

**The New York Times Company**  
**Second-Quarter 2015 Earnings Conference Call**  
**August 6, 2015**

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**Andrea Passalacqua**

Thank you, and welcome to The New York Times Company's second-quarter 2015 earnings conference call.

On the call today, we have:

- Mark Thompson, president and chief executive officer;
- Jim Follo, executive vice president and chief financial officer; and
- Meredith Kopit Levien, executive vice president and chief revenue officer.

Before we begin, I would like to remind you that management will make forward-looking statements during the course of this call, and our actual results could differ materially. Some of the risks and uncertainties that could impact our business are included in our 2014 10-K.

In addition, our presentation will 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 website at [investors.nytc.com](http://investors.nytc.com).

With that, I will turn the call over to Mark Thompson.

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**Mark Thompson**

Thanks Andrea and good morning everyone. In fact, I want to preface my remarks with a development that took place AFTER the second quarter closed. A few days ago, our paid digital-only subscriber count passed through the one million mark. It's a very encouraging milestone for a digital pay model which was only launched in 2011 and which continues to grow strongly. It's also a first in world journalism. We believe that no other news organization has achieved digital subscriber numbers like ours or comparable digital subscription revenue, a great credit to the sheer quality of the work of our newsroom and editorial department – and to the brilliant consumer marketing, product and technology teams who have made it possible. This digital-only subscriber number is of course in addition to our 1.1 million print-and-digital subscribers.

This news is evidence of the progress we are making on the digital side of our business. That progress was clear in the second quarter of 2015, to which I will now turn.

We posted double-digit year-over-year growth in both digital advertising and digital subscription revenue in Q2. This is the fourth consecutive quarter of double-digit growth in digital advertising revenue. The print advertising headwinds that began in late 2014 also continued into

Q2, though we saw some reduction in those headwinds in July.

Nonetheless, ongoing and effective expense management contributed to a 16 percent increase in the Company's adjusted operating profit and adjusted earnings per share of 13 cents compared with 7 cents in the prior year.

Let's now take a closer look at our Q2 results, beginning with digital subscriptions. In Q2 we added 33,000 net paid subscribers, which is a better result for the second quarter than we saw in either of the past two years. That means that we ended Q2 with 990,000 paid digital-only subscribers, a 19 percent year-over-year increase. This is why we were able to exceed a million subs early in the current quarter.

The growth in Q2 is particularly pleasing since it includes the impact of our decision to convert NYT Now into a free product. Although we were successful in migrating many Now subscribers to core subscriptions, some understandably elected to continue to use Now for free. Had it not been for this onetime effect, the number of net new subscribers would have been higher still. The digital consumer growth in the second quarter was driven by growing strength in international subscriptions as well as improved retention. International subscriptions now represent 13 percent of our digital total, a percentage which we expect will continue to grow very nicely in the coming quarters.

As I mentioned last quarter, the results of the program we put in place in the second half of 2014 to develop our audience so far have been very encouraging and are contributing to the continued growth in digital subscriptions. U.S. digital traffic, for instance, in the form of unduplicated unique users across all devices, was up 27 percent year-over-year in the second quarter – which was even better than the solid 22 percent increase we saw in Q1 – to an average of 60 million monthly users. We aim to continue on this trajectory, and we expect these results to help both digital advertising and consumer revenue over time.

Let me focus now on digital advertising, where we also saw continued momentum in the quarter with year-on-year growth of more than 14 percent. Mobile, Paid Posts, video and programmatic all contributed to that growth.

I also want to provide an update on the ad viewability issue that we introduced to you last quarter. This is the new industry-wide effort to ensure that advertisers only pay for impressions that have actually been viewed by users. Given the quality and engagement of The Times's audience, we expect this new standard to benefit our digital advertising proposition in the long run, and we are currently optimizing our digital properties to meet it. But, as I suggested last quarter, we may see a moderate revenue impact in the second half of 2015 as we transition to the new standard.

Digital advertising revenue will also face challenging year-over-year comparisons in the second half of the year – Q3 2014, for example, was up 17 percent, while Q4 2014 was up 19 percent. For these two reasons, we expect growth in digital advertising to be somewhat lower in the second half of the year than the first. In Q3, we estimate it will grow in the mid-single-digit percentage range. Jim will put this piece of guidance in context in a few minutes' time.

We remain very bullish on our ability to continue to innovate and grow our digital advertising business on a sustained basis. Earlier this week we announced the launch of a major new mobile ad product. Mobile Moments is an advertising solution based on the insight that our readers' appetite for different kinds of content – and the attendant advertising opportunity – changes radically across the course of the day, from the early morning need to get caught up on the news, through the working day, to the evening, when entertainment, lifestyle and longer features may all come to the fore. Mobile Moments enables marketers to target the right readers with the right messages at the right time – and while we won't launch it until next month, it's already selling strongly.

Now let's look more closely at the print side of our business. As I said at the start, the print advertising headwinds that began in late 2014 continued into the second quarter. Print ended down 13 percent year-over-year, which includes steeper falls in advertising for our international newspaper as well as some foreign currency effects. When combined with the gains in digital advertising, the overall advertising decline was 6 percent. As I mentioned at the start, we do expect print advertising headwinds to ease a bit in the third quarter.

While growth in digital subscriptions enabled overall circulation revenue to grow in the quarter by just under 1 percent, there was a decline in print circulation revenue of 2.3 percent, as lower volume more than offset the positive effect of our January price increase. Nonetheless, similar to the digital consumer side, we are putting more emphasis on print circulation retention – including increased focus on our delivery service experience, better use of customer analytics and improved customer service – and hope to report progress on this front soon.

