

Hugh Martin (1998) studied profits of publicly-traded U.S. newspaper companies from 1984-94 and found they averaged 15-17 percent prior to the recession of the early 1990s, dipped below 10 percent in 1991, and then recovered into the teens. Despite the recession, which saw newspaper earnings fall for the first time since the 1940s, Martin found that all but one of the companies he studied had profit margins over the period in excess of 9 percent. Compared with book publishing companies, newspaper profits were 90 percent higher, noted Martin, and they were 53 percent higher than the return on corporate bonds.

> Newspaper companies . . . earned excess profits throughout most of the study period despite the effects of what one analyst called "the biggest advertising recession since World War II." Newspaper companies apparently had enough market power to return to pre-recession profit levels in three years. . . . Critics who accuse newspapers of protesting too much about their financial situation may have a point. (Martin, 1998, p. 512)

John Morton, a newspaper stock analyst and long-time columnist for the *American Journalism Review,* found newspaper companies averaged 15 percent profit margins in 1993, or triple the Fortune 500 average (Morton, 1994). He found a wide range of profitability, however, from 7.1 percent for Times Mirror chain to 34.6 percent for Warren Buffet's *Buffalo*

News. “Even during recessions, when the profits of many other businesses fall sharply or disappear, newspapers usually still post more-than-respectable earnings” (Morton, 1994). While some critics pointed to greed as the reason behind such high profit margins, Morton had a more benign explanation. “Greed may be a factor at some newspapers, but the real reason newspaper profitability is high is how a newspaper is organized.”

> To a large extent, a successful newspaper cannot help having higher profit margins than most other businesses because newspapers, to use economic jargon, are more “vertically integrated” than most other businesses. . . . Almost everything else that adds value to the final product – news and advertising content – is created in-house [and] it also retails its manufactured product – the newspaper – directly to its customers. (Morton, 1994)

Despite this research, a misperception exists even among scholars regarding newspaper profitability, perhaps because even scholars usually rely on secondary souces, ie. news stories which often report multi-million dollar losses incurred only on paper. As scholars, they should instead rely for their understanding on primary sources, ie. the financial statements which would show that newspapers continue to post comfortable operating profit margins. Failure to do so has contributed to the promotion even in the academy of what has been called a newspaper “death myth.”

Newspaper “crisis” of 2008-09

Nowhere was the public and scholarly misconception of newspaper viability better illustrated than in the “crisis” which beset newspapers a decade ago. Worldwide stock markets crashed in October 2008 after a U.S. housing bubble burst, leading to a recession so deep and long that it became known as the “Great Recession,” as had that of the early 1970s. After Denver’s *Rocky Mountain News* and the *Seattle Post-Intelligencer* closed in early 2009, predictions ran rampant of an imminent newspaper extinction. Michael Wolff predicted that 80 percent of newspapers would be gone in “about 18 months” (Kaplan, 2009). The *Atlantic* magazine speculated in a cover story titled “End Times?” that even the venerable *New York Times* could go out of business within months due to its more than US$1 billion in debt (Hirschorn, 2009).

Time magazine posted a list of "The 10 Most Endangered Newspapers in America" on its website and warned: "It's possible that eight of the nation's 50 largest daily newspapers could cease publication in the next 18 months" (Anonymous, 2009). Even after those deadlines passed, the economy improved, and newspapers obviously persisted, some scholars continued to make dire predictions of their doom. Jeffrey Cole, director of USC's Center for the Digital Future, predicted in 2011 that most large U.S. newspapers had "less than five" years left. Included among the likely casualties were *USA Today* and the *Los Angeles Times*, as according to Cole only a few large national dailies would survive alongside Sunday newspapers and community newspapers (Obrecht, 2011).

Similar predictions were made in the UK, where media analyst Claire Enders told a House of Commons committee in 2009 that up to half of the country's 1,300 local and regional newspapers could close within five years. Five years later, only about 100 newspapers had closed instead of 650, according to one estimate. Many were free newspapers, and the only paid regional daily to cease publication was the *Liverpool Post* (Linford, 2014). Meanwhile, the only major North American daily to fold since 2009 was the *Tampa Tribune* in 2016 after it was sold to and consolidated with the larger *Tampa Bay Times*. The *Economist* noted in 2010 that the recession had brought out in newspapers "an impressive and unexpected ability to adapt" by becoming leaner and more focused (Anonymous, 2010).

