

▶ debt maturing in the next 18 months, according to Standard & Poor's, a rating agency, and only \$560m of cash (excluding cash held as collateral). The Mexican firm is now trying to arrange a new debt package with a syndicate of banks.

The other five firms look more secure. None is in immediate danger of breaking its debt covenants. ArcelorMittal, Rio and Lafarge have sufficient liquidity to cover maturing debt for the next year or so. Xstrata and Tata Steel have two years' worth of cover. The latter also has a "get out of jail free" card: \$6 billion of its \$10.7

billion of net debt sits in Corus and is not guaranteed by the Indian parent company. In extremis, Tata could walk away from its costly acquisition. (This month Corus asked for aid from the British government.)

These firms also still expect to generate cashflow, just much less of it. With their liquidity buying them some time, next year will be about squeezing the business until the pips squeak. The acquisitions all made industrial sense, so synergies should boost profits: Rio, for example, has so far made only about a third of the savings expected from the Alcan deal, and Tata Steel is about

halfway through its programme. Beyond such synergies, both Lafarge and ArcelorMittal have recently launched new cost-cutting plans. The slump means inflated costs for equipment and raw materials are falling, while inventories can be run down. ArcelorMittal hopes to release \$5 billion of working capital over the next six months, which would cut its net debt by 15%.

But in the fight to survive the biggest weapons are cuts in production and capital spending. ArcelorMittal has led the way on the former, with a reduction of output by one-third that even its chairman, Lakshmi Mittal, calls "very aggressive". The cuts to investment plans are as dramatic: ArcelorMittal, Lafarge and Cemex have sliced their budgets for next year by between one-third and one-half, and on December 10th Rio cut its planned capital expenditure in 2009 from \$9 billion to \$4 billion. Xstrata has yet to announce its plans but a 50% reduction is possible. For the six firms combined, this would mean a \$15 billion boost in annual cashflow—equivalent to about 18 months' worth of interest costs.

That, along with adequate liquidity for at least five of the six, makes survival likely. It also raises an intriguing question. The deals of recent years mean these industries are more concentrated and indebted than ever before. That in turn has forced huge, rapid cuts in actual and planned capacity, which could stabilise prices faster than in past downturns. It is a glimmer of hope during these bleakest of times. ■

Newspapers in America

OverZellous

CHICAGO

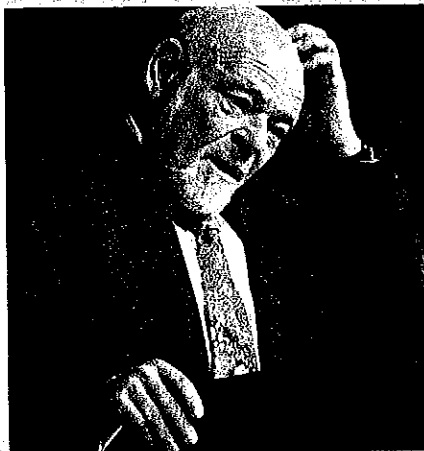
The Tribune Company files for bankruptcy protection

WHEN Sam Zell announced on December 20th 2007 that he had completed a deal to buy the Tribune Company—with holdings including the *Los Angeles Times* and the *Chicago Tribune*, an array of local television stations and the Chicago Cubs baseball team—he made a bold promise. A property tycoon with little experience in media, Mr Zell vowed to create "a fresh, entrepreneurial culture that is fast and nimble, and which rewards innovation". Tribune, he hoped, would represent the future of newspapers. He may be right, but not in the way he intended. On December 8th the company filed for bankruptcy protection.

America's newspapers have been in decline for years as readers and advertisers have migrated to the internet. In 2007 the total circulation for daily newspapers was 51.2m, 14% lower than in 2000, according to the Newspaper Association of America. Total advertising spending (print and online) fell by 8% in 2007 alone. This year has been even worse, thanks to the recession: in the third quarter it was 18% lower than a year earlier.

Mr Zell, who invested a mere \$315m in Tribune's \$8.2 billion takeover, soon proved an erratic captain on a sinking ship. Plans to save the business included, among other things, cutting staff and measuring reporters' productivity by their published column inches.

But Mr Zell's main strategy for survival was to sell assets. In May Tribune sold *Newsday*, a paper based in Long Island. But a scheme to sell its stake in the Food Network, a cable channel, collapsed. Most important was the attempt to sell the Cubs, their Wrigley Field stadium and a 25% stake in Comcast SportsNet Chicago, a cable network. Mr Zell hoped this might raise as much as \$1 billion. After many delays, news came this month of at least three bidders for the Cubs. Yet just a



This media lark is tougher than it looks

week later Tribune filed for bankruptcy, excluding the team from its filing.

