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New York Times Co. (NYT)

November 9, 2005
52 week range: $26.56 - $41.62
Last Close: $28.65

BUY -- $40 expected price within the next year

New York Times Co.: Newspaper or Internet Information Provider?

- Our estimate for fair value approaching $40 represents a 38% upside to the latest closing price of $28.65 for the stock.
- The New York Times Co. stock is down about $15 this year alone, making this a good time to buy.
- Investors have punished the Times Co. for high costs – but the company is trimming expenses and 2005 FCF is artificially depressed.
- Investors are not pricing in the online potential for the Times. The Times has not released numbers yet on its new subscription service TimesSelect, but we have modeled the benefit to long term profits and see significant upside that investors are not appreciating.

[1] Please see important disclaimer at the end of this section.

- The Times remains the highest quality, most frequently read daily paper in the country and largest beneficiary of national advertisements. Circulation growth should remain positive in the long term as it meets unmet subscription demand across the country according to announced expansion plans.

- The Times will benefit from its longstanding relationships with Blue Chip and other large advertisers as media delivery changes with technology.

- The Times is in a unique position among its peers in the newspaper industry and among Internet information providers – it truly operates in both spheres.

Important Disclaimer

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About The New York Times Company

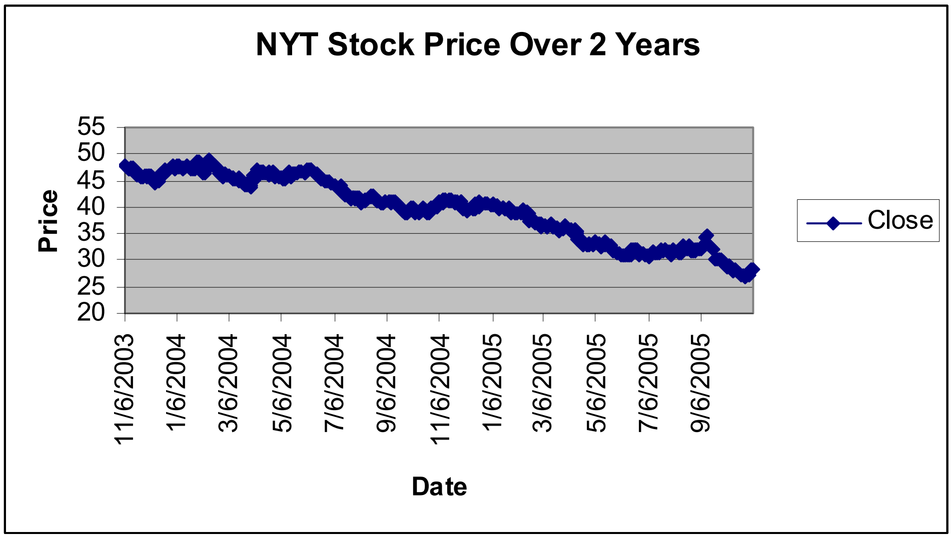
The Times Company's purpose, as stated in its 2004 annual report, is to "enhance society by creating, collecting and distributing high-quality news, information and entertainment." In addition to its flagship paper, *The New York Times*, the Times owns *The International Herald Tribune*, *The Boston Globe* and 16 smaller newspapers. It also owns eight network-affiliated television stations and 40 Web sites, including nytimes.com and About.com. As its first core value, the Times states creating "content of the highest quality and integrity – that is the basis for our reputation and the means by which we fulfill the public trust and our customers' expectations."[2]

Most of the Times Company's revenue comes from advertising. In 2004, for example, about $2.2 billion of the company's roughly $3.3 billion in revenues came from advertising. More than half of that ad revenue was earned by The New York Times Media Group – which includes the flagship paper and *The International Herald Tribune*. Circulation dollars make up most of the rest of the company's earnings. The New York Times Media Group, for example, made about $600 million in circulation in 2004. The company also earns about $200 million in licensing fees and merchandise, among other things.

As for costs, in 2004, the Times' total costs were about $2.8 billion. That was made up of $1.3 billion in Selling, general and administrative expenses, and about $1.4 billion in production costs, which include printing materials and labor costs. The cost of newsprint has been increasing in the past few years – in 2005 alone, it increased 11 percent. In addition, the Times' wage and benefits cost has been increasing. These two factors have increased company costs, and the Times' profit margin has been declining. Over the past two years, the

[2] The New York Times Company's 2004 Annual Report.

stock market has heavily penalized the Times Company for its declining profit margin – which was about $500 million in 2004. As investors see large newspaper companies like Gannett and Knight Ridder frequently pull in profit margins above 20 percent, they see a declining margin at the Times Company as a bad sign.



We see this down period in the share price as a good opportunity to buy Times stock because we think the company's revenue is going to increase, and we think that the company's costs will decrease as a % of revenue, as company management follows through on promised cost improving measures, such as changing the weight of its newsprint paper. We will return to these expense measures and growth prospects later in this report.

Management apparently agrees that The Times Co. stock is a good buy at today's levels. There have been only two insider transactions since August: a $102,000 purchase by one board member and a $15,750 purchase by another. In addition, since the start of 2005, The Times Co. has repurchased 1.3 million shares. (Also during this year, the company has issued 0.4 million shares, so the net decrease is 0.9 million shares.) When asked during the company's 3rd Quarter conference call if the Times Co. would continue to buyback shares, the chief financial officer said he expected the company to continue buying back more shares than it issues in options.

Newspaper or Internet Information Provider?

Analysts, by and large, have not been raving about The New York Times Company this Fall. In September, Merrill Lynch analyst Lauren Rich Fine wrote to investors that "our patience is wearing thin" with the Times.[3] And, in October, when the Times released disappointing third-quarter earnings, Douglas Arthur of Morgan Stanley said:

> "The New York Times, despite having a pretty good strategy with regard to both print and online, has probably had some of the most sluggish ad revenue growth in the newspaper industry and at the same time has incurred more cost increases than its peers."[4]

The Times' valuation is lower than its peers in the newspaper industry, and analysts are quick to compare the Times' cost structure and profit margins with other large newspaper companies, such as E.W. Scripps, Gannett Co. and Knight-Ridder Inc. As you can see in the chart below, the Times' profit margin is lower than the margins at most other large newspaper companies.

