New York Times Co. (NYT) Liquidity – Options & Limits

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Ratings:
Moody's: Baa3(WN)
S&P: BB-(N)

TRADING RECOMMENDATION

We are reaffirming our Underweight Recommendation on New York Times. NYT 5-year CDS is currently quoted 950 bp, and we continue to believe NYT should trade at a discount to Belo, which is currently quoted at 22/24 pts. We expect near-term levels to reset wider due to the continuation of extremely weak fundamentals and a restructuring of the company's capital structure. NYT has publicly said it is exploring a new credit facility and sale lease back of its building and/or asset sales. We expect the end result to be structural subordination of the senior unsecured holders and tighter covenants, both of which should result in spread widening.

LIQUIDITY OVERVIEW

New York Times continues to have a challenged liquidity profile due to its short-dated maturity schedule with 70% of its debt maturing within the next three years, fairly minimal level of free cash flow generation and declining EBITDA. In our view, NYT does not have the ability to manage its capital structure organically which will require the company to either sell assets and/or renegotiate its credit line.

NYT remains a fairly asset-rich story, and refinancing would not be an issue in a different environment. However, with several larger publishing credits such as McClatchy, Media News, Morris Publishing, Lee Enterprises, Gatehouse, and Journal Communications facing potential covenant violations over the next 12 months and Tribune operating under bankruptcy protection, the number of publishing assets for sale is at an all-time high, depressing valuations. In addition, the high yield and leveraged loan markets remain essentially closed, which materially increases refinancing risk. Finally, our outlook for newspaper advertising to decline a further 13-15% in 2009, after an estimated 17% decline in 2009 will complicate refinancing needs.

Specifically, we estimate NYT FYE09 EBITDA could decline 15.6% to $254mn from $302n estimated for FYE08, which will result in leverage increasing from 3.1x estimated for FYE07 to 4.7x in 2009.

Maturities over the next 12 months total $550mn and include $50mn, which matured early December 2008, $398mn drawn at Q3 under its $400mn revolver, which matures in May 2009, $30mn in letters of credit, and $100mn in MTN's maturing December 2009. Total available liquidity is $500mn, including $400mn undrawn under the May 2011 revolver, $45.8mn in cash as of September 30 and estimated FYE09 FCF of $56mn. However, NYT will need an additional $250mn to fund the maturity of the 4.5% 3/15/10

notes in 1Q10, and we think at minimum the company requires $100-150mn in excess liquidity in order to backstop continued EBITDA declines, fund restructuring initiatives, and fund digital bolt-on M&A.

Figure 1. New York Times Valuation

		2009E EBITDA	Bull Case	Bear Case
Boston Globe		4	20	12
Worchester Papers		5	25	15
Regional Papers (14 papers)		20	80	60
NY Times Media Group		204	1020	816
About.com		45	675	450
Other Assets				
Real Estate			800	510
Boston Red Sox's	17.50%		166.25	140
WQXR-FM (NYC)	100%		75	50
Metro Boston LLC	49%		10	5
Donohure Malbaie Inc	49%		24.696	17.64
Madison Paper Industries	40%		32	28
Cash On Hand			45.8	45.8
Total			2,973.7	2,149.4
Less				
Debt at 9/30			1,386.7	1,100.8
Pension Obligation			276.0	276.0
self insured claims			70.0	70.0
Implied Equity Value			1,241.1	702.6

Source: Barclays Capital

Liquidity Options:

- **Monetization of the New York City Headquarters:** NYT owns 58% or 825,000 square feet of its New York City headquarters building, which is currently unencumbered. The building is on 8th Avenue between 40th and 41st Streets and was built in partnership with Forest City Ratner. The design process started in November 2000, construction started in August 2004, and the building was completed at the end of 2007. NYT has an estimated cost basis in the building of $505-510mn. The Times owns floors 2-27 and jointly owns floors 28 and 51 with FCRC. The largest tenants leasing the FCRC space include Legg Mason and several law firms.

