website: thegreenline.substack.com
twitter: @rauwkost1

Basket bet on newspapers
The original subscription business

Overview

Many newspapers are moving from physical print to digital subscriptions. The print segment of these businesses is shrinking and as a result many newspaper companies are wrongly perceived to be melting ice cubes. This completely ignores the growing digital segments within these businesses. I believe the digital segment of these businesses offers great potential upside. The original appeal of newspapers is still there. There are still 1 newspaper towns, people have to keep buying new ones every day (or get a subscription) and people are inherently curious what happens around them. I think this will continue in digital form. Twitter or other alternative news sources will not be a material threat to local newspapers in my opinion. For local news there is simply no alternative to regional papers. Twitter wont tell you what the council's plans are for that undeveloped plot of land next to your house but the local paper might.

As these local papers become more digital businesses, margins will improve and eventually revenue will stop shrinking and will even start to grow. I believe this will be the moment when investors realize the hidden gems in newspapers and as a result newspaper stocks should trade significantly higher. The following businesses mostly fit this theme.

I'll start with Lee Enterprises and DallasNews, both of which are high risk high reward situations. After that I'll cover Cofina and RCS Mediagroup.

Lee Enterprises, Inc

Business description

Lee Enterprises (NASDAQ:LEE) owns 77 regional newspapers in 26 states in the US. Additionally they own 82.5% of BLOX Digital (formerly TownNews) which is a SaaS web-hosting and content management provider for 2200 smaller papers (mostly high school, university and niche publications). On top of that they also own Amplified Digital which is a digital marketing service agency. In 2020 Lee bought BH Media and the Buffalo News. As part of that transaction Berkshire agreed to refinance Lee's debt.

Digital transformation

Lee has grown digital-only subscribers at impressive rates. To me this shows there is still demand for local news.

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Digital subscribers	286000	309000	337000	402000	450000	492000	501000	530000	564000	596000
Growth yoy		57.6%	50.5%	65%	57%	59.2%	48.6%	32%	25.3%	21.2%
Growth qoq	17.2%	8%	9%	19.3%	11.9%	9.3%	1.8%	5.8%	6.4%	5.7%

Table 1: Digital only subscribers

In Q2 2023 digital only subscriber paid on average 7.8 usd per month. This is a result of low introductory rates. Eventually subscribers will pay more than that. This effect can already be observed in Q2 as digital-only subscription revenue increased 39% yoy when the number of digital subscribers only increased 21% yoy. So not only will the number of subscribers go up over time, they will also pay higher average rates. Management's goal is to get to 900,000 digital-only subscribers by 2026. Given the rate at which they are growing now I think this goal is very realistic and will probably be exceeded.

Digital advertising revenue has also grown impressively the past few years. This is partly due to the growth in Amplified Digital revenue. Digital advertising revenue is already greater than print advertising revenue.

BLOX Digital did 31 million of revenue in 2022. Over the past decade it has had a revenue CAGR of 10.6%. In this 13D filed by the largest shareholder Cannell Capital LLC (they own 9.88% of Lee), BLOX disclosed a 44% adjusted EBITDA margin. To me this indicates BLOX Digital could be worth \$120 million based on a 4x sales multiple or 10x adjusted EBITDA. Lee's stake would then be worth \$99 million. To be clear this is not a sum-of-the-parts thesis, but I do think that it is important that there are monetizable assets because there is a lot of debt (which we'll get to later).

All of the above has contributed to a growing digital revenue stream and digital revenue as a percentage of total revenue is consistently increasing as can be seen in table 2.

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Digital rev as % of total rev	22.2%	22.7%	24.8%	25.8%	27.3%	30.6%	31.5%	33.5%	35.0%	38.1%

Table 2: Digital revenue as a percentage of total revenue

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Total digital revenue	36015	31890	36490	50029	42784	43385	46487	65000	64804	65002

Table 3: Total digital revenue

Finances

As the legacy print segment becomes a smaller part of the business the total operating expenses should decrease. After all it is a lot cheaper to run a digital medium than it is to print and deliver physical newspapers. Table 4 shows the total operating expenses in thousands of dollars.