Since our last earnings call, we have entered into three important relationships, all of which we believe will help us to reach large new audiences with our unparalleled journalism. Facebook's Instant Articles is already under way and, for the initial test audience, has resulted in significantly reduced article load times – and thus improved reader experience. Apple News will launch later this year and will also allow us to distribute our content to millions of potential new readers. And we also announced a deal with Starbucks last month that will make our top news and a selection of other articles available for free via the Starbucks mobile app for all 10 million Starbucks loyalty members beginning in the first half of next year. We expect all of these platforms to contribute to our digital audience and revenue growth story.

We also made some additional leadership announcements in the second quarter, building on the executive appointments I announced earlier this year. We have created a new role called senior vice president of consumer marketing, who will supervise an already strong marketing team and will aim to accelerate subscription growth across our expansive product portfolio. And we have also brought in an SVP for our events business, NYT Live, who will assume responsibility for the commercial aspects of all Times conferences, TimesTalks and other live events. Both of these positions will report to Meredith.

But now to give you more detail on the financial picture, let me hand it over to Jim Follo.

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**Jim Follo**

Thank you, Mark, and good morning, everyone.

As Mark highlighted, we maintained our digital momentum in Q2, as we again saw strong performance on both the digital advertising and digital subscription sides of the business. There is still much more to accomplish though, as even this solid digital progress did not offset the overall print declines, which resulted in total revenues finishing down for the quarter.

Operating expenses decreased again in the second quarter – by nearly \$18 million overall – due to print distribution efficiencies and declines in a broad set of other expense categories. Furthermore, cost comparisons benefited as marketing spending that incurred in the second quarter of 2014 around the launch of some new digital products did not repeat. Our focus on reducing legacy costs remains a top priority, but as I have said previously, we do not expect to see the same level of cost reductions in the second half of the year as we achieved in the first half.

Adjusted operating profit rose 16 percent in the quarter to \$64 million. We reported a GAAP operating profit of approximately \$38 million compared with \$16 million in the same period of 2014.

Circulation revenues increased approximately 1 percent, with our digital subscription revenue stream more than offsetting print declines. We benefited from January's home-delivery price increases, although higher revenue associated with the new rates was outweighed by overall print volume declines. In the second quarter, digital-only subscription revenues were approximately \$47 million, an increase of 14 percent from the same quarter in 2014.

Advertising continued its strong digital run in the quarter, finishing up 14 percent and partially offsetting the print advertising loss of 13 percent. Digital advertising continued to benefit from revenue growth in mobile; Paid Posts, including the related production; video and programmatic; but the print losses still led overall advertising revenues to decline 6 percent.

The month-to-month volatility in advertising revenues has not abated, as illustrated by the fact that overall advertising was down 2 percent in April, 10 percent in May and 6 percent in June. Print advertising revenue declined across the board while digital was consistently strong, particularly in April.

And finally on the revenue side, other revenues grew 5 percent in the quarter, driven by higher revenues from our Crossword product, where we recently increased prices, as well as increased rental income associated with the lease of an additional floor of our headquarters building that began in Q1.

Expense management remained front and center in Q2, as we continued targeted cost reductions while maintaining investment in our digital future. Costs were down 5 percent on a GAAP basis, and we reported diluted earnings per share of 10 cents. Expenses declined mainly due to print distribution efficiencies as well as decreases in depreciation and amortization, raw materials

costs and outside printing expenses. Adjusted diluted EPS was 13 cents in the second quarter compared with 7 cents in the prior year.

Our non-operating retirement costs were up in the quarter at \$8.7 million, although retirement costs are generally flattening out in 2015. We expect non-operating retirement costs in the third quarter to again be roughly \$9 million, vs. \$8.3 million in Q3 2014.

The joint ventures line had a loss of \$356,000 in the second quarter of 2015, due to losses at the paper mills, compared with income of \$25,000 in last year's second quarter. In Q2 2015, we also made a \$2.3 million investment in Women in the World Media, led by Tina Brown, whose annual Summit brings together female leaders from around the world.

As for the balance sheet, our liquidity position remained solid in the second quarter. Our cash and marketable securities balance was \$880 million, and our total cash position exceeded total debt and capital lease obligations by approximately \$451 million. Late in the first quarter, we repaid the remaining \$224 million principal amount of our 5 percent senior notes, and we began to recognize the full benefit of that repayment in Q2, as interest expense declined by more than \$3 million. We expect similar expense savings related to the repayment for the remainder of 2015.

Earlier this year as part of a warrant exercise, we announced the intention to make share repurchases of approximately \$101 million, equal to the proceeds received from the warrant transaction. As we've said, we believe a repurchase program is the best use of cash in this instance as it will largely neutralize the transaction's impact on our diluted share count. To that end, the Company has repurchased approximately 1.4 million Class A shares for \$18.9 million to date as of August 4th.

Moving to our outlook, third-quarter circulation revenues are expected to increase at a rate similar to the second-quarter trend, driven by the benefit from our digital subscription revenue growth despite continued challenges on the print side. We expect the total number of net digital subscriber additions to be in the high 30,000s.

Third-quarter advertising revenues are difficult to forecast because, as is typical at this time of year, we have limited visibility into September, which contributes a disproportionate share of the quarterly revenue. That said, we currently expect overall advertising revenue to again be down in the mid-single digits, though with some sequential improvement from Q2. We are seeing some moderation in the headwinds we've been experiencing on the print side but, as Mark has already said, the initial impact of viewability and tough year-over-year comparisons mean that we expect our growth in digital advertising will be in the mid-single digits.

Other revenues are expected to increase in the low-double digits.

And third-quarter operating costs are expected to decline in the low-single digits as we will be cycling \$21 million in severance expense in last year's third quarter. Adjusted operating costs are expected to be flat to slightly down in the quarter.

With that we'd be happy to open it up for questions.