Description	Market Cap	P/E	Net Profit Margin (mrq)	Stock Price	52 week-range
Newspaper Industry					
Average	**63.50B**	**23.2**	**9.1**		
Daily Journal Corp.	63.03M	14.831	18.991	$42	34.01 - 59.00
Dow Jones & Co. Inc.	2.93B	53.449	2.415	$35.33	31.94 - 45.24
EW Scripps Co.	7.60B	22.517	13.815	$46.43	44.73 - 52.91
Gannett Co. Inc.	15.56B	12.723	15.926	$64.86	61.84 - 85.11
Journal Communications	1.04B	15.243	7.582	$14.10	13.02 - 18.22

[3] "S&P says it may cut ratings on N.Y. Times debt" *The Associated Press*. September 21, 2005.
[4] Glater, Jonathan. "Profit Slides at Times Co." *The New York Times*. October 21, 2005.

Inc.					
Journal Register Co.	690.44M	11.834	8.335	$16.84	15.01 - 19.67
Knight-Ridder Inc.	4.53B	9.298	34.98	61.48	52.42 - 71.07
Lee Enterprises Inc.	1.82B	21.353	8.583	$40.11	37.36 - 48.85
McClatchy Co.	3.04B	18.769	13.205	$65.11	61.38 - 76.05
New York Times Co.	***4.13B***	***13.616***	***2.918***	***$28.43***	***26.56 - 41.62***
Tribune Co.	10.01B	17.003	1.712	$32.51	30.64 - 44.32
Washington Post Co.	7.29B	21.921	8.774	$759.36	737.50 - 999.50

Data as of 11/6, from Yahoo!Finance

Given that the Times Co.'s flagship paper, *The New York Times*, is one of the most well-known newspapers in the world, it might seem odd that the company's profit margins are lower than other newspaper companies, such as Gannett and Knight-Ridder, which own hundreds of small newspapers. These chain newspaper companies grew from small companies to national players over the past 20 to 30 years as they bought up local, usually family-owned newspapers across the country. By 2002, newspaper chains owned about 80 percent of newspapers in the United States, and that percentage has only grown in the past three years.[5] Gannett, for example, now owns 101 daily papers and more than 700 non-daily publications; Knight-Ridder owns 84 newspapers. As these growing chain companies bought small newspapers in the 1980s and 1990s, they cut costs by decreasing the size of the papers – thus, providing less news to readers – and by laying off scores of workers. The reporters that remained at most of these papers ending up filling jobs that had previously been covered by two or three reporters. This shift, which is well-documented in *The News About the News*

[5] Downie Jr., Leonard and Kaiser, Robert G. *The News About the News.* Alfred A. Knopf. New York, 2002. pg. 68.

by Leonard Downie and Robert Kaiser, among other books, led to a general decline in quality at most newspapers in the United States.

> "There is no obvious way to simultaneously shrink a newspaper and make it better," wrote Downie and Kaiser. "In the last twenty years or so, many newspapers have declined in quality and shrunk in size, while only a small number have improved. Economic pressures have undermined traditional journalistic standards and values."[6]

The result? Most companies in the newspaper industry have turned themselves into cash flow machines, pulling profit out as if their companies are at the mature end of their life cycles.

We believe that The New York Times Co. has not grown its profit margins primarily because it has been keeping its journalistic standards high and investing in growth. The Times Co. views itself as more than a local or regional newspaper company. In explaining the Times' costs, which continue to be higher-than-average-newspapers, Douglas Arthur of Morgan Stanley said, "Some of that is because the company continues to invest in growing the paper."[7] The paper has already had much success in establishing its national brand. The number of unique visitors to the *The New York Times'* Web site increases every month. Its most recent high was 21.5 million visitors in September. No paper owned by the large newspaper chains comes close to the *Times* in terms of recognition and readership. The Times is a national – and potentially international - information provider and is wrongly compared with newspaper empires built of local and regional papers.

The challenge ahead for the Times is to grow its revenue by monetizing the national brand it is developing. Akin to the other Internet Information Providers in our industry, the

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[6] Downie Jr., Leonard and Kaiser, Robert G. *The News About the News.* Alfred A. Knopf. New York, 2002. page 69.
[7] Glater, Jonathan. "Profit Slides at Times Co." *The New York Times*. October 21, 2005.

Times is a company with a huge potential upside. We look ahead to analyze these growth opportunities.

Investing in Growth

Offline:

For the past three years, the Times Company has distributed its flagship paper for free to college students on hundreds of university campuses. As a result, the company proudly notes in its most recent annual report, *The New York Times* reaches almost 25 percent of college students each week – which is the highest percentage of American college readers reached by any newspaper. Efforts like these demonstrate the Times Company's growth strategy. (This Selling, General and Administrative expense for the free papers at colleges, in some senses, is like a Capital Expenditure for the Times Company, but because it is classified in S, G&A, it reduces operating profits.) The Times really began to think beyond being a regional paper in the early 1990s. At that point, it laid out a goal to reach more readers across the country. Since then, it has upped its circulation outside of the New York Metro area ten-fold.

More than ten years later, there is still unmet demand for *The New York Times*. At any given time, there are 40,000 to 50,000 subscription requests that the *Times* cannot meet because it lacks a distribution plant near those potential customers, the company said in its 3rd Quarter conference call this Fall. To better meet the demand, the Times Company has plans to open seven new printing facilities in the next year. The first will open this month in Toronto and also will serve upper state New York. The second will open in Houston in January. Interestingly, the Times does not bank on covering the costs of the distribution center with additional ad dollars it may or may not receive because of the larger readership. Instead, the company opens new distribution centers only in areas where the circulation income will more than cover the new costs, Times Co. officials said in the 3^{rd} Quarter conference call. Full subscribers to the *Times* pay $600 per year to receive the paper seven days per week. In addition to that increase in revenue the *Times* may be able to increase its advertising revenues – through higher rates or local pull-out sections – by the very fact of having higher circulation.

In addition, *The International Herald Tribune* is an excellent venue into the international market that the *Times* may tap into in the future. The Times Co. bought out the *Washington Post* three years ago, which formerly owned 50 percent of the *Tribune,* leaving the Times Co. as the sole owner of the *Tribune.* Strikingly, the *Times* put the *Tribune* in the group it calls "The New York Times Media Group" rather than in the umbrella with its New England Papers or in with its Regional papers or, what would have been most logical, in its own division. The *Times* did this to reserve the easy option of rebranding the *Tribune* as the *Times*. Already, the *Times* has moved several prominent *Times* reporters into the *Tribune* staff at all levels and is running articles from the *Times* in the *Tribune* and vice versa. The *Times* has gained international readership through its Web site – in September, for example, about 3 million unique international readers visited the *Times'* site (which is not integrated with the *Tribune*). We have not factored a possible transformation of the *Tribune* into the *Times* into or model or international expansion of the *Times*. But, we note that this is a possibility and one that the *Times* is clearly studying – though analyst reports remain mum on the topic.