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Total opex	192752	185483	184396	181874	178992	194649	189648	198486	175621	168501

Table 4: Total operating expenses

Moving on to the debt. This is in my opinion the reason why Lee's valuation is depressed. Current long term debt is \$459.99 million with only \$19 million of cash. This debt is entirely owed to Berkshire Hathaway and matures in March 2045. It has a 9% fixed rate and no performance covenants. There is a cash sweep function where any cash above \$20 million has to be used to pay down debt. Lee has not made any material principle payments yet. In Q2 2023 they made principle payments of \$2.6 million and this obviously does not move the needle in a significant way. As a result interest payments total \$10 million each quarter.

The company should be able make the interest payments for the next few quarters given the $19 million in cash and the $5-$10 million of EBIT they have done per quarter in the past few quarters. Also, in Q2 2023 Lee had positive free cash flow of $1.25 million. Like I previously mentioned BLOX Digital is a part of Lee that could potentially be monetized to pay down debt. I think this would only happen if the core news business is performing extremely poorly. It is worth noting that the $31 million of BLOX revenue includes intercompany revenue. Obviously if the core business is struggling, the intercompany revenue would dry up a bit. They will probably struggle to find a buyer for BLOX so it is unlikely Lee will get the previously mentioned $99 million for it but I do think they could raise some cash by selling it if needed. Additionally the company owns $90 million of properties which are mostly printing facilities. As print shrinks they can sell these properties and use the proceeds to pay down debt. Finally, even though there have been no debt repayments, net debt has come down in the past year as Lee's cash position has grown.

Now onto a back of the napkin valuation. Assuming they reach their goal of 900,000 digital-only subscribers in 2026 and these subscribers end up paying $12 a month you get $129 million of digital subscription revenue. I am assuming digital advertising revenue will grow at 15% a year. This would give us $316 million in digital advertisement revenue a year in 2026. For print revenue I have assumed a 15% decrease a year. This would give us $282 million of print revenue in 2026. Expenses should decrease by 5% a year (I actually think they can bring down expenses by more than that but let's be conservative). That would give us $620 million of total expenses in 2026. Adding it all up we get $107 million of EBIT. At the current market cap of roughly $70 million there is significant upside.

Conclusion and recommended reading

If the digital transformation is successful and the company manages to decrease the debt pile I think there is significant upside. Things I would need to see in the coming few quarters is continued growth in digital subscribers, decrease in legacy operating costs and continued debt repayments. If these things don't materialize I would get out of the position as there is no real downside protection. All in all, a high risk high reward situation.

VIC write-up
Lee SeekingAlpha page
13D by Cannell Capital
13D by Praetorian Capital

DallasNews Corporation

Business description

DallasNews Corporation (NASDAQ:DALN) operates *The Dallas Morning News* as well as some smaller niche publications. Additionally they own Medium Giant, a strategic and digital marketing agency.

Digital transformation

Let's have a look at the number of digital-only subscribers and total subscribers in table 5.

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Digital subscribers	50852	52930	57084	59471	62356	62688	64172	68010	69051
Total subscribers		143000	147000	150000	149117	146065	144631	146583	145369

Table 5: DallasNews subscribers

As we can see digital-only subscribers have grown steadily and total subscribers which includes the print segment has been somewhat stable. Note that they didn't disclose total subscribers in Q1 2021. As digital subscribers grow, so should digital subscription revenue. People can get a digital-only subscription to *The Dallas Morning News* where for the first three months they only pay $1 a week. After the initial three months the fee goes up to $4.99 a week. So both the subscriber count and the average rate paid should go up over time.

Digital revenue as a percentage of total revenue has increased slightly. It is still not at a very impressive level and in my opinion this is due to a late start of the digital transition. It is also worth noting that digital advertising revenue has slowed down which is in line with a slowdown in overall advertising spending in the US. As digital subscribers continue to grow and advertising picks back up, digital revenue should become a larger part of the overall revenue.

