

The New York Times Company
Fourth-Quarter 2013 Earnings Conference Call
February 6, 2014

Andrea Passalacqua

Thank you, and welcome to The New York Times Company's fourth-quarter and full-year 2013 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
- Making her debut on this call, 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 2012 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.nytimes.com.

And finally, this morning we will discuss the impact on our revenues of the extra week in our fiscal fourth quarter and full year of 2012, which is also provided in the exhibits of this morning's press release. Costs and profitability metrics include the additional week.

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

Mark Thompson

Thanks, Andrea. Good morning, everyone.

2013 was my first full year at the Company, and we finished on a high note, posting solid results in the fourth quarter. As you will hear, there is some complexity in comparing the quarter with the same period in 2012 because of special items and the fact that Q4 2012 had an extra week. Nonetheless we were pleased with the fundamentals of our business in the period. We slightly increased our overall revenues, excluding that additional week in 2012, saw favorable trends in both print and digital advertising, and added more net new digital subscribers than in the previous two quarters. We trimmed costs notwithstanding significant investment in our growth initiatives.

We also made noteworthy progress on our new strategy in 2013, and we remain on track to execute that strategy in 2014 and beyond. This year will be an important one for us with a particular focus on the new digital subscription products we intend to launch in the second quarter and on our efforts to restore digital advertising to sustainable growth.

The new products are intended to expand our subscription base by offering consumers a wider and more tailored set of subscription options, with additional packages available at price points both below and above our current portfolio. The reaction of readers to these products and the new portfolio will obviously be key – and we will be watching that closely throughout the year.

At the start of 2014, we launched the redesigned NYTimes.com. It's been getting almost unanimously positive reviews for its cleaner, more engaging user experience. As part of the redesign, Meredith and her team made The Times's first foray into native digital advertising with the launch of Paid Posts, and this effort is already driving incremental advertising revenue. We remain committed, of course, to always clearly labeling these advertisers' stories as such, but we are also heavily focused on advertising innovation as traditional banner advertising becomes a smaller contributor to revenue industrywide.

Native advertising is only one of the new digital advertising products we will be introducing in the coming months as part of a broader transformation of our capabilities in advertising. In recent months, Meredith has made some formidable external hires to complement our already strong in-house talent roster, placed a fresh focus on ad tech and combined our U.S. and global sales forces into a unified team. In 2014, we will apply greater focus to mobile monetization, seek to expand our high-CPM video inventory and develop more sophisticated audience targeting capabilities.

This will be a critical year in the story of advertising at the Company and, as you've heard, Meredith is here this morning to answer any questions you may have about that.

Next, international. As you know, we've rebranded the former IHT as the International New York Times, but much of our work on the international expansion front still lies ahead of us. Bolstered by a new international marketing effort and our combined worldwide advertising sales force, in 2014 we will continue our pursuit of new readers, new digital subscribers and increased advertising revenues from our audience outside of the U.S.

With regard to video, we are providing significantly more premium content to meet growing demand and in the fourth quarter launched The New York Times Minute, which is a one-minute video capsule of the day's top headlines updated three times every weekday. In 2013, we increased our video stream count by more than 60 percent, and that was against tough election-related comparisons in the second half of 2012.

Finally, as part of the larger brand extension initiative, we are also making strides with our conference business. Our expanded 2014 lineup of domestic and international conferences will again include our popular Luxury and Oil & Money conferences, as well as our annual Cities, Schools and DealBook conferences, and will incorporate some new conferences to be announced soon.

But let me turn now from our future plans to the results for the quarter. The Company's operating profit for Q4 2013 was \$69 million. That compares to \$35 million for the same period of 2012, and the large gap arises principally from a special charge in 2012's fourth quarter.

For full-year 2013, the Company had an operating profit of \$156 million compared to \$104 million in 2012. Excluding depreciation, amortization, severance and special items, operating profit in 2013 grew to \$256 million from \$245 million in 2012. The growth in profitability in 2013 over 2012 is encouraging, given the extra week in 2012 and given that 2013 also saw significant investment in our growth initiatives.