Online:

One of the most obvious ways the Times has grown in readership in recent years is through online readership. While sales of its flagship newspaper's physical copies are only about 2 million, *The New York Times* reaches ten times more people online. In September, the most recent month released, the *Times*' site had 21.5 million unique visitors. Earlier this year, the Times Company reported that all of its Web sites see a total of 35 million unique visitors per month – and that figure has likely grown during this year. The *Times* site alone has seen its number of unique monthly visitors soar from 15 million at the start of 2005 to more than 20 million this Fall.

The Times Company chose in the early days of the Internet to make its online content free – in contrast to its competitor, *The Wall Street Journal*, which charged online from the start. As a result, the Times Company's online sites have a much larger readership than the *Journal*, and, in fact, the largest readership of any publication. Times sites rank at the very top for where Americans spend their time while online. According to Nielsen/NetRatings from September 2005, Times sites see the ninth most visitors of any site, while people are at work. Times sites just miss the top ten on the home Internet usage, edged out by RealNetworks and Viacom, but the fact that they are the only publication company on the top ten for workers' time is notable. As shown in the chart below, Times sites reach one-third of Americans who use the Internet at work.

United States: Top 10 Parent Companies
Month of September2005
Work Panel

Parent Name	Unique Audience (000)	Reach %	Time Per Person
Microsoft	50,359	89.05	01:57:51
Yahoo!	43,926	77.68	03:37:05
Time Warner	40,683	71.94	04:19:20

Google	39,877	70.52	00:54:12
United States Government	32,068	56.71	00:28:25
eBay	26,160	46.26	01:50:58
InterActiveCorp	23,127	40.90	00:29:40
Amazon	20,176	35.68	00:28:40
New York Times Company	18,620	32.93	00:25:18
Landmark Communications	18,589	32.87	00:31:19

Source: Nielsen/NetRatings

NOTE: this chart shows September 2005 visitors as 18.6 million – lower than the 21.5 million we cite – because this chart does not include international Internet users.

Driving much of the Times Company's recent increased Web readership has been its new use of search engine optimization ("SEO") techniques. The Times Company acquired About.com in March of this year for $410 million, and with About.com, it gained technical expertise about the Internet that it immediately began to utilize for the company as a whole. Beginning in early summer, About.com's SEO masters went to work to help *Times* content appear at the top of Google and other search engine searches. When people search for various topics, *Times* articles come up, generating traffic for the company's websites. This SEO implementation has helped the *Times* site readership speed its rate of growth in online readership and will continue to do so, as further SEO techniques as well as other About.com Internet strategies are integrated into the Times online. About.com also has provided the Times Company with more advertising space to sell. About.com itself receives millions of visits per month, and the Times has been increasing the ad revenue on About.com by upwards of 25 percent each month since acquiring About.com. These online sites – About.com and nytimes.com – still represent only a few percentage points of the Times Company's revenue, but they represent the most quickly growing revenue, at annual rates upwards of 30% overall.

The Times Company decided this year that its growth and branding strategy of completely free content had to some extent run its course – the *Times* has gained the largest news following in the United States - and starting this September, the *Times* site began charging for opinion columns through a subscription service called TimesSelect. (News articles – the majority of the site's content - remain free.) TimesSelect costs $50 a year and gives readers access to opinion columns as well as complete *Times* archives. Home delivery subscribers were given TimesSelect accounts for free. The Times Company has not released numbers yet on how many people have enrolled, but they said in the 3rd Quarter conference call that "the preliminary response has been very good, well ahead of our expectations." We look to Yahoo! for an estimate of user adaptation of subscription services. In the chart below, you'll see the percentage of Yahoo!'s site users who paid for subscriptions over the past few years.

Yahoo!'s Growth in Paid Subscribers

	2002	2003	2004	2005
Total Unique Users	93,000,000	123,000,000	157,000,000	191,000,000
Subscribers	1,600,000	5,000,000	8,400,000	11,400,000
Percent	1.7%	4.1%	5.4%	6.0%

Source: Yahoo! investor presentations

Even single-digit adoption levels for subscriptions to TimesSelect, like the percentages Yahoo! has seen, would help the Times Company. And, because the *Times* has a wealthier, more educated reader on average than Yahoo!, a higher percentage of *Times* readers may sign up. See the chart below to see the revenue effects of just 1 to 10 percent adaptation of TimesSelect. For a company with $500 million to $600 million in profit, this new revenue – which adds almost no new costs (we estimate TimeSelect exhibits an 85 – 90% incremental EBITDA margin) – potentially represents a big increase to the bottom line.

Percent of the 21 million Times readers that sign up to TimesSelect	Resulting additional Annual Revenue
1%	$ 10,500,000
2%	$ 21,000,000
3%	$ 31,500,000
4%	$ 42,000,000
5%	$ 52,500,000
6%	$ 63,000,000
7%	$ 73,500,000
8%	$ 84,000,000
9%	$ 94,500,000
10%	$ 105,000,000

Based on $50 per year in fees from TimesSelect.

This factor has been added to our model, using a conservative assumption of 1 percent adaptation in the first year, 1.7 percent in the second year, an so forth lagging Yahoo! Adoption patterns. In addition, for the short-term, we estimate that the Times Company is already receiving subscription revenue from about 500,000 people. We estimate current subscriptions using analysis of the frequency that TimeSelect stories appear on the *Times*' online "Most E-mailed List." In order to e-mail a column now, you must be a TimeSelect subscriber. We know that to be number one on the Most E-mailed List for the past 24 hours, a story typically is e-mailed 300,000 within the past 24 hours. There have been a few columns in the number three or four spots on the Most E-mailed List since the introduction of TimesSelect. Given that people sending those must have signed up for TimesSelect and that only a small percentage of site users actually e-mail stories within a 24-hour span, we view the 500,000 figure of TimeSelect subscribers as likely. (We also factored into this the likelihood that some percentage of home delivery customers will register for their free TimesSelect accounts.)

The Times Company will also likely continue to see growing online ad revenues and could begin grabbing a bigger share of the influx of money than it has in the past because of its long-term relationships with large companies. As we discussed in our industry report and in our Yahoo! report, online advertising is expected to continue growing. And, increasingly growth is coming from Blue Chip, mass consumer companies who heretofore shied away from the Internet. The communications manager at Ford Co., for example, said recently that the company is planning to move 15 percent of its $1 billion ad budget online. "With the explosion of broadband, it makes more sense for us to continue to increase our spend where we can find our customers," said Linda Perry-Lube, Ford car communications manager. [8] Indeed, David Verklin, chief executive of the marketing firm Carat Americas, says that he expects companies to increase the amount they spend on online advertising from the 5 to 8 percent that it currently is to 15 to 20 percent within three years. [9] As big companies come online for the first time, we think their existing relationship with the *Times* will make it likely that they will put a good share of their online ad dollars to use with the *Times.* In the past few years, many advertisers online have been small and medium companies that did not advertise in the *Times* anyways. Since the *Times* receives about half of the national advertising money that goes into newspapers, we think they will benefit greatly from national online advertisers who have been *Times* newspaper advertisers for years.

