

The New York Times Company
First Quarter 2022 Earnings Conference Call
May 4, 2022

Harlan Toplitzky

Thank you, and welcome to The New York Times Company's first quarter 2022 earnings conference call.

On the call today, we have:

- Meredith Kopit Levien, president and chief executive officer and
- Roland Caputo, executive vice president and chief financial officer

Before we begin, I would like to remind you that management will make forward-looking statements during the course of this call. These statements are based on our current expectations and assumptions, which may change over time. Our actual results could differ materially due to a number of risks and uncertainties that are described in the Company's 2021 10-K and subsequent SEC filings.

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.

And finally, please note that a copy of the prepared remarks from this morning's call will be posted to our investor website shortly after we conclude.

With that, I will turn the call over to Meredith Kopit Levien.

Meredith Kopit Levien

Thanks Harlan, and good morning everyone.

Before I begin, let me take a moment to acknowledge the bravery and dedication of our journalists in Ukraine and the surrounding region. Our reporters, photographers and support team have been on the ground since January, well before the war began, and their courageous work is helping people make sense of this tragic and still-unfolding conflict.

This is precisely the kind of story that The Times is uniquely positioned to cover, and our readers have responded in large numbers and with deep engagement.

Our ability to lead on, and engage our audience in, the biggest and most consequential

stories of our time underpins our confidence in the updated strategy we detailed on our last earnings call.

That strategy is to become the essential subscription for every English-speaking person seeking to understand and engage with the world. It's grounded in three pillars: First, to build on our leadership in news to be the best news destination in the world; second, to be more valuable to more people by helping them make the most of their lives and passions; and third, to provide a more expansive and connected product experience that helps people engage with everything we have to offer in a way that makes The Times indispensable to their daily lives.

With this strategy, we believe we have an opportunity to penetrate a large and growing addressable market to attract, retain and monetize subscribers and drive profitable growth as we progress to our goal of 15 million subscribers by 2027.

#

It was easy to see our strategy in action in the first quarter, which was a strong one in terms of net subscriber additions. Overall revenue grew more than 13 percent in the quarter, with digital subscription revenue up approximately 26 percent and total advertising up almost 20 percent.

It was our best start to the year in terms of subscriber growth since the launch of the digital pay model in 2011, except for Q1 2020, which was when the pandemic started.

We added 387,000 net new digital-only subscribers in the quarter, including new subscribers to The Athletic after the acquisition on February 1st.

The Times now has 9.1 million total subscribers, with 10.4 million subscriptions, a metric that I'll remind you we are now moving away from as we focus on scaling individual subscriber relationships and begin to more aggressively market our multi-product digital bundle.

#

Let me talk now about the quarter's results in terms of the first pillar of our strategy: being the world's best news destination.

Reader interest in our coverage of the war in Ukraine contributed to both total audience and the depth and frequency of their engagement. It was an especially strong period for international readers and subscribers: weekly average international users grew 17 percent quarter-over-quarter, spurred by our ability to provide

around-the-clock coverage.

This elevated engagement was first and foremost a function of the newscycle, but we believe our deliberate investments in our product experience also played a role.

Our collection of Live news experiences – including text, photos, videos, maps and interactive graphics – was the entry point for many readers, and was the most powerful driver of increased subscriber engagement with our news product quarter-over-quarter.

We also saw the impact of our steadily improving targeting capabilities, which help us connect readers to more topics of interest through personalization of our homescreens, and through our large and growing portfolio of email newsletters. We now have 19 subscriber-only email newsletters that together reach almost a third of our news subscriber base. We're encouraged by data that shows that subscribers who read at least one of these subscriber-only newsletters churn at a lower rate than those who do not.

Conversion rates were up twofold over the first quarter of 2021 and largely consistent with the second half of last year – due in large part to continued enhancements to our use of machine learning to determine when to ask non-subscribers to pay. And we've begun to apply these capabilities to products beyond News, starting with Cooking.

More broadly, we believe our continued strength in News conversion demonstrates that we're still in the early days of penetrating a large and growing market. We do expect there to be significant variability in our subscription results from quarter-to-quarter based on seasonality and changes in the newscycle. But our progress in each of these areas underpins our confidence in the long term potential of our model, and, in particular, in our long runway for ongoing optimization.

#

This brings me to the second pillar of our strategy – becoming more valuable to more people by helping them make the most of their lives and passions.