According to a 2012 study, the newspaper "crisis" was exaggerated by media coverage. The study found that reporting in the national dailies *Wall Street Journal*, *USA Today*, and *New York Times* had focused on annual declines without providing historical perspective, thus "creating a false impression that the whole industry is 'dying,'" (Chyi, et al., 2012, p. 316). Instead the study noted that newspapers were doing well in small U.S. markets and were even flourishing in many other parts of the world. It found that the "over-amped drama" of

coverage by the three national dailies failed to explain industry economics and relied "too heavily on the views of newspaper publishers and too little on empirical data" (Chyi, et al., 2012, p. 317).

A comprehensive 2014 review of financial data examined the annual reports of all publicly-traded newspaper companies in the U.S. and Canada between 2006 and 2013. Using the standard profitability measure of EBITDA – earnings before interest, taxes, depreciation, and amortization – it found that none suffered an annual loss during that period despite historic declines in print advertising revenues of 58 percent in the U.S. and 36 percent in Canada (Edge, 2014). A 2017 study of UK newspapers using the EBITDA measure found that several suffered annual losses over the previous decade, but that even loss makers such as the *Times* had returned to profitability due to increased digital subscription revenues provided by paywalls (Edge, 2018). Studies in the U.S. and Belgium using proprietary datasets similarly confirmed that newspapers there were comfortably profitable (Herndon, 2015; Van der Burg & Van den Bulck, 2017). Yet the newspaper death myth persists despite empirical evidence to the contrary. This points up the need for both journalists and scholars to consult primary sources in the form of financial statements in order to determine the actual state of media company finances. Even more important is literacy in reading financial statements in order to interpret these often deliberately opaque and confusing documents. This paper hopes to foster that effort by pointing to specific examples.

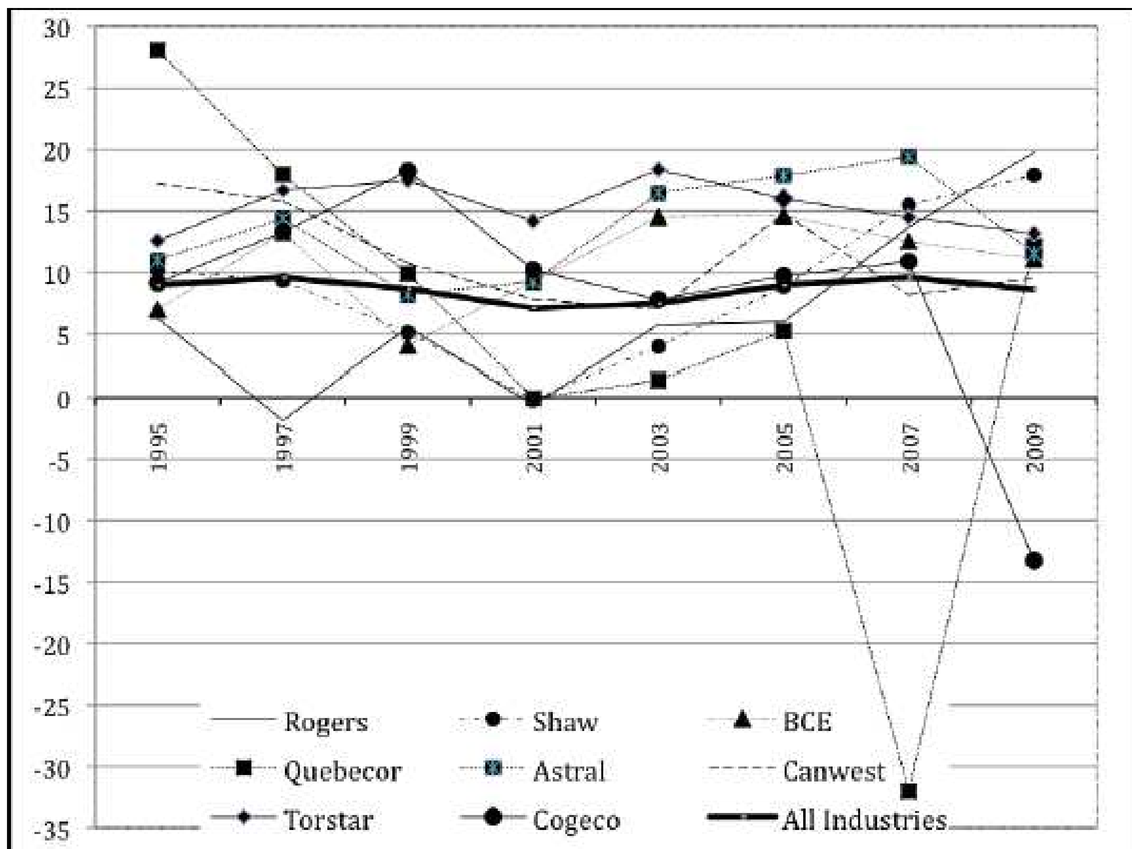
Focus on operating earnings

Much of the confusion over newspaper profitability, the 2014 study found, arose from press reports which focused on "paper" losses that often included tens of millions of dollars in extra-ordinary writedowns on business valuation. This resulted from a change in reporting requirements of listed companies after the dot-com bubble burst at the millennium. Stock market regulators began requiring companies to regularly re-value their businesses, as shares