As the *Times* receives more income from its Web site, it incurs very little new costs. It has recently thoroughly integrated the Internet into its reporters' jobs in such a way that very little new staff for the Web site has been needed. *Times* reporters report online and off. In addition, the *Times* appointed one of its rising star editors as its online editor this summer, a cue to all in the newsroom the Web site is growing in importance in the paper's strategy. This was an internal appointment that newspaper analysts missed.

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[8] Seelye, Katharine Q. "Jobs are Cut as Ads and Readers Move Online." *The New York Times*. October 10, 2005.
[9] Seelye, Katharine Q. "Jobs are Cut as Ads and Readers Move Online." *The New York Times*. October 10, 2005.

Risks

1. Cost cutting: In face of declining profit margin, The Times Co. set up "optimization councils" about a year ago to evaluate its cost structure and determine what costs could be cut. The Times Company continues in all financial statements to say that controlling costs is a "top priority." Already, in the past year, the company has committed a lighter-weight newsprint paper, which will reduce their printing costs by $1.6 million in the last quarter of 2005, and $3.5 million to $4 million per year thereafter, according to company guidance. Also, in the past year, the Times Co. has laid off or bought out 700 employees dispersed through its publications. The majority of these have been non-newsroom employees. Only 60 for example were in the *Times* newsroom. Most of the positions eliminated in and out of the newsroom were secretarial positions that *Times* editors said were not as needed as they were a decade ago because of system improvements. The Times Co. says the reduction of these 700 positions will save the company between $35 million and $45 million in costs per year. The company is taking a charge of that same amount in the upcoming three quarters to pay buyout packages to effect these layoffs.

The risk on the cost-cutting side is two-fold: one, there is a risk that the Times management will not follow through on its promise to keep searching for unnecessary costs that it can cut. Investors will likely continue to punish the Times' stock as long as its profit margin languishes relative to its peers. That said, we do not think there is serious risk that the Times will not follow through to achieve ample long-term margin improvement because Times management has already undertaken significant cost reductions in the past couple months and, in financial statements and conference calls, executives repeatedly affirm their intention to continue cutting expenses.

The other risk is that the Times Co. could cut too many expenses and thus bring about a decline in the quality of *Times* journalism – much like Gannett and other companies suffered at their papers a decade ago (and the Tribune Co. is currently facing at papers like *The Philadelphia Inquirer* and *The Los Angeles Times*). Ultimately, we do not consider this is a major risk because the Times Co. is family-controlled and because the company repeatedly makes statements that its mission is to keep its journalism standards high (see page 2 of this report). We view Times cost-cutting as efficiency efforts that perhaps should have been done a few years ago. We also look ahead to a time when the company may make significantly more revenue online, which comes with low incremental costs.

2. <u>Competition in Print</u>: There is always the risk that the Times Co. could lose circulation dollars and advertising dollars in its papers. Focusing on the *NY Times* (since this group represents the majority of the company's revenue), we view that risk as small. The closest national competitors are *The Wall Street Journal* and *USA Today*, but we view both of these as catering to different audiences. That said, Times Co. stock took a beating in the market earlier this year partly because of investor concerns that the *Journal*'s new "Weekend Edition" would achieve its stated mission of capturing national advertisers who usually advertise in the *Times*. Several analysts have mentioned the new competition in weekend papers from the *Journal* as a reason to sell or hold Times Co. stock rather than buy it. Times Co. officials said in the 3rd Quarter conference call, though, that a month into the launch of the *Journal*'s weekend edition, the *Times* had seen no effect on its advertiser revenues. In

fact, Times advertising revenues came in very strong in September, ahead of the rest of the 3rd Quarter. As stated before, we view the *Journal* as having a different readership from the *Times*, and thus, we do not expect the weekend edition to have an effect, and we believe the Times Company has been overly punished by investors for this.

3. The Death of Newspapers: Will people suddenly stop reading newspapers, causing the Times Company to lose nearly all of its revenue? (The Internet is currently a small percentage of Time Co. revenue.) Demographic surveys and national circulation numbers clearly show that newspaper readership of physical papers is going down, and, it is particularly going down among younger readers. There is a real possibility that at some future date, newspapers will cease to permeate Western Society. While we agree with this gloom and doom scenario, we think the time horizon on any extinction of newspapers is in the very distant future. The Baby Boomers, at the very least, like to read physical copies of papers, and they are not going anywhere for a while. For decades to come, advertisers will want to reach them as well as other newspaper readers. According to the Newspaper Association of America, newspapers remain a solid way to advertise to consumers. The association says that 52 percent of adults read the newspaper each day, 39 percent watch prime-time t.v., 21 percent listen to radio in the morning and 15 percent watch cable t.v. stations. [10]

So, in the short and medium term, we believe that the *Times*' growing circulation related to its national expansion will more than cover any loss in circulation that is demographic-related. Ad revenues should stay with the paper as long as readers do. In the

[10] Seelye, Katharine Q. "Jobs are Cut as Ads and Readers Move Online." *The New York Times*. October 10, 2005.

long-term, we see the *Times* as well-positioned to make a partial shift to an online model – or any alternative model that becomes compelling in the future. The Times Co. has been on the forefront of content providers who adapt to new technology not only through its Web site directly but also in creating R.S.S. (Really Simple Syndication) feeds and in sending content to mobile phones. The Times Co. clearly states in financial statements and other releases that they are committed to providing information in whatever form readers desire. This commitment to adapting to technological change is one factor that truly makes The Times Co. an information provider, rather than simply a newspaper.

4. Online Competition: The Times Co. faces big competitors for online ad dollars as well as for consumers' attention. That said, they do not face huge competition in providing content. The Times Co. has an advantage over Yahoo! or Google in that it owns its content and is expert at creating it. Yahoo!, in fact, mentioned in its 2004 annual report that a risk it faces is the possibility of media increasing what they charge Yahoo! to show their content. As mentioned earlier, The Times Co. also has longer running relationships with large companies, so it should be able to receive a descent share of their ad budgets going online. The Times also can offer companies the opportunity to advertise online and offline – an option Google and Yahoo! and other Web-only entities do not have.