This has long been the idea behind our rich culture and lifestyle report and our fast-growing standalone products. And it's the idea behind our acquisition of Wordle, which played an outsized role in the quarter's engagement and subscriber growth.

While our news coverage contributed to gains in audience and real strength in subscriber return, Wordle brought an unprecedented tens of millions of new users to The Times. The majority of these incremental users only played Wordle, but weekly

average users for non-Wordle games more than doubled in the quarter, which led to our best quarter ever for net subscriber additions to Games.

The addition of Wordle to our portfolio has proved incredibly valuable, and we are moving swiftly to leverage its massive audience to introduce Wordle players to our other games, recognizing that its audience may moderate over time.

#

We closed our acquisition of The Athletic in the quarter, and moved quickly to apply our expertise in areas like audience development, subscription funnel optimization and advertising. We're off to a strong start operationally, with several talented Times leaders taking on new roles at The Athletic, helping build out its audience development and advertising teams.

Subscriber growth at The Athletic was in line with our expectations, following the transaction's execution in early February. In the second half of this year, you can expect us to begin to introduce The Athletic into a broader Times bundle, which is where we see the biggest opportunity for growth.

We've also begun to lay the groundwork for introducing an array of advertising products to The Athletic later in the year, and we see a meaningful opportunity to build a substantially larger ad business over the next several years.

We are on track with our plans so far, and optimistic about the value The Times's playbook can bring to The Athletic to drive incremental revenue growth and improved profitability over time.

#

I've talked so far about the first two pillars of our strategy, which involve meeting more news and life needs with world-class content. The third pillar of our strategy is about putting all that content together in a more expanded and connected product experience that helps people engage with more of what we offer and makes us indispensable in their daily lives, independent of the new cycle.

While we will continue to sell our products on a standalone basis, we believe that over time a New York Times bundle of interconnected products will allow us to better penetrate our addressable market of 135 million people, and drive more volume and higher ARPU.

We've already begun to better connect our products and expose people to more of our breadth by optimizing our programming and promotion on our homepage, in email,

and in our subscriber onboarding.

With this work, we've found that while the vast majority of current and new bundle subscribers engage with News, their incremental engagement with non-News products has widened over time – which helps to support healthy retention.

We've also begun to increase the promotion of our multi-product bundle with a series of optimizations to our marketing presentation and purchase flow. As a result of these optimizations, bundle subscriber additions in Q1 were the highest ever for a single quarter.

#

I'll turn now to advertising, where performance in the quarter was on track in terms of total revenue, though digital grew less than expected and print grew more.

Digital advertising was above last year's first quarter, but below our expectations, driven mostly by market-wide issues including lower spend by tech advertisers, some advertisers pulling back on spending with the onset of war in Ukraine, and a broader climate of macro-economic uncertainty.

Print advertising, on the other hand, beat expectations, led by entertainment and luxury, offsetting the miss in digital, and putting total advertising up 20 percent over Q1 2021.

We believe that our ability to achieve this level of growth in relatively volatile conditions is a testament to our strength at capturing marketer demand with a uniquely diverse ad product set.

As we saw in the first quarter and have long said, we expect that our advertising business will be subject to significant fluctuations – including as a result of macroeconomic conditions. Even so, we continue to believe strongly in the competitive advantages of our ad product set, and that digital advertising business will be a significant contributor to the Company's profits over the long-term.

#

To recap, it was a strong start to the first year of our strategy to become the essential subscription, with many signals reaffirming our belief that we are in the early stages of an extraordinary opportunity to win a larger share of a still-growing market.

Consistent with what we said last quarter, our plan for doing so includes continued, measured investment into the opportunity we see ahead, which we believe will

strengthen our competitive position and drive attractive long-term growth.

The Company's cost growth in the first quarter reflects our continued investment priorities: growth in the number of employees creating content across our News and lifestyle products, and growth in product development to make the delivery of that content even more engaging and habit-forming.

As we've long said, we won't sacrifice long-term growth in the name of short-term profit. We do expect these investments to drive improvements to our marketing efficiency, and we also expect to see benefits over time from our tech investment as our platforms and underlying capabilities continue to improve.

Consistent with the 2022 guidance I provided on our last earnings call, we continue to expect to grow adjusted operating profit in our core business before the impact from The Athletic, though we don't expect that growth to entirely offset the dilutive impact of The Athletic on a consolidated basis.

