

## CANADIAN CLUB LUNCHEON

**Monday, November 23, 1998**

**Paul V. Godfrey - (Guest Speaker)**

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Several months ago when the Canadian Club was kind enough to invite me to speak today, I accepted willingly. I was very pleased to have the opportunity to tell you about the exciting progress we have made since going public. Progress that was driven by recent bold acquisitions and imaginative initiatives. I looked forward to the opportunity to stand here and share our good news.

Well, to borrow an old line "a funny thing happened on the way to the podium." Except it isn't very funny.

So today, I'm even more thankful for the opportunity to talk to you about the future of Sun Media.

However, before I address our future, I would like to speak briefly about our past.

The fact that a colorful, hard-hitting, populist tabloid has a place in Canadian journalism was proven decisively 27 years ago this month when the Sun rose from the ashes of the Toronto Telegram. The Star spent \$10 million to buy the Tely's circulation lists. But they hadn't figured on Doug Creighton, Peter Worthington, Donald Hunt and a loyal team of 59 former Tely employees.

Those five dozen people did something that no one else in North America had done in decades, and few have done since. They launched a successful big-city daily newspaper that many believed would never survive a month.

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The Sun founders had the foresight to see that an alternative newspaper could succeed in the Toronto market - so long as it had something unique to offer. Like all pioneers, they understood the need to break new ground. The Telegram failed because it was the same type of newspaper as the Star. The Sun had to be different.

Breaking new ground included a tabloid format - something that no English-language daily in Canada had ever used before.

Breaking new ground included colour. The Sun was the first newspaper in Canada to make extensive use of colour photos.

Breaking new ground included a commitment to short, lively, easy-to-read articles, and a heavy focus on sports and entertainment.

And, just two years later, it included launching Canada's first major successful Sunday newspaper.

The Sun formula includes something even more important: a feisty, no-holds-barred, non-elitist style. Nothing and no one is out of bounds. That includes the CEO. Just like when I was in politics, I sometimes find myself criticized by my own columnists. The only difference is that now I'm signing their pay-cheques. Anyone who thinks that all newspapers are run from the top down has never worked for the Sun. If you don't like what one of our editorials has to say, you can write a letter blasting us. Or you can wait a day or two and one of our columnists will do it for you.

The men and women who started the Sun not only created a new paper, they fostered a unique culture - a rare combination of laid-back informality and high-pressure competitiveness. The thousands of men and women who have worked for the Sun for two-and-a-half decades have perpetuated that style -- marked by aggressive, enterprising reporting and aggressive, entrepreneurial management. Consistently, the Sun has reached beyond the inner circle, with a user-friendly, interactive style that says to readers: we care what you think, and your opinions are not just welcome, but actively sought.

Our independent culture is our most valuable asset. This unique culture motivates our staff, energizes our management, and benefits our readers. It is the main reason that the Sun and the Star are like day and night.

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About a week ago, our Board of Directors and independent committee voted unanimously against Torstar's hostile takeover bid. Many others have also expressed concerns about the Torstar bid.

- Our Board of Directors has determined that the Torstar offer does not reflect fair value for shareholders.
- Our employees have voiced their opposition - in print, on buttons and T-shirts and in spirited conversations in newsrooms, cafeterias, and offices throughout the Sun Media chain.
- Our retail and classified advertisers have also expressed their concerns.
- And our newspapers' most important constituency - our readers - have made their opposition to a takeover known in phone calls, e-mails and letters..... including letters to the Toronto Star.

If a bid of this nature had been made by any other newspaper or corporation, it is highly likely that the Toronto Star would be blasting it all over their editorial page.

In the proposed bank mergers, the Star has criticized reduced competition, potential job losses, and concentration of economic power and influence. In their own proposed takeover, the Star seems prepared to waive these concerns.

After years of criticizing Conrad Black for buying newspapers and acquiring a bigger share of the Canadian market, Torstar now seems to be saying that they are against concentration of media power in anyone's hands but their own.

That's their call.

As a director of Sun Media, I have a fiduciary responsibility to maximize shareholder value. As CEO, I have a moral responsibility to ensure the future of our 15 daily newspapers and more than 100 community newspapers across Canada. And as a 14-year Sun employee, I have a personal responsibility to ensure that the values and principles that have guided us for more than a quarter of a century are maintained.

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Like every other member of the Sun Media board, I examined the Torstar bid in detail. I found that it would be a bad deal for our shareholders.

