

The New York Times Company
First-Quarter 2015 Earnings Conference Call
April 30, 2015

Andrea Passalacqua

Thank you, and welcome to The New York Times Company's first-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.

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

Mark Thompson

Thanks Andrea and good morning everyone.

The start of 2015 saw us continue to make real progress in our digital business with double-digit year-over-year growth in the first quarter in both digital subscriptions and digital advertising. Print had a more mixed quarter with the headwinds in advertising we saw in the latter part of 2014 continuing through the quarter. Successful cost management contributed to a 5 percent increase in the Company's adjusted operating profit and adjusted earnings per share of 11 cents compared to 7 cents in the prior year.

I'll begin with digital subscriptions. We added 47,000 net digital subscribers in the quarter, more than in any quarter in the past two years – which is particularly pleasing given that our pay model has now reached its fourth anniversary. That quarterly increase brings us to a total of 957,000 paid digital subscribers. The strong digital consumer growth in the quarter was attributable to improved retention, higher traffic to our digital assets and the seasonality of education subscriptions.

The higher traffic is evidence of the effect of the program to develop our audience we began to execute in the second half of 2014. The early results of this program have been very

encouraging. U.S. digital traffic, for instance, in the form of unduplicated unique users across all devices, was up 22 percent year-over-year in the first quarter to an average of 59 million monthly users.

We're convinced there is scope to increase our digital audience much further without diluting the exceptional levels of engagement which we attract. The results should help boost both our digital subscription AND digital advertising businesses.

So let me turn now to digital advertising, where we also saw continued momentum in the quarter with year-on-year growth of just under 11 percent. Mobile, Paid Posts, video and programmatic all contributed to that growth.

I also want to add a comment about ad viewability – the industry-wide effort currently under way to ensure that advertisers only pay for impressions that have actually been viewed by users. We support viewability and, in common with other publishers, we are in the process of optimizing our website to meet the new standard. While we will see some reduction in overall ad impressions as we cycle through the change, viewability plays to The Times's fundamental strength in engagement. Any short-term impact on revenue will depend on how the market responds, and we'll know more about that in a few months' time, but in the long run we expect viewability to help, rather than hinder, our digital advertising growth story.

Now let's consider the print side of our business. As I said at the start, the print advertising headwinds we saw in the second half of 2014 continued into the quarter. Overall, print was down 11 percent year-over-year which, when blended with the gains in digital advertising, led to an overall advertising decline of 6 percent. That 11 percent number includes steeper falls in advertising for our international newspaper as well as some foreign currency effects. I should also note that print advertising in last year's first quarter was up 4 percent, due in part to the one-off boost provided by the Super Bowl in New Jersey and a particularly strong Oscar race. The year-over-year comparisons become less onerous as we go through the year.

There was a decline in print circulation revenue of 2.4 percent in the quarter, as reduced volume more than offset the positive effect of our January price rise. Nonetheless, we are focusing our efforts on print circulation retention and believe there is much to be done to better retain our current subscribers. The strong digital subscription story meant that overall circulation revenue grew in the quarter by just under 1 percent.

Since our last earnings call, we have made two important leadership appointments. Kinsey Wilson has added the role of EVP, product and technology to his current duties heading up digital in our newsroom. Kinsey is now leading the work on the development of our digital portfolio. Indeed, we have already announced that next month we will be converting NYT Now into a free product. We want to continue to use Now to reach younger audiences and to pioneer new ways of delivering compelling news on smartphone. We'll have more to say on the broader portfolio over the next few months. Kinsey has already had a massive and entirely positive impact at The Times in his first few months, and I'm delighted that he's going to have this clear overview of all our digital operations.

Just a couple of weeks ago I also announced that Meredith Kopit Levien, our EVP of advertising,

would be taking on the expanded role of chief revenue officer, meaning that her responsibilities will now include leading the marketing function as well as advertising. Meredith has had a dramatic impact on advertising, gathering a great team around her, backing innovation, building new products and business lines. I'm convinced that she can bring similar flair and focus to the vital work of brand and consumer marketing at The Times.

I also believe that our new leadership team will allow us to move further and faster in developing this business. And let me finish by noting that the journalism of The New York Times, on which everything else depends, continues to be recognized as amongst the very best in the world. Last week, The Times won no fewer than three Pulitzers, more than any other news organization.

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

Jim Follo

Thank you, Mark, and good morning, everyone.

As Mark highlighted, 2015 got off to a good start, as we maintained our progress on both the digital advertising and digital subscription sides of our business. There is, of course, still much more to accomplish in 2015 though. In Q1, for instance, the momentum across digital could not offset the overall print declines, leading to total revenues ending down.

