Methodology

Rating Companies in the Publishing Industry
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All DBRS ratings and research are available in hard-copy format and electronically on Bloomberg and at DBRS.com, our lead delivery tool for organized, Web-based, up-to-the-minute information. We remain committed to continuously refining our expertise in the analysis of credit quality and are dedicated to maintaining objective and credible opinions within the global financial marketplace.
Rating Companies in the Publishing Industry

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Scope and Limitations

This methodology represents the current DBRS approach for ratings in the publishing industry. It describes the DBRS approach to credit analysis, which includes consideration of historical and expected business and financial risk factors, as well as industry-specific issues, regional nuances and other subjective factors and intangible considerations. Our approach incorporates a combination of both quantitative and qualitative factors. The methods described herein may not be applicable in all cases; the considerations outlined in DBRS methodologies are not exhaustive and the relative importance of any specific consideration can vary by issuer. In certain cases, a major strength can compensate for a weakness and, conversely, a single weakness can override major strengths of the issuer in other areas. DBRS may use, and appropriately weight, several methodologies when rating issuers that are involved in multiple business lines. Further, this methodology is meant to provide guidance regarding the DBRS methods used in the sector and should not be interpreted with formulaic inflexibility, but understood in the context of the dynamic environment in which it is intended to be applied.

Introduction to DBRS Methodologies

• DBRS publishes rating methodologies to give issuers and investors insight into the rationale behind DBRS’s rating opinions.
• In general terms, DBRS ratings are opinions that reflect the creditworthiness of an issuer, a security or an obligation. DBRS ratings assess an issuer’s ability to make timely payments on outstanding obligations (whether principal, interest, preferred share dividends or distributions) with respect to the terms of an obligation. In some cases (e.g., non-investment grade corporate issuers), DBRS ratings may also address recovery prospects for a specific instrument given the assumption of an issuer default.
• DBRS operates with a stable rating philosophy. In other words, DBRS strives to factor the impact of a cyclical economic environment into its ratings wherever possible, which minimizes rating changes due to economic cycles. Rating revisions do occur, however, when more structural changes, either positive or negative, have occurred, or appear likely to occur in the near future.
• DBRS also publishes criteria which are an important part of the rating process. Criteria typically cover areas that apply to more than one industry. Both methodologies and criteria are publicly available on the DBRS website and many criteria are listed below under Rating the Specific Instrument and Other Criteria.
Overview of the DBRS Rating Process

• There are generally three components to the DBRS corporate rating process: (1) an industry risk assessment (IRA), (2) an issuer rating and (3) considerations for specific securities. The figure below outlines this process.

• An IRA is a relative ranking of most industries that have a DBRS methodology, typically using just three ranges of the DBRS long-term debt rating scale (i.e., “A,” BBB and BB), without making use of the “high” or “low” descriptors. The IRA is a general indication of credit risk in an industry and considers, among other things, an industry’s (1) profitability and cash flow, (2) competitive landscape, (3) stability, (4) regulation and (5) other factors. An “industry,” for the purposes of the IRA, is defined as those firms that are generally the larger, more established firms within the countries where the majority of DBRS’s rated issuers are based; this remains true for DBRS methodologies that are more global in nature. The IRA helps DBRS set the BRA grid (see below) in that it positions, in an approximate way, an average firm in the industry onto the BRA grid.

• The issuer rating is DBRS’s assessment of the probability of default of a specific issuer. It is a function of: (1) the business risk assessment (BRA), determined by assessing each of the primary and (where relevant) additional BRA factors in the BRA grid for a specific issuer; and (2) the financial risk assessment (FRA), determined by assessing each of the primary and (where relevant) additional FRA metrics. The two components, BRA and FRA, are combined to determine the issuer rating; in most cases, the BRA will have greater weight than the FRA in determining the issuer rating. Throughout the BRA and FRA determination process, DBRS performs a consistency check of the issuer on these factors against the issuer’s peers in the same industry.

• The issuer rating is then used as a basis for specific instrument ratings. DBRS assigns, for example, a recovery rating and notches up or down from the issuer rating to determine a specific instrument rating for instruments of non-investment grade corporate issuers. (See Rating the Specific Instrument and Other Criteria below.)

DBRS Rating Analysis Process

* Depending on the instrument, “other criteria” may include the recovery methodology for non-investment grade issuers or the preferred share and hybrid criteria, for example. Please refer to the section below entitled “Rating the Specific Instrument and Other Criteria” for a list of these criteria, as well as other criteria that may be applicable at any stage of the rating process.
Publishing Industry

