# CURRENT ISSUES IN THE VALUATION OF NEWSPAPER PRINTING ASSETS

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# What is at Stake?

- Huge sums invested in large and modern press systems prior to 2007, either through direct purchase or a business combination.
- Book values and assessed values for property tax purposes reflect the high prices paid at the peak of the market.
- Standard depreciation and residual value factors do not reflect the dramatic forces that have affected the fair market value of printing assets.
- Problem: demonstrable evidence was limited to support departure from conventional depreciation schedules.



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# The Bond & Pecaro Study

- Bond & Pecaro, Inc. conducted industry research and also joined with the Newspaper Association of America ("NAA") to conduct research regarding actual sales of printing presses in the secondary market.
- Results include over 26 transactions during the 2007-2014 time frame.
- Results will be published in the form of a White Paper on the NAA web site.

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# Key Findings

- Newspaper print advertising has dropped more than 65% since 2005 and newsprint consumption has fallen by 57%
- Newspapers have been transitioning to digital and mobile platforms over the past ten years
- Economic and technological factors have forced newspapers to consolidate printing operations, leading to closure of printing operations and flooding the market with excess presses and ancillary equipment
- Printing press manufacturers have downsized production as a result of low demand
- Secondary market for printing presses is depressed with values close to zero and in many cases negative due to the high cost of removal and remediation.

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# Three Approaches to Value Can Be Considered – Better Market Data Can Support All Three

- Replacement Cost Approach – Analyze data based on current replacement cost new from manufacturers and then make adjustments for depreciation, obsolescence, economic factors, etc.
- Market Approach – Analyze actual sales of similar assets in the marketplace
- Income Approach – Appraisal of a personal property asset based on the income it produces.  Rarely used due to difficulty of assigning value to a particular asset, but can have some utility.

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# Issue 1: Definition of Value

- Remember – different states have different rules
- Is value from the perspective of a buyer or a seller?
- Item is valued as if in place and in use
- Therefore, installation needs to be considered
- Current market suggests that you could get a press for free – but shipping and installation costs can be significant



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# Issue 2: Capacity Utilization

- We need to think critically – is capacity utilization measured at the market level or the plant level?
- Capacity Utilization Formula –

  **[1-((Actual Production/Capacity)^Scaling Factor)*100**

- Economic Obsolescence Factor at 75% Utilization

  [1-((7,500/10,000)^0.6)*100 = 15.8%

- Economic Obsolescence Factor at 35% Utilization

  [1-((3,500/10,000)^0.6)*100 = 46.7%

- Market level is most relevant here in this case – example of the four press market.

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# Sample Replacement Cost Valuation

| **Depreciated Replacement Cost Calculation** | **Plant Level** | **Market Level** |
|---|---|---|
| List Installed Replacement Cost per Manufacturer as of Valuation Date | $25,000,000 | $25,000,000 |
| Less:  Estimated Discount from List Price | 15% | 15% |
| Discounted Installed Replacement Cost per Manufacturer Valuation Date | $21,250,000 | $21,250,000 |
| Plus:  Applicable State Sales Tax @ 8.0% | 1,700,000 | 1,700,000 |
| Total Replacement Cost | 22,950,000 | 22,950,000 |
| Physical Depreciation Factor with 5% Salvage Value | 44% | 44% |
| Depreciated Replacement Cost | $12,852,000 | $12,852,000 |
| Functional Obsolescence Depreciation Factor | 12.5% | 12.5% |
| Adjusted Depreciated Replacement Cost | $11,245,500 | $11,245,500 |
| Economic Obsolescence Depreciation Factor | 15.8% | 46.7% |
| Total Depreciated Replacement Cost (Rounded) | $9,500,000 | $6,000,000 |

# Issue 3: Income Approach

- Typically not employed in personal property valuations
- But can be useful in setting context
- History of losses can raise questions about the value of any constituent assets associated with a business
- Income approach has been employed by our firm using a small weighting

# Reconciliation of Approaches

| | Value | Weight | Weighed Value |
|---|---|---|---|
| Depreciated Replacement Cost | $6,000,000 | 20% | $1,200,000 |
| Market Approach | $5,700,000 | 70% | $3,990,000 |
| Income Approach | $0 | 10% | $0 |
| | | | |
| Reconciliation | | | $5,190,000 |

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