Operating expenses decreased in the first quarter – by nearly \$16 million overall – driven by print distribution efficiencies. Our focus on reducing core costs remains a top priority, but we do not expect future quarters to see the same level of expense declines as we saw in Q1.

Nonetheless, the cost reduction initiatives we recently implemented across the Company should allow us to maintain lower costs in 2015, relative to 2014 levels.

Adjusted operating profit rose 5 percent in the quarter to \$59 million. We reported a GAAP operating loss of approximately \$11 million, driven by a \$40 million pension settlement charge in this year's first quarter as well as a \$5 million multiemployer withdrawal charge, compared with an operating profit of \$22 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 from the new rates was outweighed by overall volume declines. In the first quarter, digital-only subscription revenues were approximately \$46 million, an increase of 14 percent from the same quarter in 2014.

Advertising maintained its progress on the digital platform in the quarter, finishing up 11 percent and mitigating the print loss of 11 percent. Digital advertising continued to see a boost from mobile, Paid Posts and video, but overall advertising revenues still declined 6 percent in the quarter.

Advertising revenues continued to exhibit month-to-month volatility. Combined print and digital

advertising declined 10 percent in January – which is when we saw the bulk of the Super Bowl- and Oscar-related strength in last year’s Q1 – and 3 percent and 5 percent in February and March, respectively. Print advertising revenue was down during all three months while digital was consistently strong.

And lastly on the revenue side, other revenues grew 6 percent in the quarter, driven by higher revenues from our conference business as well as from rental income.

Expense-management efforts remained front and center in Q1, as we continued to lower core costs while devoting resources to key investments. Costs were down 4 percent on a GAAP basis in the quarter, and we reported a diluted loss per share of 9 cents, driven by the two pension charges. Costs declined mainly due to print distribution efficiencies as well as declines in depreciation and amortization, raw materials and outside printing expenses. Adjusted diluted EPS was 11 cents in the first quarter compared with 7 cents in the prior year.

Our non-operating retirement costs were flat in the quarter at \$8.9 million. Retirement costs are expected to generally flatten out in 2015. We expect non-operating retirement costs in the second quarter of approximately \$9 million, vs. \$8.3 million in Q2 2014, due to higher multiemployer pension withdrawal costs.

In Q4 2014, we completed the rental of an additional floor of our headquarters building, which makes up a total of about 31,000 square feet. We began recording the associated rental income in the first quarter, which partially drove the increase in other revenues in the quarter.

Moving to the balance sheet, our liquidity position was further bolstered in the first quarter. Our cash and marketable securities balance was \$848 million, and our total cash position exceeded total debt and capital lease obligations by approximately \$420 million. Late in the first quarter, we repaid at maturity the remaining \$224 million principal amount of our 5 percent senior notes. While interest expense was lower in the quarter partially as a result of this repayment, the full benefit will begin to be realized in Q2, when interest expense should decline by approximately \$3 million.

At the beginning of the first quarter 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. We believe a repurchase program is the best use of cash in this instance since it will largely neutralize the transaction’s impact on our diluted share count. To that end, the Company has repurchased approximately 547,000 Class A shares for \$7.3 million to date as of yesterday.

Regarding the pension settlement charge we took in the quarter, in Q4 the Company offered participants in various defined benefit pension plans the option to immediately receive a lump-sum payment or to immediately begin receiving a reduced monthly annuity. We made settlement distributions of approximately \$96 million on that offer in the first quarter, all of which came from pension assets. This is what is driving the \$40 million special charge that you see in today’s results. The effect of this offer was to reduce the overall size and inherent risk of

our plans, as well as to modestly improve our funded status. We also booked a \$5 million charge for a partial withdrawal obligation under a multiemployer pension plan in the quarter.

Moving to our outlook, second-quarter circulation revenues are expected to increase at a rate similar to the first-quarter trend, driven by the benefit from our digital subscription revenue growth and January's home-delivery price increase, despite continued challenges on the print side. We expect the total number of net digital subscriber additions in the seasonally slow second quarter to be roughly 30,000, partially driven by the conversion of NYT Now to a free product and the associated loss in paid digital subscriptions.

Advertising revenues are currently expected to be down in the mid-single digits, driven by print declines, while the digital trend is expected to be consistent with first-quarter growth.

Other revenues are expected to increase in the low-single digits as there are no conferences planned for the second quarter.

And second-quarter operating costs and adjusted operating costs are each expected to decline in the low-single digits as we get the benefit of late 2014 cost-reduction initiatives.

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