of many Internet start-ups had traded at high prices relative to their meagre or non-existent earnings. As company valuations were typically calculated by multiplying annual earnings four or five times, or in a growth industry by ten times or more, newspaper company valuations fell in lockstep with their plunging revenues and earnings. While such writedowns undoubtedly reflected a loss in value for investors of the company, they did not mean the company was less profitable, only that its earnings were lower. As Morton (2008/09) noted: "Accounting rules require that these write-downs be charged against income, but they are paper transactions – no cash goes out the door."

Extraordinary losses, such as on the sale of a division, similarly did not usually affect the continuing operations of a company, but the lost value had to come off the company's balance sheet at the end of the year. It did so as a deduction from operating income to calculate net income (or loss), which often created an enormous loss on paper. This could be deceiving, however, as a company could be extremely profitable on an operating basis but suffer an enormous extraordinary loss that made it appear unprofitable. Thus focusing on net earnings can be misleading. This was the case in 2007 with Quebecor, a company which included a Canadian media division (Quebecor Media) and an international printing business that was once the world's largest with $10 billion in annual revenue (Quebecor World). The latter fell on hard times during the recession of 2001-02 due to mismanagement and a downturn in its business, and it declared bankruptcy in 2008 due to its enormous debt taken on in making acquisitions. A 2010 study of Canadian media company profitability focused on net earnings and thus portrayed parent company Quebecor as suffering an enormous loss that year. (See Table 1)

Table 1 – Canadian media company profit margins, 1995-2009 (%)



Source: Winseck, D. (2010). Financialization and the "Crisis of the Media": The Rise and Fall of (Some) Media Conglomerates in Canada. *Canadian Journal of Communication 35*(2), 365-393.

Focusing on the EBITDA of the company's Quebecor Media division instead, as a 2011 study did, told quite a different story. (See Table 2)

Table 2 – Quebecor Media EBITDA margin, 2004-2010 (%)

	2004	2005	2006	2007	2008	2009	2010
Telecommunications	38.9	38.2	39.1	41.4	44.2	48.6	46.9
Newspapers	25.6	24.2	22.3	22.0	19.2	18.0	19.3
Broadcasting	22.3	13.2	10.7	14.2	15.1	18.2	16.9
Other	13.0	15.4	6.0	3.7	3.8	4.9	5.5
TOTAL	29.3	28.2	26.3	28.2	30.0	33.7	33.2

Source: Edge, M. (2011). An accidental success story: The forced diversification of Quebecor Media. *Journal of Media Business Studies 8*(3), 69-87.

Financial reporting

While company financial statements can vary widely in their presentation and fulsomeness, reporting by media outlets can differ even more widely, depending on their biases, which points up the perils of relying on such secondary sources. Competing newspapers in Toronto, for example, reported directly contradictory accounts of the same 2010 fourth-quarter earnings report issued by the Torstar Corp. The *Globe and Mail* ran a Canadian Press wire service story under the headline "Torstar posts lower fourth quarter profit" that focused on net income of $26.7 million, which had fallen by half from what it had been in the same period a year earlier (Anonymous, 2011). Net income for the quarter, however, included the deduction of restructuring and other charges of $17.9 million from a recent downsizing, interest payments on debt of $6.1 million, a $445,000 loss on the sale of an associated business, an investment writedown of $773,000, and $9.6 million paid in income taxes (Torstar Corporation, 2011). Torstar's flagship daily, the *Toronto Star*, instead reported the results under the headline "Torstar reports higher profits and revenues" in a staff-written report which focused on EBITDA of $71.5 million, which was up $1.9 million from the same period a year earlier (Yew, 2011). The fact this change was incremental rather than drastic only reinforces its preferability as a measure of financial performance.