Mr Zell blamed the combination of falling revenues, the credit crisis and the wretched economy. Indeed, few could have foreseen that Tribune's ad revenue would drop by at least 15% in each quarter of this year so far. The collapse of the car and property industries, two big advertisers, did not help. Tribune might have been able to survive if it had not been loaded with \$13 billion of debt.

Other newspapers are also in trouble. McClatchy, America's third-biggest newspaper publisher, is faltering under heavy debts after buying KnightRidder in 2006. It is trying to raise cash by selling the *Miami Herald*. The *Minneapolis Star Tribune* and the *Philadelphia Inquirer* are also on the brink, according to Lauren Fine, an industry expert at Kent State University. And the *New York Times*, which has a \$400m debt repayment looming in May, said on December 7th that its parent company might borrow up to \$225m against its new headquarters. Bad news, indeed.

Advertising in America

Broadcasting gloom

How badly will television advertising suffer in the recession?

THE Super Bowl is one of the biggest events on the advertising calendar, as companies vie to produce the most memorable and innovative ads. The battle for the National Football League's ultimate prize attracts more viewers than anything else on American television and provides a "symbolic pulse-taking" for the advertising industry every February, says John Frelinghuysen, an analyst at Bain and Company, a consultancy. But this year the patient is in poor health. All the advertising slots for the 2008 Super Bowl had been sold by the end of November 2007, despite the \$2.6m price of each. For 2009 the price has risen to \$3m, but at least ten slots (out of 67) are still looking for a buyer.

General Motors, which ran 11 ads on Super Bowl Sunday in February 2008, has already said that it will not run any in 2009. ▶▶

America's two other big carmakers, Ford and Chrysler, are likely to follow suit. Tellingly, Monster.com, an online job-search company, said recently that it was buying a slot. Instead of the usual parade of expensive ads paying tribute to American consumerism, 2009's Super Bowl will reflect a country in recession and herald a grim year for the advertising industry.

Most forecasts for next year say that ad spending in America will decline by 5% or more. Much depends on the fate of the automotive industry: carmakers and dealers normally spend around \$20 billion a year on advertising, but Chrysler and Ford scaled back their expenditure by more than 30% in the first nine months of 2008, and are expected to make further cuts in 2009 as they struggle for survival.

The car industry's woes will hurt all media, but especially television. Analysts at BMO Capital Markets predict that total spending on television ads will fall by almost 9% next year. Only newspapers, where a decline of 12% is expected, are forecast to fare worse. Carmakers have already shifted some of their advertising spending to the internet, and are likely to go further in 2009. Car ads make up 25% of advertising revenues for local television channels, and carmakers have been among the most consistent buyers of high-priced ads on national television.

So far local stations have been most affected by falling spending on advertising. National stations have been more insulated, because they operate on longer-term contracts with advertisers. But in the new year they will also feel the chill, as companies fail to renew their contracts. Television, which has remained strong as print media have lost advertising dollars and readers to the internet, could enter a slump of its own. "Next on the list is TV stations," says Anthony Diclemente, a media analyst at Barclays Capital.

Advertising agencies are already suffering as their clients cut spending. For example, Omnicom Group, one of the industry's giants, depends on car companies for 14% of its revenue in America. It has started laying off workers. And even companies that can still afford to advertise may be less willing to pay for lavish commercials amid economic gloom. Federal Express opted out of the Super Bowl, for example, arguing that it would be insensitive to run a glittering ad. Jeff Goodby, co-founder of Goodby, Silverstein & Partners, an ad agency in San Francisco, says this anxiety is most widespread among publicly traded companies. "They can't look like they're lighting cigars with \$100 bills in this environment," he says.

Although the prospects in America are bleak, there is some scope for optimism elsewhere. ZenithOptimedia, an arm of Publicis Groupe, another big agency, predicted this week that 89% of all growth in

advertising spending between 2008 and 2011 will take place in developing countries. Miles Young, the newly appointed chief executive of the Ogilvy Group, yet another leading firm, sees the brightest prospects in India, China, Indonesia, Vietnam and Brazil. Television, he points out, is the most popular advertising medium in much of the developing world; strong growth there will, he says, help offset the declines in North America and Europe. ■

Pharmaceuticals

Winds of change

WHITEHOUSE STATION, NEW JERSEY

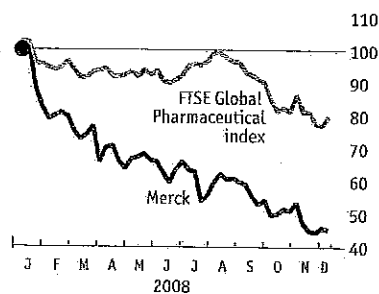
Merck's woes illuminate the shifts taking place in the drugs industry

DICK CLARK is no stranger to hard times. The chairman of Merck, a giant American drugs firm, got the top job after a safety scandal caused Vioxx, the firm's blockbuster painkiller, to be pulled from the market in 2004. The soft-spoken Mr Clark has won praise for his handling of that crisis and for being quicker than his rivals to start restructuring his firm in preparation for leaner years. He was also appointed head of Pharmaceutical Research and Manufacturers of America (PhRMA), the industry's lobbying arm.

