

**The New York Times Company**  
**First-Quarter 2014 Earnings Conference Call**  
**April 24, 2014**

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**Andrea Passalacqua**

Thank you, and welcome to The New York Times Company's first-quarter 2014 earnings conference call.

Joining me today to discuss our results are:

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

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 2013 10-K.

I should also mention that 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. Good morning everyone.

2014 is off to a good start, with solid revenue performance across the board in the first quarter. Both print and digital advertising grew year-on-year in the quarter – the first time we've seen that for a number of years. Print grew nearly 4 percent, while digital advertising was up 2 percent. We believe we are making meaningful progress on some fundamentals in advertising, including performance and innovation, as witnessed by the very successful launch of our native advertising solution, Paid Posts. However, the strong numbers for Q1 do NOT mean that we're declaring victory just yet on the advertising front. As Jim will discuss in a moment, we still expect significant variability from month to month – this April, for instance, is proving materially tougher than January, February or March – and, although the positive momentum of recent quarters is still in evidence, we will also face tougher comps as we get further into the year.

On the consumer side, we added 39,000 net digital subscribers in the first quarter. That brings the total number to approximately 799,000 digital-only subscribers, an increase of 18% year-

over-year.

Overall revenues ended up nearly 3 percent versus last year's quarter, building on the revenue progression we saw in the second half of 2013. The Company's operating profit for Q1 2014 was \$22 million. That compares to \$28 million for the same period of 2013, with the reduction being driven principally by investments in our growth initiatives as well as by some recent spending in the advertising department as we undergo a restructuring there. We believe these focused investments are critical to long-term growth and value creation, even as we continue to look for ways to reduce core costs wherever we can.

During the quarter, we continued to execute our strategic plan to leverage our content and strengthen our revenue profile, including the rollout of an expanded digital product offering aimed at better serving our broad mix of readers.

So, earlier this month we initiated the launch of our new paid products strategy with the introduction of NYT Now and Times Premier. As we've discussed in previous calls, NYT Now is a new mobile app – curated by New York Times editors and available exclusively on the iPhone for now – which targets on-the-go consumers at a lower price point than our original digital subscription packages. A Now subscription also gives users unlimited access to top news stories on the web. Times Premier is a suite of exclusive content and features aimed at existing print and digital subscribers who just can't get enough of The Times. As for pricing, NYT Now currently costs \$8 every four weeks, while Times Premier is priced at \$45 every four weeks, or \$10 extra for home-delivery subscribers.

Now it's too early to quantify how these new products are performing, but they have been positively received by the market, and we're seeing indications that NYT Now, in particular, is reaching people who have never subscribed to The Times before, many of whom are significantly younger than our loyal core subscriber base.

We are also encouraged by initial consumer interest in the new Premier package. We do, however, expect these initiatives to take time to ramp up since, particularly in the case of Now, they must reach beyond the established user base that we were able to tap into when we initially launched the core digital subscriptions three years ago. We are now hard at work marketing the new products via a variety of channels.

And we'll also be launching further digital products this year, beginning with NYT Opinion in June, followed by Cooking in the fall.

We have a variety of other new projects in the works as well. Two days ago, for instance, we launched The Upshot, which is edited by former Washington bureau chief and Pulitzer Prize winner David Leonhardt. The Upshot is our new politics and policy venture, which uses data and analytics to help readers navigate the news. It is a standalone section of NYTimes.com and will also appear both on mobile and in print.

I've already mentioned one of our new digital advertising products, Paid Posts, the native advertising product which we launched on the web in January. That has now been followed by

the introduction of MOBILE Paid Posts as part of the launch of NYT Now. The plan is that NYT Now will rely exclusively on these in-stream native units. We expect native advertising to deliver meaningful revenue in 2014 and to grow thereafter. It and other product innovations are part of our effort to return digital advertising revenue to sustainable growth.

On the international front, the International New York Times will soon begin accepting payments in local currencies for its digital subscriptions. The gradual rollout of this capability will boost our international marketing effort in our pursuit of new non-U.S. digital subscribers.

All of this, though, should be seen in the context of a continued commitment to supporting and investing in the highest quality journalism. Last week The New York Times won two Pulitzer Prizes, sweeping the photography awards. Tyler Hicks won in the Breaking News Photography category for his pictures of the aftermath of a terrorist attack on a Nairobi shopping mall. And Josh Haner won in Feature Photography for his photos of the rehabilitation of a Boston Marathon bombing victim.

So in conclusion, we still have much to prove in 2014, but we have come into the year with a strong foundation. We believe we are making the right investments in those areas of our business where we can leverage our content and brand to expand our revenue streams. I've told you that we see variability and tough year-over-year comparisons in the coming months for advertising, but we are also encouraged by the tangible progress we have made on that front. We are encouraged too by the growth in Q1 in our digital subscriber numbers – and by the buzz that our new products have generated. But for now, over to Jim Follo.

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## **Jim Follo**

Thank you, Mark, and good morning, everyone.

As Mark noted, we began 2014 on a positive note with a quarter of solid revenue gains and a good start in our effort to scale our audience of paying digital readers. Our first-quarter revenue performance reflects steady growth on the circulation side of the business combined with strong results on the advertising side, leading to our third consecutive quarter of overall revenue growth, excluding the impact of the additional week in Q4 2013.

As we expected, our expenses rose in the quarter, as our continued diligence in reducing our core costs was more than offset by the investments we are making in our growth initiatives as well as by higher retirement costs. The growth initiative costs will rise further throughout the remainder of the year as we now must factor in marketing expenses around these new products. Now that NYT Now and Times Premier have launched, we have begun generating revenues for these initiatives, but as Mark noted, it will take some time to scale those revenues.