#

Before I turn things over to Roland, I want to make note of the executive editor transition that our chairman and publisher announced last month.

Joe Kahn — who has been Dean Baquet's managing editor for the past five years — will become executive editor in June. Joe is a brilliant editor and a sophisticated and principled leader. He's also been among the trailblazers in our newsroom's digital transformation and I can tell you that The Times newsroom will be in very good hands under Joe.

I also want to make note of our upcoming Investor Day, now planned for Monday, June 13th, where we will dive more deeply into our strategy and have you hear directly from some of our key business leaders. And with that, over to Roland.

Roland Caputo

Thank you, Meredith, and good morning. As Meredith said, our first quarter subscription results give us real confidence in our ability to execute and deliver on the strategy we laid-out for you on our fourth quarter call in February and we're excited to be able to share more with you at the Company's Investor Day next month.

Turning to the quarter, which is our first including the financial results for The Athletic, adjusted diluted earnings per share was 19 cents, 7 cents lower than the prior

year. Amortization of intangible assets associated with our first quarter acquisition of The Athletic, which was not included in the guidance we gave last quarter, reduced adjusted diluted earnings per share by approximately 2 cents. We reported adjusted operating profit of approximately \$61 million dollars, lower than the same period in 2021 by approximately \$7 million dollars. With the acquisition of The Athletic, we have begun reporting our results in two segments: The New York Times Group and The Athletic. Adjusted operating profit in The New York Times Group was approximately \$68 million in the quarter, relatively flat when compared to the prior year, while The Athletic lost approximately \$7 million dollars.

On a consolidated basis, the Company added 387,000 net new digital-only subscribers and 382,000 net new digital-only subscriptions in the quarter. The number of digital-only subscribers with news entitlements increased by 270,000¹ in the quarter.

Please note that net subscription additions in the quarter were reduced by 67,000 as a result of a decision to grant Games access to our home delivery subscribers who did not already have it as part of their print bundle. Excluding this impact, net subscription additions were 449,000 in the quarter. This had no impact on the number of subscribers.

Our acquisition of The Athletic resulted in the addition of approximately 1.1 million subscribers and 1.2 million subscriptions as of the date of the acquisition. Subsequent to the February acquisition, The Athletic added 16,000 net subscribers and 24,000 net subscriptions. Most of these net additions came at the end of the quarter as we began to apply our audience and subscription growth playbook. We look forward to continuing this work in earnest in future quarters.

I also want to echo Meredith's statement that we expect there to be variability in net additions from quarter-to-quarter as a result of seasonal factors and the newscycle; however, we remain confident in our ability to achieve our goal of 15 million subscribers by year-end 2027.

Total subscription revenues increased more than 13 percent in the quarter with digital-only subscription revenue growing approximately 26 percent to approximately \$227 million dollars. Digital-only subscription revenue grew as a result of:

- The large number of new subscriptions we have added in the past year,
- continued strength in retention of the \$1 dollar-per-week promotional subscriptions who have graduated to higher prices, and

¹ Corrected from 312,000 in remarks as presented

- the inclusion of subscription revenue from The Athletic.

This quarter's Earnings Release includes the disclosure of Digital Subscriber ARPU, one of several new metrics we plan to disclose each quarter. Please note that the ARPU we are reporting beginning with Q1 of 2022 represents the average revenue per digital subscriber, and therefore includes all of our digital products. The ARPU commentary I have made on previous calls referred solely to the digital news product. For the quarter, digital-only subscriber ARPU decreased 1.2 percent compared to the prior year and 5.3 percent compared to the prior quarter, both largely driven by our acquisition of The Athletic. Excluding the impact of the acquisition, the year-over-year rate would have increased primarily due to News subscriptions graduating from their introductory price to either full price or an intermediate step-up price, while the sequential decline would have been more moderate as the growth in net subscriber additions in the quarter at introductory promotional pricing more than offset the gains from subscribers graduating to higher prices.

Print subscription revenues declined approximately 3 percent as overall volume declines in both home delivery and single copy more than offset the benefit from the first quarter home delivery price increase. Total daily circulation declined approximately 9 percent in the quarter compared with prior year, while Sunday circulation declined 8-point-2 percent.