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Digital rev as % of total rev	20.6%	22.3%	24.4%	24.2%	23.8%	24.7%	26.4%	25.9%	27.4%

Table 6: Digital revenue as a percentage of total revenue

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Digital revenue	7589	8611	9361	9831	8644	9293	9940	10134	9643

Table 7: Digital revenue growth

Finances

Similarly to Lee expenses should go down and it seems like this is starting to happen as can be seen in table 8. I don't think the cost savings of a more digital business have come through yet in a significant way. In my opinion this is due to general inflation as well as lackluster efforts by management to cut costs. The price of newsprint and ink went up roughly 25%. Employee compensation also went up slightly. In the last quarter newsprint prices have come down again and management expects this decrease to continue. Distribution costs should also go down over time as there is simply a smaller number of papers to distribute.

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Total opex	40515	41680	40891	41238	38765	39851	39979	41043	37958

Table 8: Total operating expenses

Let's now focus on the balance sheet which is one of DALN's strong points. DallasNews has $25 million in cash and cash equivalents with no long-term debt. They do have $19 million in pension liabilities and $17 million in operating lease liabilities. In 2023 no contributions are required to the pension plan. An underappreciated asset is land and a printing facility in Plano Texas. As far as I can tell the address is 3900 W Plano Pkwy, Plano, TX 75075. I estimate the building to be about 370k square feet. You can look it up yourself on Google Maps but it is not a stretch to think that the building could be worth more than the entire market cap of $20 million.

DallasNews is currently burning cash. They have had negative free cash flow for the majority of the past decade. For the past few quarters cash burn was a few million each quarter. So even though DALN currently has a decent balance sheet, this can quickly deteriorate. In fact, this is exactly what has happened over the past decade.

Onto a rough valuation. I think they can reach 85000 digital-only subscribers. This would imply they only need to convert 20% of their non-digital subs to digital-only subscribers, which seems reasonable to me. Assuming no price increases, these subscribers will all end up paying $4.99 a week. This will result in digital subscription revenue of $22 million. For digital advertising revenue I forecast $35 million. This implies they need to grow their FY 2022 digital ad revenue by 7% for 5 years. Considering Q1 2023 digital ad revenue is up 6.1% this assumption seems reasonable to me. After all, with more digital-only subs, ad revenue should increase as they have a larger audience. Besides, US ad spending will pick back up and DallasNews should benefit from that. For the remaining print segment (so advertising and subscriptions) $40 million of annual revenue in 5 years from now seems reasonable to me. This would imply a 15% decline a year, which is much more than it has done historically. Adding it all up we get revenue of $97 million in 2028. I think they can get expenses down to $80 million. To reach this conclusion my assumptions have to be a bit more heroic. I estimate employee compensation to be $40 million. In FY 2022 it was $67 million. As printing shrinks you need fewer people working at the printing press. They have close to 700 employees now which seems high to me for a regional newspaper with 145k subscribers. For production and distribution costs I forecast $35 million. In 2022 these costs were $78 million, so it's a large jump. My justification is that as print shrinks, so should associated costs. I get that it will almost definitely take more than 5 years to cut costs that much. For newsprint and ink I have cut costs by 50%. If print subscriptions decrease 50% and paper and ink prices stay the same, cost should come down 50% as well. This would result in $5 million cost. Adding up all costs we get the aforementioned $80 million. This should result in $17 million of EBIT. For a business with a $20 million market capitalization, a decent balance sheet and real estate possibly worth more than the market cap I think this is an attractive risk reward situation.

Controlling shareholder

Shares of Common Stock Beneficially Owned And Percentage of Outstanding Shares as of March 15, 2023 (1)(2)								
	Series A		Series B		Combined Series A and Series B		Combined Series A and Series B	
Name	Number	Percent	Number	Percent	Number	Percent	Votes	Percent
Robert W. Decherd*◆	78,165	1.6%	565,606	92.0%	643,771	12.0%	5,734,225	52.7%
Grant S. Moise*◆+	6,308	**	0	**	6,308	**	6,308	**
Mary Kathryn (Katy) Murray+	6,369	**	0	**	6,369	**	6,369	**
Christine E. Larkin+	0	**	0	**	0	**	0	**
John A. Beckert*◆	13,910	**	0	**	13,910	**	13,910	**
Louis E. Caldera*◆	7,590	**	0	**	7,590	**	7,590	**
Ronald D. McCray*◆	7,534	**	0	**	7,534	**	7,534	**
Dunia A. Shive*◆	3,761	**	0	**	3,761	**	3,761	**
All directors, director nominees and executive officers as a group (8 persons)	123,637	2.6%	565,606	92.0%	689,243	12.9%	5,779,697	53.1%

