

“Convergence At What Price?”

Address presented by

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Thank you, Haroon, and ladies and gentlemen, thank you for coming. I appreciate it.

It's been about three years since I was last invited to speak at the Canadian Club and in the intervening years there have been incredible changes in the media industry.

This time, convergence is the great industry buzz – last time, it was the Internet. They said we were a dead industry.

We are still here. We are surviving. Indeed, we are thriving. But, we are not complacent. We are continuing to reinvent ourselves. I feel pretty good about what I said back then. I said "we are confident that, while the Internet will change us dramatically over the next twenty years, we

can live with it. In fact, (and this is important), newspapers and the Internet will complement each other."

I wasn't as confident then as I sounded – but in hindsight – the world is unfolding as predicted.

Today, the new threat – or the new opportunity – is convergence. As Churchill once noted, "A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty."

At Torstar, we are optimists because we see opportunity in the world of convergence.

And, that brings me to my message here today.
Convergence – at what price?

And, more to the point: What is convergence? How important is it? What is our position?

First, let me say, we are believers ... we are believers because Torstar has already been practising a form of convergence for years.

Within the Torstar Media Group, we own The Toronto Star – the largest newspaper in Toronto and Canada. In fact, The Toronto Star is one of the most recognized brands in Canada and its reputation for candid journalism and social justice is second to none in this country.

We are proud to own the Hamilton Spectator and the Kitchener-Waterloo Record and other dailies as well. In a

company called Metroland, we have more than 70 community newspapers inside the golden horseshoe. One of those papers, the Mississauga News, has greater circulation than the Globe and Mail. We own an entertainment weekly, eye magazine, and half of the most popular Chinese language newspaper, Sing Tao. We own half of the new tabloid subway paper – Metro Today. This is the second largest circulation paper in Toronto today, behind The Star. We have an Interactive Media Division, which includes more than 40 Web sites, including Star.com. We have joint ventures with BCE and the Globe on Toronto.com and Workopolis. And, we own Toronto Star television. We sell this media individually and as a package, as advertisers desire. We cross-promote our properties. We share editorial when appropriate.

So, in that sense, convergence is not new for us ... but, there is a new phenomenon which has arrived on the North American media scene that is unlike anything we have seen in the past – a cross-media convergence that is concentrating media assets in the hands of a small number of large corporations.

The first major convergence deal of this kind – the granddaddy of them all – was the merger of AOL and Time Warner in January 2000.

In a major piece in the New York Times, Gerald Levin, the President of AOL Time Warner, was asked about his vision. He answered with one word, “subscribers”.

AOL Time Warner has 49 million magazine subscribers; 37 million Home Box Office subscribers; 30 million AOL subscribers; and 13 million cable subscribers. The result is that 41% of AOL Time Warner’s \$40 billion revenue came from subscriptions, while advertising only accounted for 24%.

The possibility here to bundle offers for consumers is endless. If you sign up with AOL, would you like HBO free for six months?

Or, perhaps you would like Fortune and Sports Illustrated? You can target your promotions by people’s interests because you know what magazines they read; you know what specialty TV channels they order; and so on. The opportunity to data mine and improve your promotion

capability is terrific. This is convergence at the consumer level.

In Canada, when we talk of convergence, we generally are talking about owning newspapers, television and perhaps radio in the same city. It's very different from the AOL model.

It is a good model – but you don't own names and addresses with television and radio – so, you don't have the same promotion and bundling capabilities. This is convergence at the advertiser level. (For an old bookclub marketer from Harlequin, who depended on names and addresses, it is not as strong as the subscription model.)

But convergence, Canadian style, still allows owners of broadcast and newspapers to cross-promote, cross-sell, re-purpose content – and attract and retain talent.

In our estimation, cross-promotion is the most powerful. CanWest Global can advertise its stations and its programs in the various papers it owns at the cost of newsprint. Inventory is not a problem for newspapers – we just add another page.

It's more difficult to advertise newspapers on television because that "prime time spot" can be sold to another advertiser. If you see the Globe being advertised on TV between 8:00-11:00 pm that means CTV is having a hard time selling their inventory or the Globe paid for the ad. At 2:00 am – that's another story.

