The New York Times Company
Third-Quarter 2016 Earnings Conference Call
November 2, 2016

Harlan Toplitzky

Thank you, and welcome to The New York Times Company's third-quarter 2016 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 2015 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.nytco.com.

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

Mark Thompson

Thank you Harlan and good morning everyone.

The third quarter of 2016 was marked by exceptional – in the case of digital subscriptions spectacular – gains in our digital business, but also by real pressure on print advertising. We have full confidence in our strategy and believe that our results show the rapid progress we are making in pivoting The Times from a print-dominated business model to a digital one.

Let me begin with digital subscriptions. We saw remarkable gains in our digital consumer business, with a net increase of 116,000 subscriptions to our news products, more than twice as many as the same quarter last year, and far more than any quarter since the pay model launched in 2011. Revenue from digital news subscriptions grew 15 percent year-over-year – as you'd expect, the marked acceleration in the number of net digital news subscription increases that we've seen in recent quarters is also leading to a steady year-over-year increase in revenue. We also added 13,000 net new subscriptions to our Crossword product, bringing the total number of digital-only subscriptions at the Company to almost 1.6 million.

What accounted for our success with our digital news subscription business in the quarter? First, the stellar work of our newsroom during the incredible news cycle we are all living through has led to record audiences for The Times and more important, increased engagement with our content. Times journalists have continued to own this Election Cycle and have distinguished themselves in their day-to-day coverage and by breaking numerous major stories about both candidates. We launched two popular new podcasts and delivered groundbreaking coverage of the Olympics including spectacular visual and interactive journalism.

But other factors are at work as well – which is why we believe the model will continue to perform strongly long after the 2016 election cycle is over. We are continuing to optimize our consumer marketing and the configuration of our pay model. Our investment in international is translating into more subscriptions. We are reducing churn. We're putting more focus into corporate and education subscriptions.

Our market research and our practical experience on the ground makes us more bullish about the future growth of the model than we were even a year ago. We believe that we will get to the second million digital subscriber mark sooner than we did the first and that there are many millions more potential subscribers for us in the United States, as well as an immense international opportunity.

It was also an extremely strong quarter for digital advertising, with revenue up 21 percent compared to the same quarter last year. The numbers are a vindication of the speed and effectiveness with which we are re-inventing this business, with dramatic revenue growth in branded content, smartphone, Virtual Reality, programmatic advertising and new kinds of commercial collaborations with advertisers more than offsetting steep declines in what we now think of as our legacy direct-sold digital display business.

The announcement we made earlier this week about our groundbreaking 360 project with Samsung is a model of the kind of collaboration that we are moving towards: the project will enable us to deliver high quality VR journalism to our subscribers and other users every day of the year while also driving significant revenue.

It was a much tougher quarter for print advertising both for us, we were down 19 percent, and the rest of the industry.

Print advertising is a much smaller part of our business today than it once was, accounting for just 22 percent of total revenues in the quarter. But we still believe that advertising in high quality print publications can have an impact and memorability which allow it play a unique and critical role which cannot be replicated by either digital or TV. I believe that is true not just of The New York Times but of other high quality players – players like the Wall Street Journal and the New Yorker for instance – though I also believe The Times is leading the way in print innovation and investment. To see that, you need look no further than our sought after special sections this week and last week on the Elections, and how to cook the perfect Thanksgiving meal.

Total revenues for the company were down 1 percent, while our adjusted operating profit of $39 million dollars was down compared to $48 million dollars in Q3 2015, on lower print advertising revenues and slightly higher costs, partially offset by higher circulation revenues. Jim will provide a more detailed financial analysis in a moment.

You have heard me say in previous earnings calls that we are determined to protect and grow the company's profitability. We are committed to that, notwithstanding the more negative trends in print advertising we've experienced in 2016. Over the coming months, we will take a series of steps to reduce the legacy cost-base of the company so that we can continue to invest in digital growth AND grow operating profit.

There have been several other developments since we last spoke. We acquired The Wirecutter and its sister site, The Sweethome – confirmation of our determination to build out our capabilities in features and service journalism. We've announced the upcoming retirement of Michael Golden from his management role at The Times. Michael has spent 32 years at The New York Times Company in a range of strategically important roles. He's been involved in every one of the Company's critical decisions over those years, including the launch of the digital pay model in 2011. On a personal note, he's been extraordinarily gracious and helpful to me and has provided valued advice and counsel. Michael lives the values of The New York Times and while I will miss our day-to-day interactions, I'm very pleased he will remain on our Board as vice chairman.

And last but not least, two weeks ago the company named Arthur Gregg Sulzberger as deputy publisher. A.G.'s appointment marks the beginning of succession planning for the role of publisher. He is a skilled journalist, a proven leader and digital strategist who was the force behind 2014's Innovation Report, which has been used as a blueprint for transformation not just in our newsroom, but in countless others.