But it doesn't really matter what I think. Let me tell you what our stakeholders have told us.

**To begin with, and of paramount importance, our Board of Directors believe that it would be a bad deal for shareholders.** As the Board has stated, it does not provide fair value.

Torstar opportunistically timed their offer to take advantage of a general decline in stock market values which lowered Sun Media's trading price, despite our continued excellent financial performance.

The Star trumpeted the fact that their \$16-per-share offer was 62 per cent above recent traded value of Sun Media shares. In fact, Sun Media was trading at \$16-a-share as recently as July, before the stock market downturn. Trading had reached more than \$17 in February and that was prior to making several acquisitions that have clearly strengthened the company.

Our Board believes that the offer is especially low when you consider that Sun Media is now in our fourth quarter, which historically is our most profitable. In fact, last year, nearly 50 per cent of Sun Media net earnings were in the fourth quarter. When you look at it in context, Torstar isn't offering shareholders a premium - they're trying to grab a bargain.

And, moreover, determining fair shareholder value is not simply a matter of comparing an offering price to the current trading price. When you look to medium and long-term value, Sun Media is especially strong.

We have only begun to take advantage of synergies from the purchase of four major southern Ontario dailies less than three months ago. We have considerable hidden asset value, including CANOE - the leading Canadian online portal site - and a growing network of on-line products on the worldwide web. Our participation in CP24, the Toronto 24-hour all-news-channel, puts us at the leading-edge of electronic news delivery.

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We also know that it's important to compare track records. Over the past 27 years, the Sun company has started the only five successful daily Canadian newspapers with circulation over 50,000, including The Financial Post which Southam recently used as the foundation for launching their National Post. That's five more start-ups than Torstar.

Given these factors, it's not surprising that CIBC Wood Gundy advised the Sun Media board that the takeover offer is (quote) "inadequate from a financial point of view" (unquote). In fact, if any other major corporation made this kind of bid for a competitor, the Star would probably say they were trying to steal the company - and they'd be right.

What's more, when it comes to actually running their company, Torstar can hide behind a curtain of secrecy called "a voting trust". They're asking our shareholders to give up 100 per cent of a voting share, for 25 per cent of a non-voting share. They're asking Sun shareholders to invest in the Star - and they won't even have a say in its future.

Torstar may be a publicly traded company, but it is controlled by a very private backroom group of families who are virtually unknown.

The decisions at Torstar will continue to be made by a small circle of friends and relatives. In fact, less than 13.5 per cent of their total shares are voting shares, and 97 per cent of those are held by members of the five families who set up the voting trust 40 years ago. Compare that to the Sun, where all shares are voting shares, and hundreds of employees are shareholders. The Star has their **families** - and we have our **family**.

Our employees have told me they believe that the deal would be bad for them.

They now have a say, a financial stake, and a future in Sun Media. Compare that to the Star, which has been plagued by labour disputes, offers no share ownership plan and did not even initiate a profit-sharing plan until a quarter-century after the Sun.

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Our employees have written that they do not want to lose the family culture I described earlier. Of course, we squabble at times like any other family. Staffers feel free to tell our publishers what they're doing wrong. But, senior management know how important it is to thank employees for all they do right. In the end, management and employees stick together in good times and in tough times. That sense of family is something that would undoubtedly change under Torstar ownership.

And of course, jobs would be at risk - for Sun and Star employees. As an acquiring company, the Star could be expected to comb through the ranks of both firms.

Just look at the numbers. Torstar has informed market analysts and institutional investors that it would expect to save at least \$50 million a year in synergies through the purchase of Sun Media - a fact they did not detail in their circular to Sun shareholders. Where would that \$50 million come from? Layoffs? Circulation price increases? Increased advertising rates?

That's the 50-million dollar question that Torstar management has been ducking - and that advertisers, readers and employees should be asking.

Let me first deal with our advertisers. You all know by now that the Competition Bureau is currently analyzing the impact that the Torstar bid would have on advertisers. This tribunal will present their findings when they have completed their analysis.

And what about our more than three million stakeholders who could be hurt by the proposed takeover - our readers - over a million of them in Toronto alone.

If these people wanted to rely on the Star for their news, they would read the Star. Our circulation has increased in the past two years, while the Star's has continued to erode. Obviously, we are offering hundreds of thousands of readers something that the Star isn't.

