The New York Times Company
First-Quarter 2013 Earnings Conference Call
April 25, 2013

Paula Schwartz

Thank you. Good morning and welcome to our first-quarter 2013 earnings conference call. On the call today are:

- Mark Thompson, president and chief executive officer;
- Jim Follo, executive vice president and chief financial officer; and
- Denise Warren, executive vice president, digital products and services.

All of the comparisons on this conference call will be for the first quarter of 2013 to the first quarter of 2012, unless otherwise stated.

Our discussion will include forward-looking statements, and our actual results may differ from those predicted. Some of the factors that may cause them to differ are included in our 2012 10-K. Our presentation will also include non-GAAP financial measures, and we have provided reconciliations to the most comparable GAAP measures in our earnings press release, which is available on our corporate Web site at www.nytco.com under Investor Relations.

And now, I would like to turn the call over to Mark Thompson.

Mark Thompson

Thanks Paula and good morning everyone. Since I last spoke to you, I've completed my first full quarter at The New York Times. We've also taken a number of significant decisions:

- we've developed a new strategy for growth at the Company;
- we've reorganized the Company to deliver that strategy and to optimize the delivery of our existing businesses;
- we've announced the rebranding of the International Herald Tribune as the International New York Times this fall as part of our plan to find new audiences and new revenues outside the U.S.;
- and we've begun marketing for sale the New England Media Group.

Now in a few minutes, I'll set out some of the detail of our new strategy. I'll also provide guidance on how we expect the new growth initiatives to affect our business. But before that, let me talk briefly about our first-quarter results.

Total revenues decreased 2 percent, as ongoing weakness in advertising revenues was largely but not entirely offset by continued growth in circulation revenues. Operating profit was $23 million and, excluding depreciation, amortization and severance, totaled $50 million, up 3 percent largely due to the strength in our consumer revenue stream coupled with tightly managed costs. Earnings per share from continuing operations, excluding severance and special items, were 4 cents a share compared with 5 cents in the 2012 first quarter.

Paid digital subscriptions totaled more than 700,000 by the end of the quarter, an increase of more than 45 percent compared to the same quarter in 2012. The rate of increase was less than in the last quarter of 2012, though that is at least in part attributable to the volume of news – including the presidential election – in that quarter. Advertising in the first quarter 2013 remained challenging though, as you will note in our guidance, we are currently seeing some signs of improvement in the second quarter.

I have spent most of my time since I arrived as CEO of this Company working with my colleagues to develop a medium-term strategy for The New York Times. I've looked both at our existing talent base and current operations and structure, and at many potential sources of future growth. We've also listened carefully to consumers in the thousands. What you will hear today is not my last word on the subject of strategy, but what I would describe as a significant first step in our efforts to put The New York Times Company on the path to sustainable growth.

We plan to grow our business by launching new products and services based on the unique strengths of Times journalism and by investing in the rapid expansion of existing operations – video and live events are examples – where we're already seeing strong growth. We want to deepen our relationship with our existing loyal customers, but we also want to use a wider family of New York Times products to reach new domestic and international customers.

New products under development as part of the strategy include:

- A lower-priced paid product designed to allow access to The Times's most important and interesting stories in a convenient, media-rich package for consumers looking for an efficient way to stay informed. Consumer research has suggested very strong demand for such a product.
- Other new products, also at lower price points, that would offer deep access and additional content and other new features in specific content areas such as politics, technology, opinion, the arts and food.
- An enhanced tier that would offer extras at a higher price point to "all digital access" and print subscribers. Subscribers will likely be offered access to Times events and the ability to gift subscriptions and provide full family access, among other incentives.

Growing international subscribers is a second key component of our strategy. By the sheer quality and breadth of its journalism, The New York Times has become one of the best-known news organizations in the world. We believe that under a unified brand, there is a real opportunity to drive new international revenues, particularly through the acquisition of new digital subscribers. So this fall, the International Herald Tribune will become the International New York Times. We intend to invest in global marketing to build out our international subscription base using the marketing practices that have helped us build our strong domestic subscription base. We also plan to localize the purchase process, prices and payment methods to make it easier for international readers to subscribe. We expect to attract high-volume users, especially those we term global citizens − news consumers who have interests or ties outside their home country and who seek an alternative or addition to local media.