The revenue performance for both the quarter and the full year was the result of a continued build in our digital subscriber base as well as an improvement in advertising revenue trends, excluding that additional week. Print advertising revenue showed steady improvement in the second half of the year, declining less than 2 percent in the fourth quarter, in line with third-quarter levels, while digital trends also showed progress in the quarter and ended at roughly flat.

At quarter-end paid digital subscriptions across the Company were approximately 760,000, an increase of 19 percent year-on-year. We added 33,000 net new digital subscribers in the quarter, which is more than we added in each of the previous two quarters and positions us well for 2014.

Our advertising performance maintained the momentum it began in the third quarter, as overall advertising revenues declined 1 percent. Advertising revenues ended the year on significantly better footing than they began it, declining an average of 2 percent in the second half of 2013. In the quarter, digital advertising revenue was roughly flat, which represents an improvement on the pattern we have seen in recent quarters and a step in the right direction, though we recognize we have a lot more to do on this front.

The relative improvement in advertising revenue, circulation revenue growth and reduced costs contributed to our performance in the quarter. Our declining operating costs demonstrate that expense management around legacy costs was tight in 2013. We will ensure that it remains tight in the current year. We need to reduce existing costs wherever we can, not least to reduce the bottom-line impact of the investments associated with our strategic initiatives. Jim will outline those numbers in more depth soon.

To conclude: The tangible progress we made on a number of fronts in 2013 is encouraging. We posted improved results in the year while moving forward with our strategic plan. We remain in the early stages of the transformation of The New York Times Company, and 2014 will be a year in which we have a lot to deliver. I look forward to updating you on future calls, but for now I would like to turn it over to Jim Follo.

Jim Follo

Thank you, Mark, and good morning, everyone.

As you've already heard, because of our fiscal calendar both the fourth quarter and full year of 2012 had an additional week for purposes of our results. My comments that address revenues will exclude the impact of that extra week. Costs are more difficult to break down on a week-to-week basis, so cost and profitability metrics include the additional week.

As Mark noted, we closed 2013 on a positive note, marked by a quarter of improved revenues and attention to costs. We are taking a very strategic approach to our investment spending, fueling those initiatives that are clearly focused on driving revenues, especially in our digital subscription business, while continuing to search for avenues to reduce non-essential costs.

Our fourth-quarter performance reflects the steady build of the circulation side of our business combined with continued improvement on the advertising side, resulting in slight overall revenue growth. Costs again declined as a result of our ongoing commitment to expense management, as well as the impact of the additional week. Operating profit before depreciation, amortization, severance and special items decreased 12 percent to \$97 million, largely as a result of the additional week and the impact of spending on growth initiatives.

Circulation revenues rose 3 percent in the quarter, with our digital subscription revenue stream contributing the most to that increase, partially offset by difficult print comparisons connected to last year's election season. We saw 19 percent growth in the Company's digital subscription base and also benefitted from the 2013 home-delivery price increases at The Times. This combination led circulation revenue growth to more than offset declines in advertising and other revenues, resulting in slight overall revenue growth. Advertising maintained its momentum on the print side while showing improvement on the digital side, leading to an aggregate decline of 1 percent.

In the fourth quarter, digital-only subscription revenues were approximately \$39 million, an increase of about 22 percent from the same quarter in 2012. For the full year, digital-only subscription revenues totaled \$149 million, up 36 percent compared to 2012.

Advertising revenue trends continued to improve in the fourth quarter relative to the first half of 2013, with print advertising revenues again down less than 2 percent and digital advertising revenues roughly flat.

Advertising revenues continued to exhibit the month-to-month volatility and short-term buying decisions that have pervaded the market – up 8 percent in October and down 1 percent in November and 11 percent in December. Print and digital advertising both saw particular strength in October and notable weakness in December.

National print advertising saw positive growth in the fourth quarter – leading to overall positive growth in the national category – while retail and classified both declined on the print side. Our

roughly flat digital advertising revenue was driven by losses in the classified category and less so the national category, as growth in retail largely offset these declines.

Digital advertising continued to experience challenges in the quarter from programmatic-buying issues, which has led to pressure on our ad rates, as well as from additional pricing pressure caused by the glut of traditional ad inventory. But as Mark mentioned, we are already gaining traction on the digital advertising front and feel we have established a path toward positive growth.