Figure 1: Beneficial owners

As can be seen in figure 1, Robert W. Decherd controls the company via a dual class structure. Series A shares have 1 vote and Series B shares have 10 votes per share. Series B shares are convertible into Series A shares on a share-for-share basis. Decherd used to be the CEO and executive chairman. While in those positions he was set on the digital transformation. From the Q3 2020 earnings call: "this is going to be the model for how the transition to a sustainably profitable digital newspaper is made."

Decherd has stepped down as CEO and is also no longer executive chairman. He still controls the business but him taking a step back might indicate he is willing to loosen his grip a bit. I don't think this would be a bad thing. Although he has grown digital subscribers at a good rate, this has not resulted in improvements on the bottom line.

Conclusion and recommended reading

The growing digital segment offers great potential but the transition is nowhere near being finished. If this digital transformation is successful, DallasNews offers a great investment opportunity. As opposed to LEE the decent balance sheet at DALN offers a longer runway and could serve as downside protection. I think the main risk is that management is not able to sufficiently monetize the digital segment, unable to cut costs and unwilling to sell real estate. If this is the case, DALN will probably slowly grind lower over the coming years.

DALN SeekingAlpha page

Cofina-SGPS

Business description

Cofina (EURONEXT:CFN) operates newspapers and magazines in Portugal. The main one being "Correio da Manhã" which is one of the largest newspapers in Portugal. Additionally they own "Record" which is a daily sports newspaper mainly focusing on football. The two magazines they operate are Sábado and TV Guia. Sábado focuses on journalism and TV Guia is a television magazine. Besides the newspapers and magazines Cofina also owns Correio da Manhã TV, which is a cable tv channel.

Different segments

Cofina does not separately report digital and print revenue, however they do split revenue into circulation, advertising and alternative marketing. Note that they only started separately reporting Press and TV segments in H1 2020.

	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021	H1 2022	H2 2022
Circulation	20,948	21,021	16,619	16,657	15,888	16,436	14,692	14,887
Advertising	12,845	14,718	9,150	13,058	11,080	15,732	13,556	14,608
Alternative marketing	8,903	9,589	8,273	7,687	8,532	8,181	9,334	8,960
Press			27,053	28,858	27,386	30,532	27,870	27,890
TV			6,989	8,544	8,114	9,345	9,712	10,565
Total	42,696	45,328	34,042	37,402	35,500	40,349	37,582	38,455

Table 9: Revenue by segment in thousands of euro's

Their cable TV channel had a market share of 4.84% in 2022. Historically it has been around these levels as well and it is the fourth largest Portuguese channel.

Circulation revenue includes both print and digital. Unfortunately they do not report how many digital subscribers they have. As we can see circulation revenue is decreasing, which is to be expected. This is partly offset by increased revenue in advertising and alternative marketing.

Finances

Over the past few years CFN has deleveraged the balance sheet and I expect this to continue in the future.

	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021	H1 2022	H2 2022
Net debt	42.2	44.9	44.1	40.1	38.9	33.9	31.6	25.6

Table 10: Net debt in millions

As we can see in table 11, costs have not come down in a material manner. I don't think this is necessarily a problem as the business is currently profitable.

	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021	H1 2022	H2 2022
Costs TV	5.513	5.333	5.226	5.593	6.148	6.393	7.013	8.33
Costs Press	29.442	30.964	24.598	22.131	22.476	26.063	23.957	23.181

Table 11: Costs by segment

	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021	H1 2022	H2 2022
Net income	5513	5333	-1255	6744	1952	2273	3261	7190
Free cash flow	2957	-2294	804	4000	1984	-1849	2320	6250

Table 12: Income and cash flow in thousands

Insider ownership

Pedro Miguel Matos Borges de Oliveira	No of shares held on 31-Dec-2022	% share capital with voting rights
Through Valor Autêntico, S.A. (of which he is dominant shareholder and director)	10,277,248	10.02%
Total attributable	**10,277,248**	**10.02%**

