

The New York Times Company
Third-Quarter 2017 Earnings Conference Call
November 1, 2017

Harlan Toplitzky

Thank you, and welcome to The New York Times Company's third-quarter 2017 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 operating 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 2016 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

Thank you Harlan. Good morning everyone.

This was another strong quarter. We grew revenue and operating profit year-over-year. Subscriptions continue to grow, with 105,000 net new subscriptions to our digital news product. The Times now has 3.5 million total paid subscriptions - by far the most in our history. During the quarter, we put much of our new digital operations organization in place under our new COO Meredith Kopit Levien and we're already seeing improved coordination and execution, both of which will help us to continue to scale our digital business.

One of the reasons so many new subscribers have decided to pay for Times journalism is its sheer breadth. The New York Times continues, of course, to offer comprehensive and often revelatory and agenda-setting coverage of current US politics. But The Times is like a multi-ocean Navy: our newsroom can be breaking major new stories about the Trump administration

AND devoting extensive journalistic resources to other investigations as well as general domestic and international news.

The Times was the first to reveal that Harvey Weinstein reached numerous settlements with women for sexual harassment, sparking a global discussion on predatory behavior by powerful men. Reporters Jodi Kantor and Megan Twohey spent months meticulously nailing down the details and convincing sources to go on the record. This comes after Emily Steel and Michael Schmidt's reporting on Bill O'Reilly and Fox News earlier this year -- a continuing story that they added to a little more than a week ago -- and also, Katie Benner's coverage of harassment in Silicon Valley.

It was also a quarter where our newsroom faced an unusual number of large-scale hard news stories, providing unrivaled coverage of the Las Vegas mass shooting, earthquakes in Mexico, and back-to-back hurricanes, without missing a beat covering the rest of the world – from the economy, to Washington, to the arts and more.

The Times continues to attract the best journalistic talent in the business. Choire Sicha (Corey Sikh-ah) was named Styles editor. Jessica Bennett was named gender editor and will drive our coverage of how gender shapes the lives of people across the globe. And we have a certified genius in our midst: Nikole Hannah-Jones was honored with a MacArthur “genius” grant. Our editorial department recently won an Emmy (the 10th for The New York Times), and our newsroom took home four Online Journalism Awards.

And then there is The Daily, our nine-month-old audio news report that has been downloaded more than 100 million times since February. It's consistently at the top of the Apple podcast chart and is the fifth most popular podcast according to Podtrac, an industry ranking. The Daily is an audio program that we are uniquely positioned to deliver as it relies heavily on the breadth and depth of Times journalism and the extraordinary level of expertise of Times reporters and editors. It's become a daily habit - setting the tone for the news day - for the more than three-quarters of a million people who download and stream it each day.

Let's now look at the results for the quarter in detail. We added 154,000 total net new digital subscriptions, an increase of nearly 60 percent over this quarter last year; of those these, as I said, 105,000 came from our news product, 26,000 from our Crossword product and 23,000 from our Cooking product. We transitioned Cooking to a paid product in July, and it's off to a very encouraging start both as a standalone product and as an addition to higher price subscription bundles.

Revenue from the Company's digital-only subscriptions, which includes news, Crossword and Cooking subscriptions, increased 46 percent compared with the third quarter of 2016, to \$86 million dollars. Overall subscription revenue – including digital subscriptions, print home delivery and print single-copy sales – rose 14 percent to \$247 million dollars.

The subscribers who enrolled in the fourth quarter of 2016 and first quarter of 2017 continue to retain at least as well as, and in some cases better than, previous cohorts on the same promotions. Of course we'll continue to monitor engagement, frequency, depth and types of content with which they engage as they reach the twelve-month mark, but so far we are very encouraged by the results we've seen.

Turning to advertising, this quarter marked our 5th consecutive quarter of double-digit revenue growth for digital advertising, in this case up 11 percent year-over-year. You've often heard me say that we don't expect digital advertising growth to be a straight line and, in fact we project digital advertising revenue for the fourth quarter to be flat or slightly down compared to the same quarter last year. That's due in part to some individual campaigns in 2016 not repeating in 2017 in the corporate and advocacy categories, and the likelihood that we will have less inventory to sell programmatically than we had during the election season last year. But we remain fully confident in our ability to deliver sustainable revenue growth in digital advertising by complementing our display offering with a broader suite of marketing services, and more commercial partnerships like those we currently have with Samsung and Google. We will continue to roll out this strategy in 2018.

The print advertising market remains challenging, and Q3's decline of 20 percent year-over-year was somewhat deeper than the previous quarters. But our exposure to this declining revenue stream is less than it has ever been – print advertising represented just 17 percent of total company revenue in the quarter, and was \$22 million dollars less than digital subscription revenue – which is why we were able to grow both top line revenue and adjusted operating profit, despite this headwind. Total advertising revenues were \$114 million, down 9 percent from the previous year.

Revenues for the company as a whole were \$386 million dollars, up 6 percent, while our adjusted operating profit of \$56 million dollars represents a 44 percent increase, compared with the same quarter last year. This increase was driven by growth in digital revenue. We continue to follow the roadmap outlined in "Our Path Forward" and our newsroom's 2020 Report, and we are on track to meet our goal of \$800 million dollars of annual digital revenue by 2020.