Rounding out our results, operating expenses before depreciation, amortization and severance decreased about 3 percent, and on a GAAP basis costs were also down 3 percent. We reported an operating profit of \$69 million in the quarter and diluted earnings per share of 24 cents. Excluding severance and special items, diluted earnings per share was 26 cents.

The Company continued its long-term expense-management effort in the fourth quarter, as we found ways to lower overall costs by trimming across a broad spectrum of categories even in the face of increased investments associated with our growth initiatives. In addition to the effect of the additional week, printing and distribution efficiencies as well as lower professional fees, raw materials expense and pension expense were the largest contributors to the decline.

We will continue our work at trimming core costs this year as we ramp up initiative spending. Until the second quarter of 2014, when the initiatives really get under way, we are still making significant investments largely ahead of associated revenues, particularly for our new paid digital products.

We continue to market one floor of our headquarters building for rental purposes, which makes up a total of about 31,000 square feet. We aim to complete this process this year and will begin recording rental income at that time. This will bring us to a total of seven leased floors.

Moving to the balance sheet, our liquidity position only strengthened in 2013. In addition to steady cash flow from operations, our balance sheet was bolstered by proceeds from the sale of the New England Media Group, as we further sharpened our focus on our core brand. All in, we ended 2013 with approximately \$1 billion in cash and marketable securities, even after making \$74 million in pension contributions during the year. At year-end, our total cash position exceeded our total debt and capital lease obligations by approximately \$316 million.

For accounting purposes on a GAAP basis, based on preliminary results, the underfunded status of our qualified pension plans as of December 29, 2013, was approximately \$80 million. That compares with \$350 million at the end of 2012. The funded status of the Company's qualified pension plans was positively affected by the rise in interest rates and strong pension asset performance.

We expect our retirement costs in 2014 will continue to experience significant volatility, as we experienced in 2013. In 2013, retirement costs, including pension, multiemployer pension and retiree medical costs, declined \$27 million to \$18 million, as pension interest costs were significantly lower and expected earnings on plan assets were significantly higher in 2013 than in

2012. In 2014, we expect that retirement costs will increase approximately \$19 million to \$37 million, due principally to a lower expected return on pension assets due to 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.

As the Company has gotten smaller over the past several years, mainly as a result of divestitures, our retirement plan obligations have not declined proportionately, as we have largely retained all pension liabilities. As a result, due to the large size of our pension plans relative to the size of the Company, the impact of changes in discount rates, asset performance and funded position may obscure trends in the financial performance of our operating business.

Looking ahead, in our first-quarter 2014 earnings release, we will begin providing a non-GAAP presentation of adjusted operating costs and adjusted operating profit, in each case excluding non-operating retirement costs in an effort to provide a clearer picture of the operating performance of our business.

Our adjusted operating profit calculation going forward will 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 and we will refer to them as non-operating retirement expenses. For the same reasons, we will also present our operating expenses excluding depreciation, amortization, severance and non-operating retirement costs.

These adjusted measures will be provided as a supplement to GAAP operating costs and operating profit. We will also include a reconciliation of adjusted operating profit to GAAP operating profit and adjusted operating costs to GAAP operating costs in our earnings releases. 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. The adjusted presentation should also facilitate comparisons with the operations of peers.

Moving to our outlook, first-quarter circulation revenues are expected to increase in the low single digits, as we expect to see continued benefit from our digital subscription initiatives, as well as from the most recent Times home-delivery price increase.

Advertising revenue trends in the first quarter remain subject to month-to-month volatility but are currently expected to be in line with fourth-quarter levels based on a 13-week comparison. We expect comparisons will get tougher as the year progresses, given that advertising revenue in the second half of 2013 was relatively strong.

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

In addition to the higher retirement costs I mentioned earlier, we expect that costs related to our growth initiatives will increase by approximately \$25 to \$30 million year-over-year in 2014. We expect that operating profit will again be negatively affected by these initiatives for full-year 2014, with potential positive contributions to profitability beginning late in the year.

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