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It is hard to imagine two newspapers that are more different in their pages, internal cultures, operating style, decision-making and political philosophy. That is why I was shocked when Torstar ambushed us last month. For the Star to try to merge with the Sun is like Prime Minister Chretien suggesting that the Liberal Party should try to merge with Reform. Can you imagine Jean Chretien explaining to Preston Manning that - after a merger - they would now be on the same team -- and that Reform would be able to continue to operate in the same outspoken and critical manner as they have in the past.

Gimme a break!

Star management and Sun culture simply wouldn't mix.

Torstar claims that under its ownership, the Sun papers would continue to be independent. But how credible is that claim? Where would budgets be approved? Where would senior corporate appointments be decided? Where would key decisions be made about the paper's target markets, long-term focus, and allocation of resources? The Sun sign might still hang outside our office building at 333 King Street East, but the decisions would be made at One Yonge Street.

And, for how long would the Sun be allowed to maintain an independent editorial position? As Toronto Star publisher John Honderich pointed out last May, when he criticized Conrad Black's purchase of the Victoria Times Colonist and the Nanaimo Daily News (quote): "While he does not individually direct editorial policies and control at every paper, certainly those who run those papers on his behalf know what he likes and what he expects. There is potential in that situation to have a homogeneity of views."

Exactly. Mr. Honderich, the same warning applies here.

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What about operational independence? Does anyone believe that, during the next economic downturn, Torstar would refrain from meddling with the Sun's editorial and advertising budgets? How long would they run two City Hall bureaus, two Queen's Park bureaus, and two Ottawa bureaus? Would they send two full reporting teams to the Olympics and the World Series? Would they send two sets of reporters to cover the Blue Jays and the Leafs?

What would happen to the culture that is central to the Sun's energy and appeal? As bureaus become consolidated and reporting shared, slowly but surely the Sun would be forced to become more and more like the Star. The newspaper that was created to fill the place of the Tely would suffer the same fate as the Tely - stripped of its appeal as it became a blander, less lively and less relevant product.

What Torstar is offering the Sun isn't a merger - it's a submerger.

But let there be no mistake about it, the Sun is not easy to submerge.

- Our Board of Directors have made a strong case to shareholders against this proposed takeover.
- I am confident that our shareholders will not support any deal that doesn't fully recognize the Sun's value and its potential.

Many of you may be thinking that Sun management just doesn't want to be taken over, period. That is not true. In fact, we have a history of being taken over. The Toronto Sun Publishing Corporation went public on the TSE in 1978 and, in 1982, Maclean Hunter acquired over 50% of our shares. We had a great relationship with Maclean Hunter as our major shareholder until they themselves were acquired by Rogers Communications Inc. in 1994. From 1994 to 1996, Rogers was our major shareholder until they decided to put their 60% ownership position up for sale.

Many of you will recall, at that time, how management and several financial institutions came together to acquire 100% of The Toronto Sun Publishing Corporation. We became a private company, with three large financial institutions as our major shareholders, until December 1997 when we again offered our shares to the public in the second IPO in our history.

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So we are not afraid of a change of control, or having major shareholders.

With so little variety of ownership in Canadian publishing, it is vital to retain every voice. The federal government's prohibition on foreign companies owning more than 25 per cent of private company or 49 per cent of a public company was intended to make sure we didn't lose Canadian ownership.

Instead, we risk losing diversity of news and opinion. When it comes to news and editorial content, Canadians are entitled to alternatives. That is why the Sun was founded 27 years ago; that is why the Sun is the tremendous success it is today.

At the end of the day, the decision of who owns and controls Sun Media Corporation will not be decided by management -- not by our directors -- not by our advertisers -- not by our readers -- but solely by our shareholders.

I am but one shareholder who personally owns or controls, through shares or options, a substantial position in the company.

Financially, the present offer would allow me to walk away with a great deal of money - more than I dreamed I would ever have.

This entire process is not about any single individual, nor it is a question of entrenchment of the CEO. It is, however, my direct responsibility and obligation to act in the best interest of the company and all its shareholders.

This offer from Torstar doesn't measure up for all the reasons stated.

That is why I am doing everything in my power to seek out other interested parties that could present a better offer for Sun Media shareholders.

In the words of our columnist, Michel Mandel "we will not go quietly into that starry night".

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This is one little paper, and one giant publishing company, that should continue to grow.

Thank you.

Paul V. Godfrey  
President and Chief Executive Officer  
Sun Media Corporation