But Mr Clark is not celebrating. Merck's shares have underperformed those of its rivals this year (see chart). Investors have worried that its efforts to find new sources of growth were not as vigorous as those of its peers, which have been buying biotech firms and generics-makers, replenishing their product pipelines and moving into new markets. On December 9th, at the annual business review conducted at the firm's headquarters in central New Jersey, Mr Clark announced yet another new strategy, involving low-cost biological drugs. He also spelt out PhRMA's softening stance toward health-care reforms that the group has hitherto opposed.

Under the weather

Share prices, January 1st 2008=100, \$ terms



Source: Thomson Datastream

A revealing moment at the meeting came when one analyst mistakenly stated that Mr Clark no longer ran PhRMA. "Thank you for the offer," he joked, explaining that he holds the post until April—but it was clear that his words were only half in jest. Being the standard-bearer for the drugs industry has never been easy, but the job will get even harder. Mr Clark thinks 2009 will be "a year of transformation" both for the industry and for Merck.

One reason is the recession in America. Big drugs firms, including Merck, report that growth is slowing in that all-important market. Drugs were supposed to be recession-proof, but it seems that financially squeezed patients without insurance, or with big co-payments, are cutting back even on their medicines. Many drugs firms have responded by reducing spending on sales and marketing by 10-20%; this week Merck said it had made deep cuts in these areas without hurting sales. The firm has also made a big push into emerging markets. It thinks its revenues there may exceed its target of \$2 billion in 2010.

But Mr Clark's main announcement was a bold \$1.5 billion plan to enter the nascent market for "biosimilars", which are the biotech equivalents of generics. This will put Merck in direct competition both with generics firms, such as Teva of Israel, and with biotech giants, such as Amgen, which make the expensive products that biosimilars hope to replace. The reason to think Merck may succeed, argues Tim Anderson of Sanford Bernstein, a research firm, is that it has found a way to make biosimilars by culturing them inside yeast cells. This could be much cheaper and more reliable than the usual method, using mammalian cells.

The second transformative force is the pending reform of America's health-care industry. When Hillary Clinton tried to push through a plan for government-run health care in the 1990s, the drugs industry spent huge sums to help kill the initiative. This time, says Mr Clark, his industry wants comprehensive reform and even has "a seat at the table." Perhaps surprisingly, PhRMA now supports most aspects of health-care reform being mooted, from universal coverage to restructuring the insurance market.

However, this acceptance of change goes only so far. Push Merck officials on the prospects for drug-price controls, and their unflinching answer is that they are "completely opposed" to such European-style "rationing" of care. The industry makes much of its profit in the unfettered American market, and price controls threaten that flow of cash. It argues that if limits are imposed on drug prices in America, there will be less to invest in innovation and everyone will suffer, since the rest of the world free-rides on American spending.

That argument is correct, in that busi- ■

nesses need the prospect of profit in order to invest. In practice, though, America is unlikely to impose draconian price controls. The more likely outcome is that government health schemes will start demanding discounts from drugs firms, and will buy more generics. Dr Anderson has crunched the numbers, and he reckons this need not lead to disaster. He reckons that a 20% cut in drugs prices paid by Medicare, America's health-care system for the old and disabled, will shave profits at the biggest drugs firms by a mere 5%.

So even if President Obama swings his budget axe forcefully, there will be plenty of money left for the pharmaceutical industry—provided, of course, that the companies keep coming up with genuinely new drugs. However, as Mr Clark has discovered, that is no easy task. ■

Luxury cars

Crash

BLACKBUSHE

Second-hand prices are plummeting as demand declines

THE Rolls-Royce Phantom nudges its way through a swarm of car dealers and into one of the sales halls at British Car Auctions in Blackbushe, Surrey, southwest of London. Only two years old, it is as immaculate as a new model costing more than £265,000 (\$392,000). But within seconds the auctioneer has knocked it down for £135,000. Then it is on to the next in line: a Bentley Continental, a Range Rover, a Porsche Boxster and scores of Audi, BMW and Mercedes-Benz models. All are suffering the indignity of a collapse in second-hand-car prices as global demand for luxury and prestige cars dwindles.