The development of a more robust and comprehensive video presence is another strategic initiative, which is still in the early stages of development. We recently appointed a new general manager of video production to lead the effort to scale our video business to satisfy the demands of both users and advertisers.

Over the past few years, we've been building an infrastructure and core competencies in the video space, and in 2012 we saw significant gains in both the streaming and monetizing of the business. We have already produced a lot of exciting work, including the Op-Docs series, which features short, topical documentaries, and a multi-award-winning feature, Snow Fall, which chronicled the story of a group of expert skiers caught in a deadly avalanche, enriched with embedded and topographic video. We plan to continue developing video series that build on the strengths of our journalists and our popular sections like Arts & Culture, Style and Food and we'll continue to invest of course in video coverage of breaking news events.

Just this week we began to offer free unlimited access to The Times's online video section. We want to significantly increase our video presence and will do this by growing our offerings and broadening our distribution channels.

The fourth component of the plan for growth is through brand extensions. We believe that The Times can leverage our key assets of brand strength, marketing prowess and audience quality to generate incremental revenues by selling goods and services that match current reader and customer needs. The planned areas of focus are games and e-commerce. Last year we began to expand our successful crosswords franchise and we've added a sizable number of paying subscribers to our Web and mobile crossword products through minor product enhancements and increased marketing. Based on this experience and market indicators, which point to healthy growth of casual gaming users, especially in mobile, we believe there is an opportunity to expand our footprint in this market. While the landscape is fairly competitive, our research points to opportunities, particularly in the intelligent games segment, and our users, products, e-commerce system and marketing capabilities provide a solid and unique starting point for expansion in this area.

We have also been successful in generating revenue by selling branded products and services, and industry trends lead us to believe that we can diversify both our product portfolio and services businesses and further grow our overall commercial revenue. An expansion of our conference business, bringing the New York Times and IHT conferences operations together for the first time, is also planned.

We reorganized the Company to deliver both these and subsequent strategic projects, and to ensure that we are managing our legacy operations as effectively as possible. The new structure is intended to accelerate the delivery of our growth agenda; to promote more efficient decision making; to unlock innovation; and to provide a special focus on excellence in plotting the future of our digital and print advertising business and our print manufacturing and distribution operations. We've organized the Times's operations into three groups, each headed by a leader charged with addressing the group's particular market dynamics and strategic challenges. These groups are:

- the Digital Products and Services Group led by Denise Warren;
- the Print Products and Services Group headed by Roland Caputo; and
- the Advertising Group, for which we seeking the right executive leadership. We will consider

both internal and external talent for this position.

In addition to the focus on growth, all of these groups and the corporate leadership of the Company will also be charged with continuing to manage expenses aggressively over the coming years. Despite the considerable achievements on this front in recent years, we believe there is further opportunity for cost reductions without damaging the quality of the journalism on which the Company's future success depends.

Turning to the impact of this strategy on our business, we expect it will generate strong revenue growth and improved operating profit over the long term. We estimate operating profit will be negatively affected by $20 to $25 million in 2013 as a result of these initiatives, with a modest contribution to revenues, while we make significant investments to build out and ramp up. Investments will largely be for product development and subscriber acquisition, along with significant new capabilities in product management, customer management and distribution.

We expect these growth initiatives will be largely based on organic investment, although we will not rule out tuck-in acquisitions of properties that align with our strategy and accelerate growth in key digital segments.