  In October 2007, FCRC secured $640mn in financing from HSH Nordbank for its 42% stake, implying a valuation of at least $880mn for the NYT's stake. However, commercial real estate values have declined and lending standards have become much stricter. 2007 vintage CMBS deals are trading with double-digit yields. NYT could receive more favourable terms for a sale lease back if it found a bank willing to hold the risk on its balance sheet; however given current liquidity constraints, that may prove difficult.

In December, NYT disclosed that it was exploring either a $225mn sale lease back and/or mortgage against its stake in the building. We believe it should be possible for NYT to secure financing against the building; however, we are concerned that it 1) strips an asset away from the senior unsecured holders; and 2) terms of the financing could prove more onerous than NYT expects.

- **Non-Core Asset Sales:** In December, NYT said it would explore asset sales. In our view, the company has been better than most publishers at rebalancing its portfolio, selling both its TV station group and Discovery Times stakes for relatively high multiples. However, these sales were partly necessary given negative free cash flow of $90mn in 2006, $170mn in 2007 and $63mn estimated in 2008 due to the high dividend payout and CapExp associated with the headquarters build. We think the two most likely asset sales are either NYT's 17.5% stake in the New England Sports Group, which owns the Boston Red Sox, 80% of the New England Sports Network (NESN), Fenway Park, and 50% of Roush Racing, or WQXR-FM, a full powered NYC FM station.

  John Henry is the majority partner of the New England Sports Group. His ability and/or willingness to purchase the NYT's stake is difficult to gauge. In November, FINalternatives reported that JWH's assets had declined to $326mn from over $1bn at one point, while the *Wall Street Journal* reported that all of the JWH funds were up for the year. It is possible that an outside investor could buy the NYT stake; however, appetite in the current environment is difficult to predict. NESG was purchased in 2002 for $660mn. We currently value the Times stake at $140-166mn or $800-950mn total value for NESG.

  WQXR-FM is a classical/news FM station in New York City and we believe it generates very low revenue and cash flow. The station had been using the Times as a source of news, but recently switched to Bloomberg news, which reduces the strategic rational to owning it. The most recent station sale in a large market was Radio One's sale of KRBV-FM in Los Angeles for $137.5mn, which closed in August 2008. Since August, the outlook for advertising has worsened with RAB November advertising estimated down 20% and public equity multiples contracting. We believe WQXR is worth $50-70mn; however, finding a radio operator that has both the regulatory ability and financial resources to expand and take over the task of reprogramming it may prove difficult.

- **Core Asset Sales:** NYT CEO Janet Robinson said in December that the company was not interested in selling any of its "core" assets, which includes the Boston Globe and the About Group. While not specifically mentioned, we also think it would be difficult for NYT to sell its Regional Newspaper group, which operates 14 daily newspapers n Alabama, California, Florida, Louisiana, North Carolina, and South Carolina. The largest paper in the regional group is the Sarasota (FL) Herald-Tribune with daily circulation slightly over 100k. In mid-2008, News Corp took the Dow Jones Ottaway papers off the markets due to lack of interest. Several other newspaper groups are for sale, including the Cox Enterprise papers, and potentially distressed sales from Media News, McClatchy, Morris, and Tribune. The number of papers "for sale" makes it difficult, in our view, for NYT to sell its regional group at an attractive multiple.

- **Credit Facility Refinancing:** NYT's current revolver funds at LIBOR +40 bp and contains only one meaningful covenant, which requires NYT to maintain minimum shareholder's equity of $950mn plus 25% of EBIT for each year after 2003. The

company has the ability to add back one-time non-cash reductions in retained earnings, such as large write-downs on intangible assets, which makes it unlikely that future write-downs to G&A result in NYT breaching the covenant.

We believe it is possible/likely that NYT refinances its credit facility as part of a broader liquidity plan. A new facility would likely require significantly higher interest costs (McClatchy's facility funds at L+350 bp) and additional guarantees (similar to MNI and Gannet's facility), which would structurally subordinate senior unsecured holders. As a low double BB borrower, we would also expect any new facility to have a more restrictive covenant package.