Summary

We view The Times Company as an information provider that is well-positioned offline in print journalism but also as one that is on the forefront of growth on the Internet. The Times Co.'s print products and Web sites, we believe, will have a symbiotic relationship for many years, no matter the pace of change in media delivery or the ultimate technologies used for information distribution. The company is in a unique position among its newspaper peers and among Internet-only companies, and it should be able to leverage its national following into revenue growth over the next decade. Analysts for the newspaper industry do not appreciate the Times' potential for online revenue and, also, are punishing it for not cutting costs when it is indeed cutting them. In addition, we believe that by using multiple analysis, particularly forward P/E valuation, analysts undervalue the longer term growth prospects and potential for margin improvement at the Times. In general, analysts of the newspaper industry also focus on the narrow picture when they punish Times stock because of the new *Wall Street Journal* weekend section. In truth, the Times Company's new area of focus is online and in being the national and possibly international information provider – as such, it is a mission that goes far beyond a new section of the *Journal.*

Valuation

As opposed to practically every major analyst covering the New York Times Co., we base our valuation on a DCF projection rather than relying on forward multiples and short term EBITDA or earnings forecasts. Street analysts also compare the New York Times Co. only to newspaper and other offline media companies that are not in growth states. We believe that much of the value of the New York Times Group derives from long term growth opportunities, particularly online and the room for the company to achieve margins in line with its newspaper peers five to ten-years in the future. As a consequence, multiple analyses overly penalize the company for the short term spike in costs that the company is experiencing as it reduces staff and expands its headquarters. Thus, in contrast to consensus estimates centered on the present share price, our valuation represents a significant premium to current levels. Our target price of $39.41 thus approaches the $40 to $50 range where shares traded throughout the period from 2001 until early 2005.

In formulating our analysis, we chose to use a WACC method rather than APV as we do not believe that the company will maintain a constant debt amount. Though debt levels have been erratic of late, we believe the company will act in accordance with its plans to optimize the use of debt in its capital structure in accordance with a constant debt to equity ratio. Particularly as the EBITDA of the company increases in the future, we expect the share price to rise at the same time that we expect profit increases to expand the company's debt capacity. A numerical analysis at the end of this section shows that debt levels in the past have not supported an APV approach over the WACC approach we use in our model.

Other salient drivers for our model include our use of a market risk premium of 7%, which we believe is very conservative, and an equity beta for New York Times stock of 0.618. To establish this equity beta, we calculated betas for 5 year periods from 1986 until today. As our analysis shows, the stock's beta has been falling steadily and has been significantly below 1 for the last 15 years. This is in keeping with our intuition that readership and advertiser demand to reach New York Times readers is not particularly sensitive to overall market conditions. As such we believe that we have been conservative using the current beta.

To arrive at annual revenue and cost figures from now until 2014, we built a model up from sales and expense drivers within each division. Overall, our model is predicated on very modest circulation increases and the ability of the company to attain high incremental profit margins online while keeping offline costs in check. Though the complexity of the model tends to reduce the impact of any single factor assumption, our valuation remains extremely sensitive to our projected long term EBITDA margin. Sensitivity analysis, included below, shows that shares are in fact fairly priced if EBITDA margins in the terminal phase remain at today's levels and terminal growth does not exceed the 2.5% level that we conservatively forecast.

Summary DCF and Assumptions

Valuation Summary

Total NPV as at 10/1/05 (excl. Terminal Value)	2,448.6
NPV of Terminal Value (at 2.5% growth)	4,398.4
Cash and Cash Equivalents	74.7
Less Debt and Minority Interests	- 1,168.0
Implied Equity Value	5,753.7
# of Fully Diluted Shares	146.0
Equity Value per Share (in dollars)	**$39.41**
Most Recent Share Price (in dollars)	$28.65

Intermediate WACC		8.06%	Terminal WACC	8.06%	Terminal Growth	2.5%
	Estimated Rd	5.77%	Estimated Rd	5.77%		
	Rf	4.10%	Rf	4.10%		
	(Rm - Rf)	7.00%	(Rm - Rf)	7.00%		
	Beta	0.618	Beta	0.618		

Notes and Assumptions:

Revenues for 2003 Include acquisition revenues that were not reported from beginning of year.

We have used WACC as opposed to APV because we believe the company is more inclined to keep a constant debt ratio than a constant debt amount going forward per guidance.

We have used a 2.5% growth rate in the Terminal period as we believe this is in line with our forecasts and makes sense in the context of a declining print advertising market.

We have calculated our WACC using a Beta calculated over the last 5 year period using monthly data. To be conservative we have left this figure constant despite the downward trend we highlight in our a

To be conservative we use a value of 7% for the market risk premium as we believe this is conservative compared to forward estimates of a premium as low as 4% in light of historical premiums of 7%+.

We have calculated the Cash, Equivalents, and Equity Value for the New York Times Group taking last available figures as of Q3 2005 and adjusting for known cash receipts and payments since then.