Operating profit before depreciation, amortization, severance, non-operating retirement costs and a special item – a newly introduced metric that we are calling adjusted operating profit, which I will discuss more later – decreased 1 percent to \$57 million in the quarter. The decline was driven mainly by a \$13 million increase in operating expenses compared with the first quarter of

2013, most of which was attributable to our growth initiative spending. We reported GAAP operating profit of \$22 million in the quarter.

Circulation revenues rose 2 percent in the first quarter, with our digital subscription revenue stream responsible for the bulk of that increase. We saw 18 percent growth in the Company's digital subscription base and also benefited from the 2014 home-delivery price increases. In the first quarter, digital-only subscription revenues were approximately \$40 million, an increase of about 14 percent from the same quarter in 2013.

Advertising maintained its momentum in print and digital, swinging to positive growth on both platforms and leading to aggregate advertising growth of more than 3 percent. Print advertising revenues increased nearly 4 percent and digital advertising revenues were up 2 percent.

Advertising revenues do continue to exhibit month-to-month volatility and short-term buying decisions, demonstrated by growth of 4 percent in January, a decline of 1 percent in February and then back to growth of 6 percent in March. Digital advertising saw particular strength in January, and print was notably strong in March.

National advertising saw positive overall growth in the first quarter and drove the strong revenue trends in both print and digital advertising. Retail advertising also grew across print and digital in the first quarter while total classified advertising declined on both platforms.

Rounding out our results, operating expenses before depreciation, amortization, severance and non-operating retirement costs, or adjusted operating costs, increased 3 percent. Costs rose 4 percent on a GAAP basis, and we reported diluted earnings per share of 2 cents. Diluted EPS excluding severance, non-operating retirement costs and a special item, or adjusted diluted earnings per share, was 7 cents in the first quarter compared with 8 cents in the 2013 quarter.

The Company sustained its expense-management efforts in the first quarter, as we found ways to lower core costs even as investments associated with our strategic initiatives accelerated. Costs rose mainly due to higher compensation and benefits expenses associated with our growth initiative and advertising spending, as well as due to retirement costs, partially offset by printing and distribution efficiencies.

Moving to the balance sheet, our liquidity position remained solid in the first quarter. We ended with approximately \$973 million in cash and marketable securities. Uses of cash in the quarter included the payment of performance-based year-end compensation. In addition, we used \$26 million to repay certain loans against the cash value of life insurance policies. The repayment of these loans is expected to reduce net interest expense by \$1.5 million annually. Looking to next year, it is our current intention to repay with existing cash balances our 5 percent senior notes in March 2015 at maturity. At quarter-end, our total cash position exceeded total debt and capital lease obligations by approximately \$288 million.

In February we offered about 200 former employees in certain unfunded supplemental retirement plans the option for a one-time lump-sum payment. The amount of the settlement distributions connected with the offer and the associated non-cash settlement charge in the second quarter will

depend upon the number of participants who elect the offer and the associated pension benefit of those electing participants. This offer will not impact our qualified underfunded pension status as the SERP plans are non-qualified and therefore do not need to be funded. The Company will benefit going forward from this offer through lower retirement expenses and a reduction in our overall pension obligations.

As I mentioned on our Q4 call, we expect our retirement costs in 2014 will continue to experience year-over-year volatility. In 2014, we expect that retirement costs will increase to \$37 million, or by about \$19 million, due principally to a lower expected return on pension assets resulting from a shift in asset mix to bonds from equity, higher interest costs, the impact of the sale of the New England Media Group on retiree medical costs, and higher multiemployer pension withdrawal costs.

For the first time this quarter and moving forward, we are providing a non-GAAP presentation of adjusted operating costs and adjusted operating profit in our earnings release, in each case excluding non-operating retirement costs in an effort to provide a clearer picture of our operating performance.

Our adjusted calculations remove financing and amortization costs related to historical pension, retiree medical and multiemployer pension withdrawal liabilities. Service costs for pension and retiree medical benefits will continue to be included, but the other pension components – including interest, expected return on assets and amortization of actuarial gains and losses – which are not related to the operations of our business, will be excluded. We refer to these costs as non-operating retirement expenses.

Based on assumptions made at the beginning of the year, we expect these costs to be approximately \$8 million in each of the remaining 2014 quarters.

These adjusted measures are provided as a supplement to our GAAP metrics. We have included a reconciliation of adjusted operating profit to GAAP operating profit and adjusted operating costs to GAAP operating costs in our earnings release. We believe this view will make it easier to understand how our employee benefit plans affect our financial position and operating performance, allowing for a better long-term view of the business.

Moving to our outlook, second-quarter circulation revenues are expected to increase in the low-single digits, as we expect to benefit from all of our digital subscription initiatives, although revenue contributions from our new products in the initial launch period will be muted by introductory offers. The most recent home-delivery price increase will also have an impact.

Advertising revenues in the second quarter remain subject to month-to-month volatility and are currently expected to be down in the mid-single digits. April got off to a challenging start, and we do not expect to benefit from the same momentum we have seen in recent quarters, particularly on the print side, in part due to more challenging year-over-year comparisons.

Second-quarter operating costs and adjusted operating costs are expected to increase in the low-to mid-single digits as investments around the Company's strategic growth initiatives accelerate,

including costs related to our initial marketing efforts for our new digital products. We expect growth initiative costs to increase by approximately \$25 to \$30 million on a year-over-year basis in 2014, bringing us to a total of \$45 to \$50 million in spending on those initiatives for the full year.

And with that we'd be happy to take your questions.