I mentioned the quality of The Times's journalism a moment ago. Last week The Times was awarded four Pulitzer Prizes for its international, investigative and explanatory reporting and for feature writing, more than any other news organization for 2012. In that same week, we saw brilliant coverage by this Company's journalists at the Globe, The Times and the IHT of the tragic events in Boston. In a world where so many other news providers are struggling to maintain quality and accuracy, we believe that the gold standard of reporting that The New York Times and its sister titles stand for is becoming a critical point of distinction and of competitive advantage. It is the rock on which we plan to build a successful future for the Company.

And with that, let me turn the call over to Jim Follo.

Jim Follo

Thanks Mark, and good morning, everyone.

Our Company maintained positive momentum in its circulation business in the first quarter, but that incremental growth was offset by the challenges facing the advertising side. The steady build of The Times's digital subscriptions combined with January's print price increases managed to partially offset the advertising losses, resulting in total revenues declining about 2 percent in the quarter.

That said, revenue challenges were more than offset by cost management in the quarter, bringing operating profit before depreciation, amortization and severance to $50 million, a 3 percent increase compared to the first quarter of 2012.

Circulation revenues rose nearly 7 percent for the Company and 8 percent for The Times Media Group in the first quarter, with the monetization of our digital products contributing most significantly to that increase. Circulation revenues also benefited from home-delivery price increases at The Times early this year. The Times continues to benefit from improved retention rates for home-delivery circulation following the launch of digital subscriptions, despite these price increases.

Further demonstrating the value readers place on digital access, which is provided for free to all Times print subscribers, we continue to see growth in The Times's Sunday home-delivery circulation volume, which ticked up slightly in the first quarter.

Against the backdrop of continued growth in circulation revenue, the difficult advertising landscape did not show signs of abating in the quarter. Advertising revenue continues to be affected by ongoing secular trends and an increasingly complex digital marketplace that is undergoing a shift toward ad exchanges, real-time bidding and other programmatic buying channels. To that point, in the first quarter print advertising revenues decreased 13 percent and digital advertising revenues were down 4 percent.

Rounding out our results for the quarter, operating expenses before depreciation, amortization and severance decreased about 3 percent, and on a GAAP basis were down 4 percent, both in line with our guidance. We reported an operating profit of $23 million. GAAP costs in the quarter benefitted from the absence of accelerated depreciation expense that we booked in the prior-year period. Diluted EPS excluding severance and special items were 4 cents in the first quarter compared with 5 cents in the first quarter of 2012.

Now let me provide some depth on our first-quarter results. Total advertising revenues decreased 11 percent year-over-year and were down 10 percent in January, 6 percent in February and 17 percent in March. Both print and digital advertising experienced particular difficulty in March. First-quarter print advertising revenues decreased in the national, retail and classified categories. Digital advertising revenues also decreased, as growth in the automotive classified category was offset by declines in national, retail and the remaining classified categories. Overall mobile advertising was challenged in the quarter due to the timing of some campaigns, but it has turned around significantly since then and we expect robust growth for the second quarter.

Turning to The Times Media Group, total revenues were down 1 percent in the quarter, with circulation revenues up 8 percent and advertising revenues down 11 percent. The other revenue line was up 5 percent, partially due to better performance in the digital archives business. The overall advertising revenue decline was a result of print losses in all three major advertising categories: national, retail and classified. Pressure on the national ad category, by far the largest at The Times, was again responsible for the bulk of the Group's decline. While the retail category saw modest growth on the digital side, both the retail and classified categories were down on an aggregate basis.

Digital advertising revenues for The Times Media Group trended lower largely due to the increasingly fragmented landscape. Digital display advertising continued to experience challenges, including from the programmatic buying issues I mentioned earlier along with the glut of available ad inventory in the market causing downward price pressure. While such audience-targeted approaches are affecting premium pricing for advertising environments such as NYTimes.com, we believe The Times Media Group, as Mark outlined today, can return to digital advertising growth by making significant inroads in video advertising through substantially increasing our inventory, by focusing more heavily on unique custom ad units and by better monetizing our tablet inventory.