• The publishing industry includes all newspaper, magazine and book publishers, including urban commuter daily newspapers that are distributed for free and are solely reliant on advertising revenue. Digital versions of these sectors are also included, as well as legal, financial or other information service providers sold by subscription. To the extent these companies also engage in printing operations, DBRS will also make use of the methodology entitled Rating Companies in the Printing Industry.
• Per the three-tier industry risk rating system described on the previous page, the publishing IRA is BB.
• The publishing industry is characterized by: (1) lower than average profitability due to secular declines in both advertising and subscription revenue, particularly for newspapers; (2) significant structural change arising from the transition to web-based media sources; (3) high costs in the form of newsprint, creation and production costs; and (4) minimal regulation which tends to address only the concentration of publications within a market and cross-media ownership issues.
• Competition from the Internet and other forms of media is causing a decline in traditional subscribers and pressure on print revenues. While certain well-entrenched financial publications such as The Wall Street Journal, The Financial Times and The Economist have been able to create a profitable online subscription, and other more recent publications have been able to create their business from a digital/online perspective and do not even produce a printed version (e.g., The Huffington Post or News Corp’s The Daily), most newspapers and magazines have not been successful to date in transitioning to online formats.
• Regional or community newspapers are less exposed to competition than larger urban centres, although even in major markets, the number of competing newspapers is declining. Free commuter papers can attract a broad readership audience that appeals to advertisers.
• Magazines, while deriving a lesser proportion of revenue from advertising, are dependent on national advertising, which can be more subject to economic factors. Magazines are also vulnerable to the buying patterns of consumers and businesses.
• Cost containment has been a focus of the industry to mitigate the declines in revenue. Certain variable costs, such as non-unionized labour, can be managed to some degree, but other variable costs are difficult to reduce, such as the cost of newsprint.
• Regulation in newspapers and magazines tends to focus on self-discipline within the industry based on professionalism and fairness, although tabloids tend to be more vulnerable with respect to legal action.
Publishing Business Risk Assessment

PRIMARy BRA FACTORs
• The BRA grid below shows the primary factors used by DBRS in determining the BRA. While these primary factors are shown in general order of importance, depending on a specific issuer’s business activities, this ranking can vary by issuer.

Publishing - Primary BRA Factors

<table>
<thead>
<tr>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product Diversity</strong></td>
<td>Highly diverse product mix with numerous sources of advertising and/or subscription revenue.</td>
<td>Reasonably diverse product mix with a number of sources of advertising and/or subscription revenue.</td>
<td>Modestly diverse product mix with a few sources of advertising and/or subscription revenue.</td>
</tr>
<tr>
<td><strong>Market Position</strong></td>
<td>Leading position in newspaper and magazine markets.</td>
<td>Strong position in newspaper and magazine markets.</td>
<td>Steady position in newspaper and magazine markets.</td>
</tr>
<tr>
<td><strong>Subscription and Readership Trends</strong></td>
<td>Able to consistently grow subscriptions and readership both from traditional sources and through digital platforms.</td>
<td>Moderate growth in subscriptions and readership both from traditional sources and through digital platforms.</td>
<td>Flat to very moderate growth in subscriptions and readership both from traditional sources and through digital platforms.</td>
</tr>
<tr>
<td><strong>Migration to Digital/Online Services</strong></td>
<td>Strong progress in developing, offering online/digital services with established profitability.</td>
<td>Steady progress in developing, offering online/digital services with some level of profitability.</td>
<td>Some progress in developing, offering online/digital services with signs of profitability.</td>
</tr>
<tr>
<td><strong>Operating Efficiency &amp; Scale</strong></td>
<td>Very good in demonstrating consistent operating efficiency.</td>
<td>Good in demonstrating steady operating efficiency.</td>
<td>Adequate in demonstrating operating efficiency but somewhat inconsistent.</td>
</tr>
</tbody>
</table>
| The following BRA risk factors are relevant to issuers in all industries (although the relevance of sovereign risk can vary considerably):

**Sovereign Risk**
The issuer rating may, in some cases, be constrained by the credit risk of the sovereign; in other words, the rating of the country in which the issuer operates generally sets a maximum rating for the issuer. If the issuer operates in multiple countries and a material amount of its business is conducted in a lower-rated country, DBRS may reflect this risk by downwardly adjusting its issuer rating.

**Corporate Governance**
Please refer to DBRS Criteria: Evaluating Corporate Governance for further information on how DBRS evaluates corporate governance and management.
ADDITIONAL BRA FACTORS

• The additional BRA factors discussed below may be very important for certain issuers, depending upon their activities, but they do not necessarily apply to all issuers in the industry.

Geographic Mix

• The degree to which a publisher provides services in various geographies is assessed. End customers within different regions and demographics are interested in different types of advertisements/subscriptions, offered through various mediums. Their tastes, platform preferences, spending levels and other demographic factors are taken into account. Diversification across a large geographic area is potentially a positive credit factor.

Publishing Financial Risk Assessment

PRIMARY FRA METRICS

• The FRA grid below shows the primary FRA metrics used by DBRS to determine the FRA. While these primary FRA metrics are shown in general order of importance, depending upon an issuer’s activities, the ranking can vary by issuer.

• DBRS ratings are based heavily on future performance expectations, so while past metrics are important, any final rating will incorporate DBRS’s opinion on future metrics, a subjective but critical consideration.

• It is not unusual for a company’s metrics to move in and out of the ranges noted in the grid below, particularly for cyclical industries. In the application of this matrix, DBRS looks beyond the point-in-time ratio.