Before I conclude, I want to take a moment to acknowledge my colleague Jim Follo, who last week announced his intention to retire in early 2018. Jim has been a trusted advisor to me and our publisher, and I am very grateful for his many contributions over his nearly 11-year career here at the Times. He will be with us until the end of February next year to help us achieve a smooth transition to a successor. The search process is now underway, but it means that Jim still has one more New York Times Company earnings call to look forward to. Lucky chap!

Now let me turn it over to him for a more detailed financial review.

Jim Follo

Thank you, Mark, and good morning, everyone.

As Mark said, the third quarter reflects continued solid progress in advancing our long-term strategy.

Adjusted diluted earnings per share was 13 cents in the third quarter, compared with 6 cents in the prior year. We reported GAAP operating profit of approximately \$33 million dollars, compared with an operating profit of \$9 million dollars for the same period of 2016.

Total subscription revenues increased by 14 percent in the quarter, with digital-only subscription revenue continuing to grow strongly. Subscription revenue from our digital-only products grew 46 percent in the quarter. On the print subscription side, revenues were 1.5 percent higher as home delivery revenues more than offset a decline in revenue from single copy sales. The increase in home delivery revenues in the quarter compared with the prior year primarily resulted from a price increase in early 2017, which more than offset volume declines. Total daily circulation declined 5.3 percent in the quarter compared with the prior year, while Sunday circulation declined 2.6 percent.

As was the case last quarter, ARPU continued to decline in the third quarter largely due to the sharp increase in net subscription additions over the past year, most of which start on a promotional discount. Since we have experienced a significant increase in net subscription additions over the past year, we expect ARPU to continue to decline before stabilizing when these new subscriptions step-up to full price.

Moving along to advertising, we reported that total advertising revenue declined 9 percent, as the print advertising decline more than offset digital advertising growth. The growth in digital advertising was driven by smartphone, programmatic, and marketing services. Lower print advertising revenue was mainly due to declines in the luxury, travel, real estate, media, technology and telecommunications categories.

On a monthly basis, overall advertising revenue declined 2 percent in July, 6 percent in August and 15 percent in September compared to last year.

Other revenues grew 18 percent versus the same quarter in 2016 to \$25 million dollars, principally driven by affiliate referral revenue from the product review and recommendation website, Wirecutter, which we acquired in the fourth quarter of 2016. The increase was partially offset by lower revenues from our live events business, which held fewer conferences in the quarter compared with the prior year.

GAAP operating costs decreased 2 percent in the quarter, while adjusted operating costs

increased 2 percent. The cost increase was related to companies we acquired in 2016 and consumer marketing efforts and was partially offset by lower print production and distribution costs, as well as savings from our international operations.

In the quarter, we recorded two special items that have been excluded from our adjusted results.

The first item was a \$30 million dollar gain we recorded related to the sale of hydropower assets at a paper mill previously operated by Madison Paper Industries, a partnership in which the company has a 40 percent interest, and which ceased operations in 2016. With the sale of the hydro assets, that business is now in the latter stages of winding down, and we expect to receive a cash distribution from the final liquidation over the coming months.

We also recorded a \$2.5 million dollar charge in non-capitalizable expenses for the reconfiguration of our headquarters building to make more space available for rental income. Through the first three quarters of 2017, we recorded \$7 million dollars in non-capitalizable expenses related to this project, and we expect to incur approximately \$60 million dollars in capital expense and \$10 million dollars in non-capitalizable expenses related to this project throughout 2017. We continue to be encouraged by the interest we have seen in the seven floors we are making available and we expect to begin recording rental income in the first half of 2018.

Moving to the balance sheet, our cash and marketable securities balance grew during the quarter, and ended the quarter at \$823 million dollars, with total debt and capital lease obligations, principally related to the sale-leaseback of our headquarters building, of approximately \$249 million dollars.

Late in October, we announced that we had entered into an agreement to transfer approximately \$225 million dollars in pension obligations to an insurance company. The transfer will shift the annual benefit obligations and administration for approximately 3,800 retirees and will be funded through assets in our pension trusts. This transaction was the latest in a series of actions we have taken over the last several years that we have taken to reduce the size and volatility of our pension obligations, and the ongoing administrative costs associated with these obligations. Since 2012, we have settled close to \$625 million dollars in pension obligations. With this latest transaction, we expect to book a settlement charge in the fourth quarter of approximately \$95 million dollars, which represents the acceleration of deferred charges currently accrued in accumulated other comprehensive income on the Company's balance sheet.

Also in October, we made a discretionary contribution to our pension plans of \$100 million dollars pre-tax, or approximately \$60 million dollars after tax. This contribution improves the funded status of the plans, allowing us to further reduce pension volatility, and reduces the need for required contributions to the plans for several years in the future. As a reminder, we began the year with underfunded qualified pension plans of approximately \$220 million.

Now, let me conclude with our outlook for the fourth quarter of 2017. As a reminder, fiscal 2017 is a 53-week year and therefore, our fourth quarter will have 14 weeks as opposed to 13 in the prior year. We plan to disclose the estimated impact on revenue of this extra week when we release our fourth quarter results. Estimating the cost impact of this extra week is more difficult and, therefore, we will refrain from doing so. Our earnings release, which we issued earlier this morning includes guidance related to the impact of this extra week.

On a comparable 13-week basis,

Total subscription revenues are expected to increase approximately 10 percent, with digital-only subscription revenues expected to increase approximately 40 percent.

Overall advertising revenues are expected to decrease in the low-double digits, with digital advertising flat or decreasing slightly.

Other revenues are expected to increase approximately 10 percent, largely from the impact of the Wirecutter business we acquired in late 2016.

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.