Group Revenue Model

New York Times Group Revenues (in millions unless otherwise stated)	2003A	2004A	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
New York Times Circulation Metrics and Revenue Drivers												
Weekday Flagship Circulation	1.131	1.134	1.136	1.164	1.192	1.195	1.198	1.201	1.204	1.207	1.210	1.213
Sunday Flagship Circulation	1.673	1.677	1.681	1.709	1.738	1.767	1.796	1.825	1.854	1.884	1.913	1.942
Avg Weekday net pricing per copy (in $)	1.111	1.087	1.082	1.085	1.096	1.107	1.118	1.129	1.140	1.152	1.163	1.175
Avg weekend net pricing per copy (in $)	3.407	3.387	3.391	3.389	3.423	3.457	3.492	3.527	3.562	3.598	3.634	3.670
Web Traffic (UMV)	8.2	14.9	24.1	30.13	36.15	40.67	44.74	48.09	51.70	55.57	59.74	64.22
Total Ads (in millions of lines)	45.46	49.79	48.79	50.85	52.66	54.28	55.76	57.09	58.39	59.69	60.99	62.32
Avg Ad Line Rate (in $)	26.04	24.51	25.57	25.95	26.19	26.44	26.69	26.94	27.19	27.45	27.71	27.97
TimeSelect Adoption % among Web Users			1.0%	1.7%	4.1%	5.4%	6.0%	6.3%	6.5%	6.5%	6.6%	6.7%
Pricing (in $)			50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
New York Times Revenues												
Circulation Revenue	623.1	615.9	616.1	629.6	649.0	661.6	674.3	687.3	700.5	713.8	727.4	741.2
% change		*0.2%*	*0.2%*	*1.7%*	*1.7%*	*1.7%*	*1.6%*	*1.6%*	*1.6%*	*1.6%*	*1.6%*	*1.5%*
Advertising Revenue	1183.8	1220.2	1247.4	1319.4	1379.4	1435.1	1488.2	1538.0	1587.8	1638.3	1689.8	1742.9
% change		*3.1%*	*2.2%*	*5.8%*	*4.5%*	*4.0%*	*3.7%*	*3.4%*	*3.2%*	*3.2%*	*3.1%*	*3.1%*
Other Revenue (incl. TimeSelect)	147.8	163.9	159.1	179.6	223.3	255.4	277.4	292.9	306.8	319.7	333.7	348.9
% change		*10.9%*	*-3.0%*	*12.9%*	*24.3%*	*14.4%*	*8.6%*	*5.6%*	*4.7%*	*4.2%*	*4.4%*	*4.6%*
Total Revenue	**1,954.7**	**2,000.1**	**2,022.6**	**2,128.7**	**2,251.7**	**2,352.1**	**2,439.9**	**2,518.3**	**2,595.1**	**2,671.8**	**2,750.9**	**2,833.0**
% change		*2.3%*	*1.1%*	*5.2%*	*5.8%*	*4.5%*	*3.7%*	*3.2%*	*3.1%*	*3.0%*	*3.0%*	*3.0%*
New England Media Group												
Circulation	174.6	181.0	173.1	171.4	169.7	168.0	166.3	164.6	163.0	161.4	159.8	158.2
Advertising	464.5	481.6	471.2	481.7	498.8	513.9	527.8	540.2	552.3	564.3	576.4	588.8
Other	35.4	38.0	39.1	39.9	40.7	41.5	42.3	43.2	44.0	44.9	45.8	46.7
Total Revenue	**674.5**	**700.6**	**683.4**	**693.0**	**709.1**	**723.4**	**736.4**	**748.0**	**759.3**	**770.6**	**782.0**	**793.6**
% change		*3.9%*	*-2.5%*	*1.4%*	*2.3%*	*2.0%*	*1.8%*	*1.6%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*
Regional Media Group												
Circulation	88.1	87.1	87.2	87.4	87.5	87.7	87.9	88.1	88.3	88.5	88.7	88.9
Advertising	333.8	349.7	368.5	380.9	394.4	406.4	417.3	427.2	436.7	446.2	455.8	465.6
Other	15.9	19.1	22.1	22.4	22.6	23.1	23.5	24.0	24.5	25.0	25.5	26.0
Total Revenue	**437.8**	**455.9**	**477.8**	**490.7**	**504.5**	**517.2**	**528.8**	**539.3**	**549.5**	**559.7**	**570.0**	**580.5**
% change		*4.1%*	*4.8%*	*2.7%*	*2.8%*	*2.5%*	*2.3%*	*2.0%*	*1.9%*	*1.9%*	*1.8%*	*1.8%*
Total News Group Revenues	**3,067.0**	**3,156.6**	**3,183.8**	**3,312.4**	**3,465.3**	**3,592.6**	**3,705.1**	**3,805.6**	**3,904.0**	**4,002.2**	**4,102.9**	**4,207.1**
% change		*2.9%*	*0.9%*	*4.0%*	*4.6%*	*3.7%*	*3.1%*	*2.7%*	*2.6%*	*2.5%*	*2.5%*	*2.5%*
About.com Revenues			42.4	64.1	77.9	88.7	97.2	104.6	111.4	118.0	124.4	130.6
% change				*51.2%*	*21.5%*	*13.9%*	*9.5%*	*7.7%*	*6.5%*	*5.9%*	*5.4%*	*5.0%*
Broadcasting Revenues	140.4	147.1	138.5	146.7	142.8	146.0	142.1	145.2	141.4	144.5	140.7	143.8
% change		*4.8%*	*-5.8%*	*5.9%*	*-2.7%*	*2.2%*	*-2.7%*	*2.2%*	*-2.7%*	*2.2%*	*-2.7%*	*2.2%*
Total Group Revenues	**3,207.4**	**3,303.7**	**3,364.7**	**3,523.2**	**3,686.0**	**3,827.3**	**3,944.3**	**4,055.4**	**4,156.8**	**4,264.7**	**4,368.0**	**4,481.5**
% change		*3.0%*	*1.8%*	*4.7%*	*4.6%*	*3.8%*	*3.1%*	*2.8%*	*2.5%*	*2.6%*	*2.4%*	*2.6%*