For a researcher interested in divining the performance of the *Star* itself, however, considerable digging through the pages of financial figures was required. As Torstar was a diversified media conglomerate, the results of its Media division had to be separated from those of its Harlequin romance novel publishing division. Even its Media division had two segments, however, one for the *Star* and the other for Metroland, which was Canada's largest community newspaper chain. (See Table 3)

Table 3 – Torstar Corp. Media Division results, 4th quarter (000s)

	2010			2009		
	Metroland Media	Star Media	Total	Metroland Media	Star Media	Total
Operating revenue	$158,467	$137,631	$296,098	$143,594	$128,966	$272,560
EBITDA	$32,530	$24,322	$56,852	$28,993	$22,992	$51,985
Depreciation & amortization	2,866	7,370	10,236	4,194	8,589	12,783
Operating profit	$29,664	$16,952	$46,616	$24,799	$14,403	$39,202
EBITDA margin	20.5%	17.7%	19.2%	20.2%	17.8%	19.1%
Operating profit margin	18.7%	12.3%	15.7%	17.3%	11.2%	14.4%

Source: Torstar Corp. Annual Report, 2010

While these results were buried deep within Torstar's annual report, at least they spelled out clearly the financial performance of its individual media entities and listed both EBITDA and operating profit, as well as their respective margins when divided by revenue. Operating profit differs from EBITDA, at least in this presentation of results, by deducting amounts for depreciation of plant and equipment and amortization of property purchases. Net income, as we have seen, also deducts non-recurring or "extra-ordinary" items which in no way reflect day-to-day operations. Extraordinary expenses are excluded from EBITDA and operating earnings in order to provide a more accurate picture of a company's financial performance. These can include such things as a loss on the sale of an asset and even the "restructuring" costs of laying off workers, as Morton (2008/09) noted.

> Severance payments from layoffs, which do represent cash out the door, are excluded because they are one-time events that do not affect the underlying structure of the business. Indeed, they are intended to improve financial efficiency by reducing future payroll.

While it is controversial in the arcane accounting world, EBITDA is generally seen as the best available profitability measure of companies such as newspaper publishers. It is widely used by investors, noted financial analyst Chak Reddy (undated).

> EBITDA is a great tool to measure the profitability of companies with expensive assets that get depreciated over an extended period of time. . . . It is common to measure mid-market company profitability and cash flow using EBITDA and use EBITDA as the exclusive indicator of the business performance.

Not all companies report EBITDA in their financial statements, however. Some report operating earnings, or "operating profits," as Torstar calls them, which also go by the acronym EBIT, so listed amounts for depreciation and amortization have to be dug out from even deeper in the earnings report and added back in to determine EBITDA. Some companies make other deductions from earnings, however, so a bit of detective work is often needed to calculate EBITDA. The deductions are not always listed in the tabular results, sometimes coming under the heading "Other," so recourse to the footnotes is then required to determine exactly what was subtracted from EBITDA. The most cryptic of all newspaper company financial statements examined for the 2014 study were those of the Washington Post Company. They listed pension expenses and capital expenses after earnings, which suggested that those amounts should be added back in to determine EBITDA. Repeated queries to the company's senior vice president of finance went unanswered, however, so the assumption was made that pension expenses and capital expenses had been deducted in reporting earnings. Another basis for making this assumption was public statements made by Warren Buffett, a major shareholder in WaPoCo for 40 years who sat on its board of directors before resigning in early 2014 following the *Post*'s sale to Jeff Bezos. Buffett had long advocated for subtracting capital expenditures from earnings to determine profitability, writing in his letter to shareholders of his holding company Berkshire Hathaway in its 2000 annual report: "Does management think the tooth fairy pays for capital expenditures?" (Statz, 2010). Buffett's own *Buffalo News*, which reported its earnings as part of Berkshire Hathaway, was excluded from the 2014 study because the vague nature of the holding company's financial statements made it impossible to isolate earnings for the *News.*

Some media conglomerates also do not segment their earnings by division as Torstar and the Washington Post do. Some choose segments which make determining newspaper profitability

difficult or even impossible. In its annual reports issued from its headquarters in New York, for example, News Corp. does not segment its results geographically. Its newspaper holdings in the U.S., UK, and Australia are lumped together in a division with its worldwide book publishing companies, and for good measure the company changes its reporting methods from time to time. One U.S. multimedia company changed its segmented reporting from listing its results by medium to listing them geographically, thus mixing its newspapers with its holdings in other media.