Sales of new luxury cars in America were 39% lower in November than in the same month in 2007, according to Autodata, a research firm. Mercedes-Benz saw American sales sink by 43%, and Porsche by more than half. The story in Europe and Asia is similar. The producers, mostly European, are cutting back with extended factory closures and layoffs. In previous downturns the market for luxury cars was more resilient than the mass market, but not this time. Since the credit crunch, the readily available finance that made buying a fancy car easy has disappeared.

Many customers are trading down to less expensive vehicles or keeping their cars longer. To attract buyers for new luxury vehicles, some European manufacturers have been offering discounts and incentives that average more than \$8,000 per car in America, according to Edmunds.com, another automotive-research firm.

Car stylists

Slowing down

ROME

Italy's legendary car designers face hard times

MANY men dream of owning a flame-red Italian sports car: a Ferrari, a Maserati or an open-topped Alfa Romeo, like those that appear in the films of the 1960s. These cars owe their elegant lines to the teams of designers at Pininfarina, Bertone and Italdesign, the styling houses based in Turin, in north-west Italy. But as the demand for fancy cars collapses, the car stylists are in difficulty.

On December 3rd Pininfarina's board agreed measures that will provide breathing space for the troubled firm. It has debts of some €600m (\$780m), and 2008 is shaping up to be its fifth loss-making year in a row. In 2007 it lost €14.5m on revenues of €713m. In a complex debt-for-equity swap, the Pininfarina family will dilute its 50.6% stake to reduce the total owed to the banks by €180m.

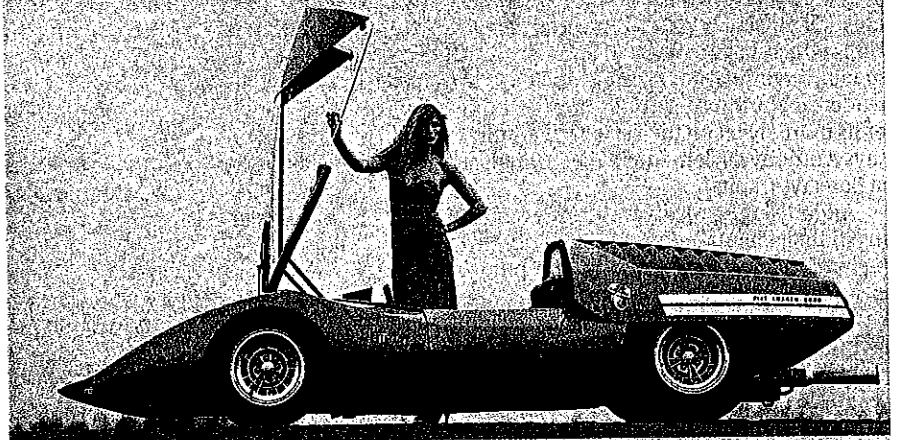
From its beginnings in the 1930s, Pininfarina has both designed and built specialist car bodies. One of its more recent creations was the dinky StreetKa roadster, of which it built about 37,000 units—the first Ford to be built in Italy. But its involvement in production, as well as design, has exposed it directly to the turmoil of the car market. About half of its 2,600 workers now build cars such as

the Alfa Romeo Spider, sales of which fell from 3,400 in the first half of 2007 to 2,000 in the same period this year.

Bertone had already discovered that low-volume runs of specialist cars do not make money. Launched in 2006, the last Opel Astra Cabrio left its production line several years ago. The shop floor has been silent ever since. Earlier this year a court in Turin declared Carrozzeria Bertone, its manufacturing arm, insolvent.

Italdesign, established 40 years ago by Giorgetto Giugiaro, a leading designer, ventured just once into production, assembling 456 units of the BMW M1 it had styled in the late 1970s. It has since worked solely in design and engineering, moving beyond cars into product design and architecture. Stile Bertone, an independent styling house unaffected by the insolvency of Carrozzeria Bertone, has diversified in recent years into nautical, aeronautical and industrial design. Pininfarina designs trains as well as cars.

Such diversification makes sense. Carmakers are less keen to outsource low-volume runs of specialist cars, and are turning less often to outside styling houses. Like many others, the stylists see little future in the car business.



Those days are gone

With such big discounts available on new models, people expect to pay even less for second-hand ones. In Britain the average trade-in price in November of a one-year-old diesel luxury saloon—such as an Audi A8, a Jaguar XJ or a Mercedes S-Class—was 21% less than a year earlier, calculates EurotaxGlass's, a firm that monitors car prices. Richard Crosthwaite, who analyses prestige cars for the company, does not expect residual values to improve

until the glut of used vehicles subsides.

That may take a while. Many such cars are acquired on two- or three-year leases. German manufacturers, in particular BMW, relied on leases for about three-quarters of cars sold in America, reckons Edmunds.com. This means more vehicles from the good times are still waiting to come off lease, and will end up in auctions. If residual values stay depressed, even owners with an option to buy when their ▶▶