So, cross-promotion does work. What about cross-selling? Does it make sense to package television and newspapers into one corporate buy? Of course it does. But, if you offer a "combination" buy of TV and newspapers, the advertiser will expect to pay less not more because of one owner. We see that when we bundle our Torstar media properties.

What about "re-purposing of content"? Newspapers are already loaded onto the Net – television can be Webcast.

But, I want to emphasize that television and newspapers are two different mediums, each with their own strengths. One has sight, sound and motion. The other has in-depth coverage and the ability to scan news quickly. There are

not "millions of dollars" of synergies available for re-purposing content between them.

However, it is in the war for talent that converged players have a competitive advantage as they control who gets on-air.

While newsrooms of television and newspapers remain separate in Canada, broadcasters are offering their own newspaper reporters a chance to develop a broadcast presence and earn additional income ... and, they shut out competitors where possible.

So, as I said, we are believers in convergence. The issue on the table for Torstar is ... "how much is it worth"?

I want to answer that question in three ways. First, I want to examine what our competition has done. Second, I want to explore how much convergence must be worth to justify such a bold move and, finally, I want to explain what we have been doing.

First, let's explore what our competition has done in this new world.

Who would have believed after Mr. Black spent most of his life trying to acquire the Southam newspaper chain, 8 years after he acquired it, he would sell it? --- And, who would have believed that the Aspers, with a long and very successful history in broadcasting, would spend \$3.2 billion to buy the Hollinger papers with the result that

broadcasting became secondary to newspapers in their overall earnings?

Who would have believed that Mr. Thomson would sell his beloved Globe and Mail to a telephone company? --- And, who would have believed that BCE, after building up a conglomerate and then breaking it up, would start again and buy CTV and the Globe?

And, who would have believed the feisty, Toronto-based, Sun Media, would welcome a Quebec-based printing, publishing and cable company as its new owner?

So, our major newspaper competitors' convergence strategy is clear. They sold out. That's not the strategy

we had in mind! We would rather build and extend Torstar, not vacate the field.

Torstar's strategy is to capitalize on the assets that we have already put in place as pioneers of convergence. We will not make "bet the business" acquisitions. We will be financially prudent in our approach. There are no "must buys" in the world of convergence.

The second point I want to make deals precisely with this issue ... let's explore what convergence has to be worth to justify the strategy that CanWest Global, BCE, Quebecor, and AOL Time Warner have pursued. Acquisition premiums generally run a minimum of 30% of market price and, in the examples we have in Canada, I think one could argue they were substantially higher than that.

Most acquisitions fail in terms of return on investment – close to 80% – because the price paid is too high or the synergies expected are not realized. People get caught up in "winning" a bidding war. It is easy to win – just pay more than the other guy – and suffer the consequence later.

In the case of Canadian "convergence", we are not putting together two companies in the same business that generate obvious synergies. As a result, the synergies must come from convergence itself.

It is obviously far too early to tell in the examples given whether convergence can improve the earnings of the combined companies enough to justify the acquisition premiums.

So far, however, the market is pretty skeptical. In the last year since these deals have been done, Quebecor, CanWest, and AOL-Time Warner stocks have lost 40-50% of their value.

I don't want to be unfair here – these "bets" were not made with a one year time horizon, but they do have a big hill to climb.

Some have said that "Torstar missed the boat on convergence".

We have not missed the boat. And we have not missed a dividend payment either. And there are not many that can say that.

Our strategy is different from our competitors'. At Torstar, our strategy is to build, not buy. It may not be as glamorous or headline grabbing as spending billions – but it works for our Company and for our shareholders ... all our shareholders.

Our application for a conventional local television service in Toronto, Hamilton and Kitchener is one example of our build, not buy, strategy.

Our newspapers have built their success, and remain successful, because of our ongoing commitment to serve our local markets and to reflect community interests and concerns. Hometown Television is grounded in, and will build on that experience, if we are successful in winning the license.

