

It's time to fight back - Indie Trust's Ann Crotty



By Gill Moodie: @grubstreetSA

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Is the workers' trust that is [aiming](#) to acquire a stake in [Independent Newspapers](#) a crazy idea or could it actually fly? As the Irish parent company, [Independent News & Media](#), is casting around for buyers for SA's largest newspaper group, *Business Report's* Ann Crotty - who is one of the founding trustees of [Independent Trust for Media Freedom](#) - tells Bizcommunity how the trust is working, why it's getting a better reception in SA than in Ireland and what she believes must be done to save the resource-starved South African group.

■ ***The last [update](#) (in September) from the "Indie Trust" was that there were definitely two bidders (Sekunjalo and the speculation is that the Guptas, who own The New Age, are the others) and there appears to be a third. Is there any other news that I'm unaware of?***

Ann Crotty: As far as I know, there hasn't been anything new. The next thing we're waiting for is some sight of the Memorandum of Information (by INM, the Irish parent firm, to give bidders an idea of the business's worth). I don't know what the process is there but I think that's probably only going to be made available to people who approach Investec ([appointed](#) by INM in July to "explore a range of strategic options for its South African operation") with an expression of interest.

■ ***What's so interesting to me about this is that we all know that this year advertising revenue for print is falling in South Africa - it seems to be turning out to be an incredibly bad year for all the newspaper groups. This is exactly what the Irish don't need at this point.***

Crotty: Yeah, certainly from the South African perspective it's a bad time to sell (in terms of economics) but also the Mangaung (ANC elective) conference (in December), I think, has made a lot of potential interested parties very nervous. Whatever way you look at it, a media asset like Independent Newspapers is a political asset. And parties who were likely to indicate they were interested, I think, might now be thinking: 'I don't want to raise my head on this one in case the powers that are in the ANC think that I've got political ambitions'.

■ ***OK, that's a good point.***

Crotty: We've been told by people who are senior in the ANC that it would be great if they could postpone the sale. It would be a lot easier to do it in the new year.

■ ***After Mangaung?***

Crotty: Yes, that's from our perspective (in SA). From the perspective of the Irish, they're under huge pressure. They have broken their covenant with the banks in terms of which they have to keep their net debt at a certain ratio to [Ebitda](#). I think (the covenant) is something like a three-times relationship but it's now at something like six times. It's a combination of the debt increasing - having to increase because the operating performance in Ireland and South Africa is so bad - and the cash-flow generation is very poor...

■ ***That's fascinating when you think that six or seven years ago INM seemed to be such a huge international empire - when you think what's happened to it over the past two years or so and how troubled this company has become.***

Crotty: The reality was that in the old days there were always huge amounts of debt on the balance sheet. They were living as if there was no tomorrow - no concept of putting something away for a rainy day. I think the balance-sheet management was irresponsible - to have that amount of debt.

You know, the company was performing very well. There was more and more cash being taken out of South Africa but head office in Ireland wanted to keep paying very generous dividends and they were buying back shares when they were trading at €3 - of course, it's about 15c now. And were also making ill-judged acquisitions. I think anybody who looked at the company closely should have seen those warning signs... The chronic problem for the Independent was its obsession with paying generous dividends and that seemed to be management's starting point when looking at the company instead of being the residual.

■ ***You've been thinking of this trust for a long time.***

Crotty: For three years. As soon as we saw the situation - that the banks were on their case - and that [Denis O'Brien](#) looked like the shareholder who would emerge with management control, it did seem to us inevitable that they would have to sell the South African business...

■ ***But surely the sale won't get through the Competition Commission - especially with the two papers in Cape Town (Cape Argus and Cape Times) and Durban (The Mercury and Daily News) being owned by the group?***

Crotty: There's nothing really that the Competition Commission can do about it. If you were trying to put this transaction together - this grouping of newspaper together - now you wouldn't be able to. But when it's already in place, the competition authorities can't force a reduction. They wouldn't have the authority to force new owners to sell off papers.

■ ***OK, I get it. So if the Independent group started trying to buy new newspapers, they would have to notify the Competition Commission and that could get squashed.***

Crotty: That's right. And if someone with existing media assets was involved in buying the Independent now, that would cause concern as well.

■ ***So how is the trust working? Are you having informal meetings with INM and then also raising a flag with prospective buyers? How do you actually go about doing that?***

Crotty: Well, we are now notifying Investec of our interest but, obviously, this is new territory for everybody involved. I don't think Investec's mandate extends to engaging with us so we've just pretty much just got to notify them and say: 'This is who we are. This is what we want to achieve. It would be great if you could somehow accommodate us'. That's unfortunately the situation we're got: this hope that the interested parties will pay attention to what we're saying and believe it has some value to them.

We've spoken to [PIC](#), who was very supportive but, obviously, it can't give any commitments. But I think it acknowledges that we tick most of those boxes - that this is a formal employee share-ownership scheme, it's BEE, it's protection of the intellectual capital within the company. So that makes it a valuable proposition to people and a number of the parties that have indicated their interest have come and chatted with us.

■ ***But this would all be informal?***

Crotty: Yes.

■ ***Well, that's interesting to hear as you would think that the big-time businessmen out there would be looking at this and be thinking: "What a bunch of crazy journalists".***

Crotty: Actually, there's been remarkably little of that. I've also been speaking to analysts and journalists in Ireland and that's the sort of response that one senses in Ireland - but not in South Africa. I think in South Africa we're much more

open to: 'Let's look at everything. Let's see what will work'. And it's great. It's very heartening. I think a lot of people have thought: 'Wow. This is unusual'. And after a few seconds, thought: 'Well, hang on. It might actually work'.

■ ***Is there anything like this in media elsewhere in the world that you're aware of?***

Crotty: In France one of the major media groups is owned by a trust. Fifty percent of *The Economist* is owned by a trust and *The Guardian* is owned by a trust.

■ ***But they're not workers' trusts?***

Crotty: No, they're not... They're protected from a short-term profit imperative as it were, which enables them to consider broader objectives. I'm not saying that we're not interested in making profit. The group won't survive if it's not making profit but I think a lot of our drive is informed by what has happened at the group in the past 10 years. We've just been squeezed with resources.

■ ***I want to get your opinion on the health of the SA group. Is it already - or on the verge of - a death spiral, do you think? That vicious cycle in which lower circulation and ad revenue is hitting profits, which then squeezes resources so that the papers can't produce the kind of content people will pay money for - and, therefore, circulation and ad revenue keep falling.***

Crotty: Well, there is no need for it to be in this spiral. I do think the parent company in Ireland should have seen what was happening and should have seen the longer-term implications... I'm obviously optimistic about print media and digital media. I think we need to invest in what we do with the digital - again, that's also been under-resourced. I think there's been this sort of willingness to assume that print media is dead - and there's nothing you can do except sit back and let that happen.

I know that print media is dying in huge parts of the developed world but in the developing world, the evidence is much more uncertain. There is, in fact, evidence in Africa, Asia and South America that print media is growing. I think we need to look at things in a different way and be more aggressive... But whatever happens, (the group) does need investment. The Independent has 14 of the oldest titles in the country and it's quite difficult to kill them. They have been starved and that's done them a lot of damage but if you consider the cost of establishing a new title, that gives them a lot of value - and not just in a print format but also in digital. We've just got to try and fight back...

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