FCF Forecasts and NPV Calculations

	2003A	2004A	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal
Total Revenues (Net TAC)	**3,207.4**	**3,303.7**	**3,364.7**	**3,523.2**	**3,686.0**	**3,827.3**	**3,944.3**	**4,055.4**	**4,156.8**	**4,264.7**	**4,368.0**	**4,481.5**	
YoY Growth		3.0%	1.8%	4.7%	4.6%	3.8%	3.1%	2.8%	2.5%	2.6%	2.4%	2.6%	
Raw Materials	284.6	296.7	315.9	327.1	337.8	348.1	357.8	367.1	375.9	384.3	392.2	399.6	
% of News Group Revenues	*9.3%*	*9.4%*	*9.9%*	*9.9%*	*9.7%*	*9.7%*	*9.7%*	*9.6%*	*9.6%*	*9.6%*	*9.6%*	*9.5%*	
Other News Group Costs	2,123.1	2,213.0	2,294.8	2,312.7	2,364.6	2,423.7	2,484.3	2,546.4	2,610.1	2,675.3	2,742.2	2,810.8	
% of News Group Revenues	*69.2%*	*70.1%*	*72.1%*	*69.8%*	*68.2%*	*67.5%*	*67.1%*	*66.9%*	*66.9%*	*66.8%*	*66.8%*	*66.8%*	
General and Administrative	34.0	28.0	37.3	35.1	34.7	34.4	35.3	36.1	37.0	38.0	38.9	39.9	
% of Total Revenues	*1.1%*	*0.8%*	*1.1%*	*1.0%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	
Stock Compensation	22.0	4.8	29.6	30.8	32.3	34.0	35.7	37.4	39.3	41.3	43.3	45.5	
% of Total Revenues	*0.7%*	*0.1%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*0.9%*	*1.0%*	*1.0%*	*1.0%*	
About.com Costs	-	-	23.8	37.5	41.3	44.3	46.6	47.7	48.9	50.1	51.4	52.7	
% of About.com Revenues			*56.1%*	*58.5%*	*53.0%*	*50.0%*	*47.9%*	*45.6%*	*43.9%*	*42.5%*	*41.3%*	*40.3%*	
Broadcast Costs	97.2	98.6	100.1	101.9	102.5	102.8	102.6	101.9	100.6	98.9	96.8	94.2	
% of Broadcast Revenues	*69.2%*	*67.0%*	*72.3%*	*69.5%*	*71.8%*	*70.4%*	*72.2%*	*70.1%*	*71.2%*	*68.5%*	*68.8%*	*65.5%*	
EBITDA	646.4	662.6	563.2	678.1	772.8	840.1	882.1	918.7	944.9	976.8	1,003.2	1,038.8	
Margin	*20.2%*	*20.1%*	*16.7%*	*19.2%*	*21.0%*	*21.9%*	*22.4%*	*22.7%*	*22.7%*	*22.9%*	*23.0%*	*23.2%*	
Income from JV and Other non consolidated sources -	0.1	8.4	14.5	18.6	22.0	24.5	26.4	27.7	28.7	29.3	29.7	30.0	
% of Total Revenues	*0.0%*	*0.3%*	*0.4%*	*0.5%*	*0.6%*	*0.6%*	*0.7%*	*0.7%*	*0.7%*	*0.7%*	*0.7%*	*0.7%*	
Net Interest Payments	-44.8	-41.8	-50.6	-58.8	-50.9	-56.2	-62.0	-68.4	-75.4	-83.1	-91.5	-100.8	
Estimated Rd	*5.1%*	*4.3%*	*4.3%*	*5.7%*	*5.8%*	*5.9%*	*6.0%*	*6.2%*	*6.3%*	*6.4%*	*6.5%*	*6.7%*	
Depreciation and Amortization	147.7	146.8	144.0	151.1	157.3	162.5	166.6	170.5	173.9	177.5	180.9	184.6	
% of Total Revenues	*4.6%*	*4.4%*	*4.3%*	*4.3%*	*4.3%*	*4.2%*	*4.2%*	*4.2%*	*4.2%*	*4.2%*	*4.1%*	*4.1%*	
Taxes -	179.7 -	186.2 -	153.6 -	193.3 -	232.9 -	256.4 -	269.9 -	280.9 -	287.6 -	296.0 -	301.9 -	311.0	
Marginal Rate as percentage of Op Inc.	*39.6%*	*38.6%*	*40.1%*	*39.7%*	*39.7%*	*39.7%*	*39.7%*	*39.7%*	*39.7%*	*39.7%*	*39.7%*	*39.7%*	
Capital Expenditures	-120.9	-153.8	-219.6	-228.1	-181.4	-163.4	-153.3	-152.7	-156.5	-160.5	-164.4	-168.7	
As a % of Net Revenues	*4%*	*5%*	*7%*	*6%*	*5%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	
Changes in NWC	2.5	11.9 -	82.6 -	6.2 -	47.5 -	28.5 -	29.4 -	30.2 -	31.0 -	31.8 -	32.5 -	33.4	
FCF	300.9	289.2	153.8	216.5	329.6	388.6	423.3	444.5	454.1	466.5	475.0	488.4	500.6
% of Total Revenues	*9.4%*	*8.8%*	*4.6%*	*6.1%*	*8.9%*	*10.2%*	*10.7%*	*11.0%*	*10.9%*	*10.9%*	*10.9%*	*10.9%*	
YoY Growth		-3.9%	-46.8%	40.7%	52.2%	17.9%	8.9%	5.0%	2.2%	2.7%	1.8%	2.8%	
Total Diluted Shares	147.1	146.4	146.0	146.0	146.0	146.0	146.0	146.0	146.0	146.0	146.0	146.0	
NPV			37.7	196.5	276.9	302.1	304.5	295.9	279.8	266.0	250.7	238.5	4,398.4

Sensitivity Analysis

Equity Value Per Share

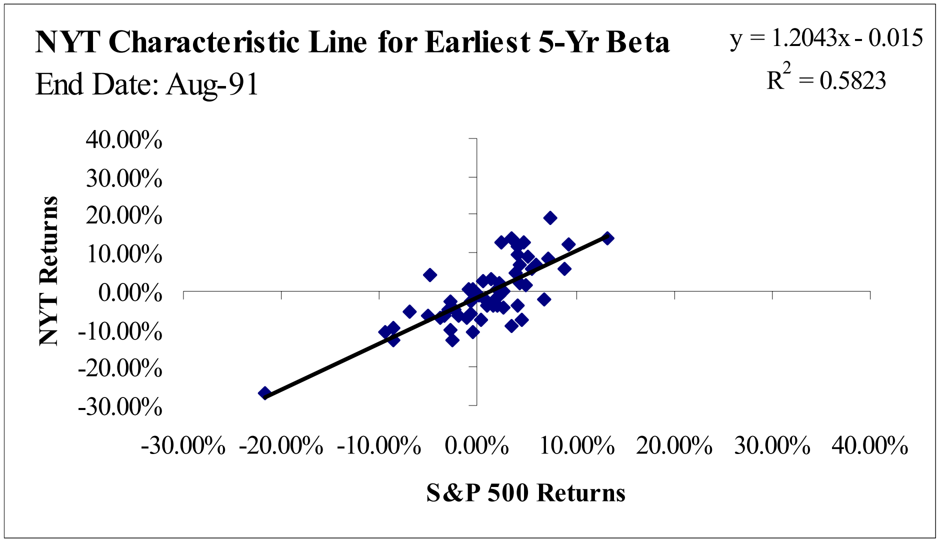
Terminal WACC

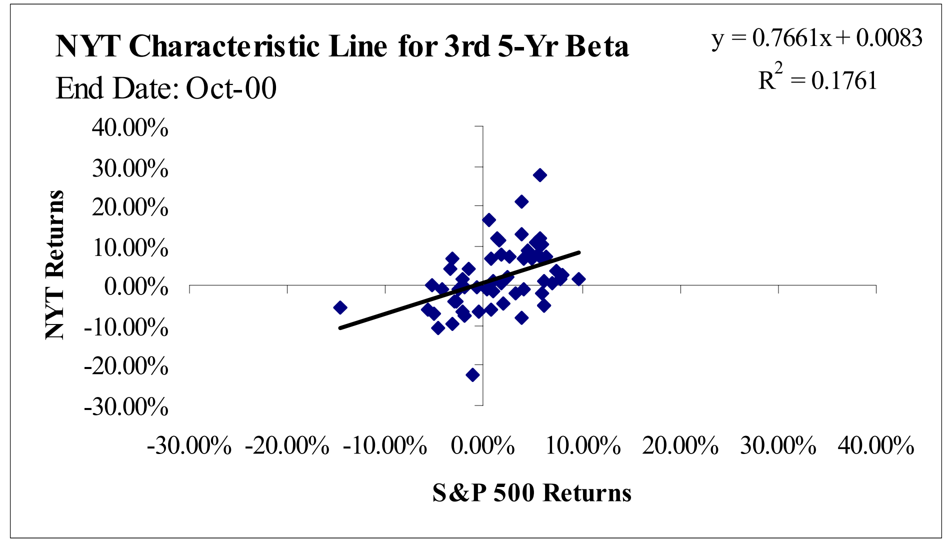
		7.1%	8.1%	9.1%	10.1%	11.1%
	6.1%	$55.41	$47.44	$41.90	$37.83	$34.71
	7.1%	$50.48	$43.23	$38.19	$34.48	$31.64
	8.1%	$45.99	**$39.38**	$34.79	$31.42	$28.83
Initial	9.1%	$41.88	$35.87	$31.69	$28.62	$26.26
WACC	10.1%	$38.14	$32.66	$28.85	$26.05	$23.91
	11.1%	$34.71	$29.72	$26.25	$23.70	$21.75
	12.1%	$31.58	$27.03	$23.87	$21.55	$19.76