Even as our paid products strategy continues to evolve, The Times's digital strategy remains centered on growing its subscriber base while extending its brand on a wide range of platforms. As of the end of the quarter, The Times Media Group, including subscribers to The Times and the IHT digital packages, had about 676,000 paid digital subscribers, an increase of 36,000 subscribers from the end of the fourth quarter and more than 45 percent growth year-over-year. Digital subscription acquisition growth was somewhat tempered in the first quarter, which marked the end of the second year for our paid products, as we did not benefit from the same traffic level associated with the robust news cycle of the fourth quarter. That said, our success to date with digital subscriptions has validated and expanded the market for paid digital products, and our new initiatives will ensure that we remain an industry leader on this front.

Moving to the New England Media Group, total revenues were down 7 percent in the first quarter, with circulation revenues down 2 percent and advertising revenues down 10 percent. Other revenues were down 9 percent primarily as a result of lower revenues from direct mail advertising services. In addition, in the second quarter the Globe will begin to cycle higher commercial printing and distribution revenues and the associated costs in connection with the printing and delivering of a local competitor that began last year. Print softness drove the decrease in overall advertising revenues in the first quarter, particularly in the retail category, which also declined on an aggregate basis. While the classified category was down overall, automotive classifieds saw a digital boost in the quarter, driving aggregate digital classifieds into positive territory. The national category saw the smallest decline for the quarter.

As of the end of the quarter, BostonGlobe.com had about 32,000 paid digital subscribers, an increase of 4,000 subscribers from the end of the fourth quarter and more than 50 percent growth year-over-year. The Globe has also announced that it will raise its print home-delivery prices beginning next month.

As we announced in February, we have begun the process to sell the New England Media Group. At this point, while we can give no assurances, we expect to see a transaction sometime in the second half of the year. We are pleased with the interest that has been expressed to date.

Turning to costs, we again delivered on the expense management side in the first quarter, as cash operating costs excluding severance declined 3 percent, mainly due to lower compensation costs, raw materials expense and outside printing costs. GAAP operating costs declined 4 percent, as we began to cycle against $7 million in accelerated depreciation expense in the quarter associated with the Worcester consolidation last year. We will continue to be diligent in trimming expenses and managing legacy costs going forward, but will remain prepared to invest where appropriate, especially in light of the strategic initiatives Mark outlined this morning.

Raw materials costs declined 10 percent in the first quarter, mainly due to lower newsprint consumption and declining newsprint prices.

Looking broadly at the potential financial impact of the new initiatives, while our strategy is designed to ultimately have a positive impact on operating profit, the effects will not be immediately evident. In fact, we expect that the contribution to operating profit connected to the initiatives will not move into positive territory until late 2014 and we will not see full-year growth until 2015. That said, we expect that some of the initiatives will begin to generate new revenue this year.

Moving to the balance sheet, at the end of the first quarter, our cash and marketable securities totaled approximately $866 million, exceeding total debt by approximately $168 million.

Just to reiterate what we said last quarter, while there has been a lot of focus in recent months on our significant cash balance and its potential uses, given the continuing challenges facing the advertising environment and our desire to retain maximum flexibility, we feel that maintaining a conservative balance sheet remains appropriate. In turn, we do not believe it is in the best interests of the Company to restore a dividend at this time.

As we have said, one of our main priorities for cash is managing our pension-related obligations. To that end, in the first quarter we made about $61 million in largely discretionary contributions to certain qualified pension plans. With our mandatory contributions nearly met for the next several years and our underfunded gap slowly diminishing, we are likely to take a pause in making any additional discretionary contributions this year as we monitor interest rates.

Moving to our outlook, second-quarter circulation revenues are expected to increase in the mid-single digits, as we expect to see continued benefit from our digital subscription initiatives, as well as from the most recent Times price increases and the planned increases at the Globe.

In the second quarter, overall advertising revenue trends are expected to be somewhat better than first-quarter levels.

And second-quarter operating costs are expected to decrease in the low-single digits from the same period last year.

And with that we'd be happy to open it up to questions.