Sources of data

In the U.S., the Securities and Exchange Commission (SEC) hosts a database called Edgar which archives all filings made by publicly-traded companies at https://www.sec.gov/edgar.shtml. The Canadian equivalent is called Sedar and is available online at https://www.sedar.com/. All publicly-traded newspaper companies in North America, however, also maintain websites which include pages where their financial reports, press releases, and other filings are posted. Only about 40 percent of U.S. newspapers are owned by publicly-traded companies, however, with the equivalent number in Canada being about 75 percent. In the UK, by contrast, all registered limited liability companies, including subsidiaries, must file annual financial statements with the registrar Companies House whether they are publicly traded or privately owned. These are available to be downloaded from https://www.gov.uk/government/organisations/companies-house. Separate financials can thus often be obtained for individual newspapers, such as News Corp.'s *Times* and *Sun*, because they are published by different subsidiary companies (Edge, 2018). This allows for a much more complete and granular portrait of industry health.

News Corp.'s dailies provide an excellent example of the depth of data available in the UK. The company's subsidiary News Group Newspapers Ltd published its *Sun* and *News of the World* tabloids until the latter was closed in 2011 as a result of the phone hacking scandal

which prompted the Leveson inquiry. This subsidiary turned from small profit margins to losses of 2.9 and 2.5 percent return on revenue during the recession years of 2008 and 2009. Following closure of the *News of the World*, however, it posted profit margins of about 7 percent in 2014 and 2015 before seeing that figure halved in 2016. The *Times* and the *Sunday Times* are published by News Corp.'s subsidiary company Times Newspapers Ltd., whose annual financial filings to Companies House show it was a consistent loss maker from 2007 through 2013. Its losses from 2007-10 ranged from 7.6 percent (return on revenue) to 18.6 percent. Since the introduction of a so-called "hard" paywall in 2013 which required a digital subscription for any online access to content, however, the newspapers have gradually become money makers for the Murdoch empire, posting profit margins of 6.1 percent in 2015 and 4.9 percent in 2016. The same paywall erected on the *Sun* website, however, was quickly dropped when it attracted few subscribers (Edge, 2018).

Required disclosure does not necessarily mean fulsome disclosure, however, as some filings to Companies House are maddeningly vague and even seemingly obfuscatory. Annual statements filed by FT Publishing, which owned the *Financial Times*, its website FT.com, and a half-interest in the *Economist*, are a case in point. They proved remarkably opaque and arguably misleading, claiming large annual losses by deducting from earnings not only "special pension contributions," but also unspecified charges listed only as "Other." (See Table 4)

Table 4 – FT Publishing

Continuing operations	Note	2011 £'000
Turnover	3	**305,369**
Cost of sales		**(171,620)**
Gross profit		**133,749**
Distribution costs		**(46,712)**
Administrative expenses		**(101,663)**
Administrative expenses comprise		
Impairment of investments		**0**
Special pension contribution		**(26,264)**
Other		**(75,399)**
Operating (loss)	4	**(14,626)**

Recourse was thus made to annual reports of its publicly-traded parent company Pearson plc, which proved much more fulsome. (See Table 5)

Table 5 – Pearson plc 2011

All figures in £ millions	Notes	North American Education	International Education	Professional	FT Group
Continuing operations					
Sales (external)		2,584	1,424	382	427
Sales (inter-segment)		3	–	9	–
Adjusted operating profit		493	196	66	76

Listed alongside the company's other divisions, its FT Group recorded an "adjusted operating profit" of £76 million on sales of £427 million, for an enviable profit margin of 17.8 percent. This accounting is doubtless a better reflection of the financial performance of the *Financial Times*, which Pearson sold in 2015 to Japanese publishing company Nikkei for £844 million. The purchase price was reflective of the fact the *Financial Times* by then had 750,000 digital subscribers, having pioneered the "metered" paywall which encouraged online readers to subscribe by first allowing them access to a number of free articles.

Conclusions

While the example of FT Publishing's filings to Companies House illustrates the fact that mandatory financial disclosure does not always equal transparency, it also shows that a more accurate portrayal of reality can often be drawn from consulting multiple sources. Secondary

sources in the form of press reports should not be relied on to provide an accurate portrayal of their own industry's finances. Filings to stock market regulators are usually focused on meeting legal requirements and not on proving the most accurate or complete portrayal of financial viability. Company annual reports are often more forthcoming, as they are usually intended to attract and encourage investors. The best possible picture of reality, however, is usually gained by consulting as many of these sources as possible in a process of "triangulization." Before poring through company accounts, however, the researcher must first understand what the rows of figures represent. As the 1990s TV programme "The X-Files" assured its viewers, the truth is out there. It just takes some digging to uncover and, in the case of media company financial reports, some financial literacy to comprehend.

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