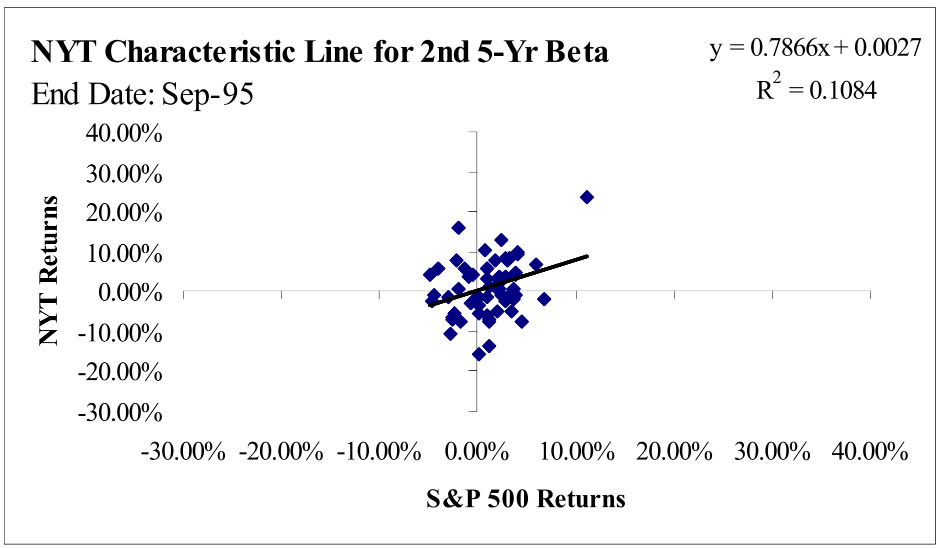
Terminal Growth

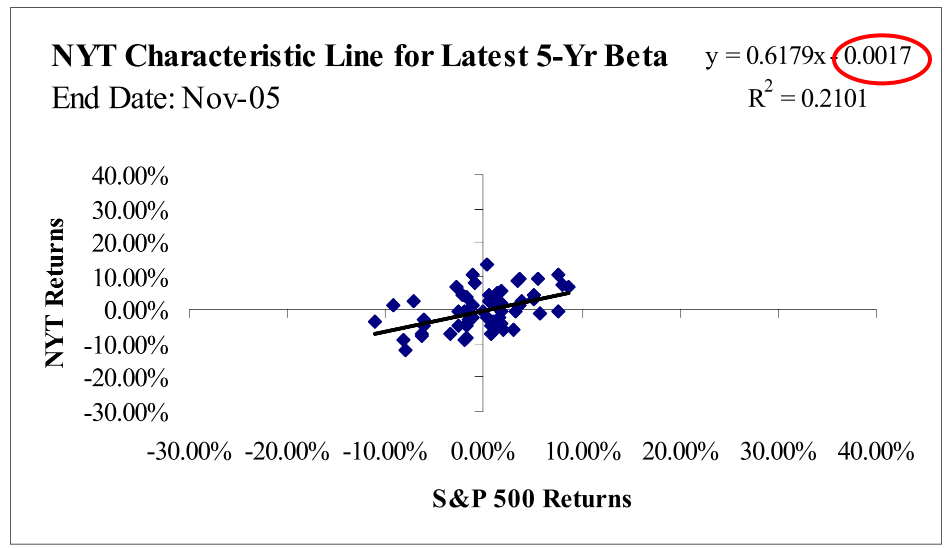
		4.5%	3.5%	2.5%	1.5%	0.5%
	29.5%	$74.64	$59.94	$50.53	$43.99	$39.18
	26.3%	$65.84	$53.07	$44.90	$39.22	$35.04
Terminal	23.1%	$57.06	$46.22	**$39.28**	$34.45	$30.91
EBITDA	19.9%	$48.28	$39.36	$33.66	$29.69	$26.77
Margin	16.7%	$39.47	$32.49	$28.02	$24.91	$22.63
	14.7%	$33.93	$28.16	$24.47	$21.90	$20.02
	12.7%	$28.44	$23.87	$20.96	$18.93	$17.43

Historical Beta Regressions









Debt Levels and Support for WACC vs. APV

	1997A	1998A	1999A	2000A	2001A	2002A	2003A	2004A	2005E	2006E	2007E			
Year-end Debt	594.3	639.7	615.5	847.3	677.9	878	876.5	981	1168	1038	879	Debt Estimators	Avg Est Error	Avg Est Error (excl. outlier)
% Error using Average Debt Level	29%	23%	26%	1%	19%	5%	5%	17%	40%	24%	5%	835.9	17.8%	15.6%
% Error using Latest Debt Level	49%	45%	47%	27%	42%	25%	25%	16%	0%	11%	25%	1168.0	28.4%	26.4%
Approximate Price per Share	25.4	30.2	44	37	40	45	47	40	28	30	33			
Estimated Fully Diluted # of Shares (treasury method)	149.1	148.2	147.6	147.9	148.1	147.6	147.1	146.4	146.0	146.0	146.0			
Estimated D/V	13.6%	12.5%	8.7%	13.4%	10.3%	11.7%	11.3%	14.3%	22.2%	19.0%	15.5%			
% Error using average D/V	2.1%	9.7%	37.5%	3.2%	25.9%	15.7%	18.8%	3.6%	60.5%	37.0%	11.6%	13.8%	20.5%	16.5%
% Error using latest D/V	39.0%	43.7%	61.0%	39.7%	53.8%	47.5%	49.4%	35.4%	0.0%	14.6%	30.4%	22.2%	38%	35%

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