- **4.5% 2010 Bond Exchange:** The $250mn in maturing 2010 notes could present an obstacle to a refinancing of the credit facility, as they mature in front of the current 2011 revolver. One option to cure this could be to exchange the '10 notes for a longer duration note with a higher coupon that was structurally senior to the 2015 and 2012 notes. Their bond indentures have no provisions against anti-layering and it would seem possible to do a Qwest or Charter-like exchange by creating a new middleco box.

We believe the most likely outcome is a mix including a new credit facility, sale lease back of the building and smaller asset sale. In our view, the bond exchange, while possible, is a lower probability outcome. We expect the net impact of any rationalization of the capital structure to be further subordination for unsecured note holders and tighter covenants, which may act to severely limit NYT's strategic options, particularly as EBITDA continues to decline.

Figure 2. Model

New York Times	2007	Q1 08	Q2 08	Q3 08	Q4 08E	2008E	2009E
Income Statement							
Advertising	2,047.5	432.2	427.6	371.6	489.2	1,720.6	1,496.8
Circulation	889.9	226.6	224.2	225.7	231.5	908.0	919.4
Other	257.7	89.1	90.1	89.7	72.7	341.6	261.0
Revenues	**3,195.1**	**747.9**	**741.9**	**687.0**	**793.4**	**2,970.2**	**2,677.1**
% growth	-2.9%	-4.9%	-6.0%	-8.9%	-8.4%	-7.0%	-9.9%
News Media	450.3	68.5	72.0	36.5	110.5	287.5	241.4
About.com	45.1	12.6	12.5	13.4	15.3	53.7	53.2
Corporate	(39.5)	(14.6)	(11.6)	(6.1)	(7.0)	(39.3)	(39.7)
EBITDA	**455.9**	**66.4**	**72.9**	**43.9**	**118.8**	**302.0**	**254.9**
% growth	-7.1%	-32.8%	-41.0%	-40.9%	-25.4%	-33.8%	-15.6%
% margin	14.3%	8.9%	9.8%	6.4%	15.0%	10.2%	9.5%
Balance Sheet	**2007**	**Q1 08**	**Q2 08**	**Q3 08**	**Q4 08E**	**2008E**	**2009E**
Cash	51.5	47.0	41.7	45.8	128.1	128.1	269.9
Total debt	1,035.0	988.3	992.1	1,386.7	1,100.8	940.8	1,191.8
Net debt	983.5	941.3	950.4	1,340.8	972.7	812.7	921.9
Cash Flow Statement	**2007**	**Q1 08**	**Q2 08**	**Q3 08**	**Q4 08E**	**2008E**	**2009E**
EBITDA	455.9	66.4	72.9	43.9	118.8	302.0	254.9
- Cash interest	(39.8)	(11.7)	(12.1)	(11.7)	(14.0)	(49.6)	(46.1)
- Cash taxes	(76.1)	7.7	(17.3)	(12.8)	(28.9)	(51.3)	(37.6)
- Capital expenditures	(385.2)	(62.7)	(41.2)	(30.2)	(22.0)	(156.1)	(80.0)
- Dividends	(124.7)	(33.3)	(33.3)	(33.3)	(8.6)	(108.4)	(34.3)
Free Cash Flow	**(170.0)**	**(33.6)**	**(31.0)**	**(44.1)**	**45.2**	**(63.4)**	**56.8**
Credit Metrics	**2007**	**Q1 08**	**Q2 08**	**Q3 08**	**Q4 08E**	**2008E**	**2009E**
Leverage	2.3x	2.3x	2.7x	4.0x	3.6x	3.1x	4.7x
Interest Coverage	11.4x	10.5x	8.2x	7.4x	6.1x	6.1x	5.5x

Source: Barclays Capital

Explanation of the Investment Grade Sector Weighting System
Overweight: Expected six-month excess return of the sector exceeds the six-month expected excess return of the U.S. Credit Index.
Market Weight: Expected six-month excess return of the sector is in line with the six-month expected excess return of the U.S. Credit Index.
Underweight: Expected six-month excess return of the sector is below the six-month expected excess return of the U.S. Credit Index.

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