• Financial metrics depend on accounting data whose governing principles vary by jurisdiction and, in some cases, industry. DBRS may adjust financial statements to permit comparisons with issuers using different accounting principles.

• Please refer to DBRS Criteria: Financial Ratios and Accounting Treatments – Non Financial Companies for definitions of, and common adjustments to, these ratios in the FRA grid below.

• Liquidity can be an important credit risk factor, especially for lower-rated non-investment grade issuers. While ratios such as the current or quick ratio can give an indication of certain short-term assets in comparison with short-term liabilities, DBRS will typically review all material sources of liquidity (including cash on hand, cash flow from operations, availability of bank and capital market funding, etc.), in comparison with all material short- and medium-term uses of liquidity (such as operations, capital expenditures, mandatory debt repayments, share buybacks and dividends, etc.).

• DBRS considers an issuer’s financial policy, including factors such as its targeted financial leverage, its dividend policy and the likelihood of share buybacks or other management actions that may favour equityholders over bondholders.

• While market pricing information (such as market capitalization or credit spreads) may on occasion be of interest to DBRS, particularly where it suggests that an issuer may have difficulty in raising capital, this information does not usually play a material role in DBRS’s more fundamental approach to assessing credit risk.

<table>
<thead>
<tr>
<th>Primary FRA Metric</th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt-to-EBITDA</td>
<td>&lt; 2.0x</td>
<td>2.0x to 3.5x</td>
<td>3.5x to 5.0x</td>
<td>&gt; 5.0x</td>
</tr>
<tr>
<td>Cash flow-to-debt</td>
<td>&gt; 30%</td>
<td>20% to 30%</td>
<td>10% to 20%</td>
<td>&lt; 10%</td>
</tr>
<tr>
<td>EBITDA-to-interest</td>
<td>&gt; 7.0x</td>
<td>4.0x to 7.0x</td>
<td>2.0x to 4.0x</td>
<td>&lt; 2.0x</td>
</tr>
<tr>
<td>EBIT-to-interest</td>
<td>&gt; 5.0x</td>
<td>3.0x to 5.0x</td>
<td>1.5x to 3.0x</td>
<td>&lt; 1.5x</td>
</tr>
<tr>
<td>Debt-to-capital</td>
<td>&lt; 30%</td>
<td>30% to 45%</td>
<td>45% to 60%</td>
<td>&gt; 60%</td>
</tr>
</tbody>
</table>
ADDITIONAL FRA METRICS

- While the primary FRA metrics above will be the most important metrics that DBRS will use in determining the FRA of an issuer, other metrics may be used, depending upon an issuer’s activities, capital structure, pension liabilities and off-balance sheet obligations.
- Profitability, particularly in the medium term, can be an important differentiator of credit risk. DBRS may assess profitability through a variety of metrics, including return on capital.
- While free cash flow (i.e., net of changes in working capital, dividends and capital expenditures, etc.) can be volatile and, on occasion, negative, DBRS may use this and/or other cash flow metrics to assess a company’s ability to generate cash to repay debt.

Blending the BRA and FRA into an Issuer Rating

- The final issuer rating is a blend of the BRA and FRA. In most cases, the BRA will have greater weight than the FRA in determining the issuer rating.
- At the low end of the rating scale, however, particularly in the B range and below, the FRA and liquidity factors play a much larger role and the BRA would, therefore, typically receive a lower weighting than it would at higher rating levels.

Rating the Specific Instrument and Other Criteria

- For non-investment grade corporate issuers, DBRS assigns a recovery rating and reflects the seniority and the expected recovery of a specific instrument, under an assumed event of default scenario, by notching up or down from the issuer rating in accordance with the principles outlined in the criteria DBRS Recovery Ratings for Non-Investment Grade Corporate Issuers.
- Preferred share and hybrid considerations are discussed under Preferred Share and Hybrid Criteria for Corporate Issuers.
- The issuer rating (which is an indicator of the probability of default of an issuer’s debt) is the basis for rating specific instruments of an issuer, where applicable. DBRS uses a hierarchy in rating long-term debt that affects issuers that have classes of debt that do not rank equally. In most cases, lower-ranking classes would receive a lower DBRS rating. For more detail on this subject, please refer to the general rating information contained in the DBRS rating policy Underlying Principles.
- For a discussion on the relationship between short- and long-term ratings and more detail on liquidity factors, please refer to the DBRS policy Short-Term and Long-Term Rating Relationships and the criteria Commercial Paper Liquidity Support Criteria for Corporate Non-Bank Issuers.
- The existence of holding companies can have a meaningful impact on individual security ratings. For more detail on this subject, please refer to the criteria Rating Holding Companies and Their Subsidiaries.
- Guarantees and other types of support are discussed in Guarantees and Other Forms of Explicit Support.
- For further information on how DBRS evaluates corporate governance, please refer to DBRS Criteria: Evaluating Corporate Governance.
- Please refer to DBRS Criteria: Financial Ratios and Accounting Treatments – Non Financial Companies for definitions of, and common adjustments to, these ratios.