What do I mean by conventional television? It has been so long since anyone launched a conventional television station in Toronto that you may have forgotten what they are. They aren't specialty channels. They aren't digital channels. They aren't premium or platinum services. There's no set-top box. Just think rabbit's ears! You get conventional stations on basic cable or over the air with your TV's rabbit ears. Everyone can get them free-of-charge.

Why do we believe there is room in the market for another channel? It is quite straightforward. So-called local stations don't restrict themselves to their home markets anymore. Over the past decade, virtually every station in Toronto, Hamilton and Kitchener has gone regional. They're now seen across the province. And as they have

expanded their geographic reach, they have shrunk their local coverage.

When I sat down for breakfast last week at the Board of Trade where my friend and successor, Rob Prichard, was speaking on the topic of Hometown Television, a woman at the table who runs an advertising agency turned to me and said, "I'm delighted that you have applied for local television stations." I said, "I'm pleased that you are, but why?" And, she said, "Because I can't buy television in Toronto." I said, "What do you mean, you can't buy television in Toronto?" She said, "I have to buy Ontario so, I'm very excited about your proposal because I have advertisers who want and can just afford Toronto." I was delighted. This is even more true in Hamilton and Kitchener.

There are three promises that separate our application from all others. First, it is overwhelmingly Canadian. Not less than 80% Canadian at all times. No other local broadcaster comes close. No other application comes close. Our application represents a new standard for Canadian broadcasting.

Second, we will work closely with the independent production sector. Almost \$11 million dollars each year will be used to commission programs from independent producers.

Third, we will create 298 jobs in Hamilton, Kitchener-Waterloo and Toronto.

We believe the advantages that convergence will bring to us is worth the investment – in fact, it is those advantages which will allow us to succeed with local television where others have failed.

We can make sure that in a crowded universe of conventional, specialty and digital channels, that ours will stand out. Imagine, if you will, a half page advertisement in the paper everyday explaining what will be on that evening. We can do it at the cost of newsprint. We will be able to cross-sell our advertising at the local level. And, we will be able to use our reporters and columnists on-air.

And that, in a nutshell, is the essence of our television strategy – building, not buying, our own convergence

based on the market appeal of our local newspapers, our established brands, combined with our vision for a new era in local television.

But combining local television and local newspapers is only one small example of convergence.

I want to give you some other examples of convergence that demonstrate the strategy of building.

Let's look at our joint venture with the Globe on Workopolis. 31,000 jobs are listed on the site and there are over 500,000 résumés that employers can search. Bringing these two groups together attracts 37 million page views per month and the number continues to grow.

Why is Workopolis the only job site around the world that beats Monster.com? It is the fact that we can promote at the cost of newsprint. When it was Globe Careers – they had 5 million page views. When we joined forces and put the power of The Star, the Spectator, and the Record behind it, it jumped to 25 million pages in two months.

That gives you some idea of our promotion power – it gives you a sense of why we believe we can build, not buy.

In the United Kingdom, News Corporation sells over 35 million papers a week, including the Sun, a tabloid, and the distinguished Times. Their readers pay 25 to 50 cents to "pull through" content on the Web and wireless devices. People are paying for daily horoscopes, crossword puzzle

clues, horseracing tips and (you won't believe this) a chance to talk to the Sunshine girl.

And, on the basis of the power of promotion and the trust in their brand, the Times has become a major retailer of books, travel, wine, and entertainment events. Don't those sound like sections of a newspaper?

The reality is, we have only seen the "tip of the iceberg" with regard to convergence. As broadband or highspeed access expands deeper into the home and onto your wireless device, the potential is as great as your imagination in terms of the interaction that can take place.

What is the lesson in all these examples? You don't have to spend billions of dollars on acquisitions to participate in

a converged world. We have the brands. We have the content. And, we have the power to promote new businesses.

We can build local TV around our local news franchise, our brands, and our power to promote. We can build Workopolis around our career advertising and our power to promote. We can build Toronto.com around our entertainment section and our power to promote.

We are builders. We have just begun. Watch us.

Thank you.