This quarter's numbers demonstrate that we are already moving more quickly into our digital future than we were a year ago. I believe that A.G. will help us put on even more speed. I welcome his appointment and am looking forward to working closely with him in his new role.

And now, I will turn it over to Jim for a more detailed financial review.

Jim Follo

Thank you, Mark, and good morning, everyone.

As Mark said, the third quarter reflects solid digital advertising and subscriber growth, but a very challenging print advertising environment.

Adjusted diluted earnings per share was 6 cents in the third quarter, compared with 9 cents in the prior year. We reported GAAP operating profit of approximately $9 million dollars, compared to an operating profit of $22 million dollars for the same period of 2015. Overall, revenues were down 1 percent in the quarter, with weakness in print advertising offsetting growth in both digital advertising and consumer revenues.

Total circulation revenues increased by 3 percent in the quarter, with digital-only subscription revenue growing strongly, up 16 percent, to $59 million dollars. On the print circulation side, revenues were down 1 percent driven by lower single copy revenues. Home delivery revenues were flat in the quarter as a home delivery price increase in early 2016 more than offset volume declines. Total daily circulation declined 5.5 percent in the quarter, while Sunday circulation declined 3.8 percent.

Total advertising revenues were down 8 percent in the quarter, with print advertising declining 19 percent, and digital advertising growing 21 percent. As we have said in recent quarters, the digital advertising results in the quarter reflect the changing mix of advertising. In Q3, we saw strong growth in branded content, smartphone, virtual reality and programmatic advertising revenues, while traditional direct sold desktop display advertising was weak. Mobile revenues continued to grow at a rapid rate versus 2015 and represented approximately 24 percent of total digital advertising revenues in the quarter. Acquisitions contributed only a small amount to growth in digital advertising in the quarter. As creative services revenues have been rising rapidly, the costs to support those revenues have also increased in the quarter.

Lower print advertising revenue was mainly due to declines in The New York Times, as most major categories experienced declines. We expect the challenging print advertising environment to continue in the fourth quarter with print advertising expected to decline at a rate similar to the third quarter.

On a monthly basis, overall advertising was down 3 percent in July, 9 percent in August and 10 percent in September.

GAAP operating costs increased 3 percent in the quarter, while adjusted operating costs increased 1 percent. As Mark said, we continue to keep a sharp focus on our cost base, while investing where necessary to support growth. To that end, our print production and distribution costs were lower in the quarter, while costs grew in advertising, marketing, technology and news. The growth in news costs was in support of both election and Olympics coverage.

Non-operating retirement costs were down in the quarter to $4 million dollars, from $9 million dollars in the prior year, due to a change in the methodology of calculating the discount rate applied to retirement costs.

In the quarter, we recorded two charges, which we have excluded from our pro forma results.

First, we incurred a $3 million dollar charge for severance in connection with the streamlining of our international print operations, principally in Paris. We expect to achieve savings related to this effort in the latter part of this year, but more fully in 2017.

Second, we recorded a $5 million dollar gain in connection with an ongoing arbitration matter related to a multiemployer pension plan.

In addition to these two charges, we incurred severance of approximately $13 million dollars in the quarter in connection with a voluntary buyout program, principally in the newsroom.

Moving to the balance sheet, we grew our cash and marketable securities balance during the quarter, and ended the quarter at $945 million dollars, with debt and capital lease obligations of approximately $435 million dollars. We have a debt maturity due in December and at that time, we expect to use cash on hand of approximately $190 million dollars to retire that liability.

As Mark mentioned, last week we announced that we acquired The Wirecutter and The Sweethome, product-recommendation services that serve as a guide to technology gear, home products and other consumer services. The acquisition was an all-cash transaction. We paid $25 million, including a payment made for a non-compete agreement. In connection with the transaction, we also entered into a consulting agreement and retention agreements that will likely require payments over the three years following the acquisition that will be charged to operating expense.

Let me conclude with our outlook for the fourth quarter of 2016;

Circulation revenues are expected to increase at a rate similar to the third-quarter trend, driven by the continued benefit from our digital subscription revenue growth, partially offset by lower print circulation revenues. We expect approximately 100,000 net additional subscriptions to our digital news products and approximately 10,000 net additional subscriptions to our digital Crossword product.

Overall advertising revenues are currently expected to decrease at a rate consistent with the third quarter, with growth in digital advertising of approximately 10%.

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

We expect additional costs related to an elevated level of marketing and advertising spend to support digital revenue growth, as well as additional costs associated with acquired companies.

As such, operating costs and adjusted operating costs are expected to increase in the mid- to high- single digits.

Finally, we expect non-operating retirement costs to be approximately $3 million dollars in the fourth quarter.

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