Domingos José Vieira de Matos	No of shares held on 31-Dec-2022	% share capital with voting rights
Through Livrefluxo, S.A. (of which he is dominant shareholder and director)	12,395,257	12.09%
Total attributable	**12,395,257**	**12.09%**

Paulo Jorge dos Santos Fernandes	No of shares held on 31-Dec-2022	% share capital with voting rights
Through Actium Capital, S.A. (of which he is dominant shareholder and director)	14,235,474	13.88%
Total attributable	**14,235,474**	**13.88%**

João Manuel Matos Borges de Oliveira	No of shares held on 31-Dec-2022	% share capital with voting rights
Through Caderno Azul, S.A. (of which he is shareholder and director)	15,400,000	15.01%
Total attributable	**15,400,000**	**15.01%**

Ana Rebelo Carvalho Menéres de Mendonça	No of shares held on 31-Dec-2022	% share capital with voting rights
Through Promendo Investimentos, S.A. (of which she is dominant shareholder and director)	20,488,760	19.98%
Total attributable	**20,488,760**	**19.98%**

Figure 2: Insider ownership at Cofina

As we can see, there is significant insider ownership. In fact so much so that insiders control the company. The people mentioned in the figure above are either directors or executives. In this case I think the high insider ownership is a positive as the company seems to be well run and it aligns management with shareholders.

Valuation

At a market cap of 27 million euro's it is trading at 2.5 times last years earnings. They did have a good year in 2022, but even at more normalized earnings it has a pe of 4-5. Additionally they are deleveraging the balance sheet bringing down the enterprise value. Even at the current enterprise value it has a ev/fcf of 5. I think these multiples are too low for anything that isn't going bankrupt tomorrow. Given the low float it is possible no one will ever care and as a result CFN's stock price won't go anywhere. However, CFN recently paid a 3 cent dividend. At the current price of 29 cents this is a roughly 10% yield. They do not have a history of paying dividends, but if they make this an annual thing, you'll still get a decent return.

RCS MediaGroup SpA

Business description

RCS MediaGroup (EURONEXT:RCS) is an Italian publisher of newspapers in Italy and Spain. Their main papers in Italy are Corriere della Sera and Gazzetta dello Sport. In Spain their main publications are El Mundo, Expansión and Marca. They also organize the Giro D'Italia. Of the four businesses mentioned in this write up, RCS is by far the one with the strongest brands.

Digital transformation

As can be seen below digital revenue has steadily increased in the past few years.

	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021	H1 2022
Digital revenue	80.1	86.9	108.6	63.4	93.7	111.3	95.7
Total revenue	475.5	448.1	493.7	255.8	421.8	424.4	445.7
Digital rev as % of total rev	16.8%	19.4%	22.0%	24.7%	22.2%	26.2%	21.5%

Table 13: Revenues in millions

Finances and major shareholder

In 2016 Urbano Cairo, the chairman and CEO acquired a 59% stake in RCS. Since then he has completely turned the business around. As a result the balance sheet is cleaned up completely. As of 31 March 2023 the net debt stood at 28.5 million euro's, whereas in 2016 it was roughly 500 million. RCS regularly does 100 million euro's in annual free cash flow with revenue of 850 million. Annual net income fluctuates a bit, but is almost always above 50 million. They have also recently announced a buy back.

Valuation

At the current market cap of 370 million euro's it has an enterprise value of 536 million (with leases accounted for, excluding leases it would be 399 million). This means an ev/fcf multiple of 5 based on normalised cash flow of roughly 100 million. Price to earnings stands at 7 which is just too low for a strong business with incredible brands.

Recommended reading

RCS is by far the strongest business of the four businesses I've pitched in this write-up. It has also been covered well on Twitter and in the write up I've linked below. You'll notice that I have kept the RCS part rather short and that is because a lot has already been covered by other people and I don't feel I have much to add. However, if you're interested I would highly recommend searching the ticker RCS.MI on Twitter as there are some great discussions on it.

Write up by The Mikro Kap
Write up by J3ow's Newsletter
Twitter thread by Schopenhauer Capital