Total advertising revenues increased approximately 20 percent in the quarter with digital advertising growing more than 12 percent, largely as a result of our proprietary first-party targeted advertising products and expanded audio product portfolio as well as the inclusion of advertising revenue from The Athletic. The digital results were negatively affected by lower spending than we expected in the technology category as well as advertisers' decisions to avoid placement near reporting on the war in Ukraine. Meanwhile, print advertising was higher by approximately 31 percent compared with 2021 primarily driven by growth in the entertainment and luxury categories.

Other revenues increased approximately 5 percent compared with the prior year, to approximately \$49 million dollars, primarily as a result of revenue from higher commercial printing and Wirecutter affiliate referral revenues. Other revenues came in lower than guidance as a result of a delay to a non-recurring licensing project which we expect will be finalized later in the year.

Adjusted operating costs were higher in the quarter by nearly 18 percent as compared with 2021, in-line with the low-end of our guidance.

- Cost of revenue increased approximately 12 percent as a result of our

acquisition of The Athletic, growth in the number of employees who work in The New York Times newsroom and on our Games, Cooking, and Wirecutter products, as well as from higher subscriber servicing costs and print production and distribution costs largely as a result of higher raw material costs.

- Sales and marketing costs increased approximately 29 percent driven primarily by higher media expenses. Media expenses also increased approximately 29 percent largely as a result of higher brand marketing. This represents a significant slowdown in the year over year growth rate of media expenses as compared to Q4 of 2021, which is consistent with our expectation to improve the overall efficiency of our marketing spend.
- Product development costs increased by nearly 22 percent, largely as a result of growth in the number of digital product development employees in connection with digital subscription strategic initiatives as well as a result of our acquisition of The Athletic.
- General and administrative costs increased by approximately 26 percent largely due to growth in the number of employees as well as a result of our acquisition of The Athletic.

Our effective tax rate for the first quarter was approximately 19 percent. As we've said previously, we expect our rate to be approximately 27 percent on every dollar of marginal income we record with the possibility of some variability around the quarterly effective rate.

Moving to the balance sheet, our cash and marketable securities balance ended the quarter at approximately \$475 million dollars, a decrease of approximately \$600 million dollars compared with the fourth quarter of 2021 largely as a result of our all-cash acquisition of The Athletic in the quarter. The company remains debt-free with a \$250 million dollar revolving line of credit available.

During the quarter, share repurchases totaled \$29 million and \$121 million remained under the Company's repurchase authorization. As stated on the last earnings call, share buybacks under this authorization are expected to be used primarily, but not exclusively, to offset dilution associated with stock-based compensation, which we expect will increase over the next several years.

We also had one special item in the quarter for approximately \$35 million related to our acquisition of The Athletic.

It's worth noting that we previously entered into an agreement to sell a small parcel of land, adjacent to our College Point printing facilities, which resulted in a gain of

approximately \$34 million that will be included in our second quarter results.

Let me conclude with our outlook for the second quarter of 2022 on The New York Times Group, which does not include The Athletic. Comparisons are to the Company's consolidated results for the second quarter of 2021 prior to the acquisition of The Athletic:

The effect of The Athletic on our consolidated guidance has been included in the Outlook section of the earnings release that we published this morning.

For The New York Times Group:

Total subscription revenues are expected to increase 7-to-9 percent compared with the second quarter of 2021, with digital-only subscription revenue expected to increase 16-to-18 percent.

Overall advertising revenues are expected to increase 2-to-5 percent compared with the second quarter of 2021, with digital advertising revenues expected to be flat to down in the low single-digits partially as a result of more difficult comparisons in the prior year.

Other revenues are expected to increase in the mid-to-high single-digits.

Both operating costs and adjusted operating costs are expected to increase 12-to-15 percent compared with the second quarter of 2021 as we continue investment into the drivers of digital subscription growth. However, we expect cost growth in our core business to slow considerably beginning in the second half of 2022.

As Meredith said, we continue to expect to grow adjusted operating profit in 2022 in our core business before the impact from The Athletic, though we do not expect that growth to entirely offset the dilutive impact of The Athletic on a consolidated basis.

And on The Athletic, consistent with what we said on the deal announcement call in early January, we continue to forecast a slight reduction in operating losses relative to its approximately \$55 million dollar loss in 2021 and continue to expect significant improvement over the next several years.

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

Harlan Toplitzky

Thank you for joining us this morning. We look forward to talking to you again next quarter.