

The New York Times Company
First-Quarter 2017 Earnings Conference Call
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Harlan Toplitzky

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

Thanks, Harlan. And good morning, everyone.

Q1 2017 was a very encouraging quarter for The New York Times Company. Digital revenue was strongly up year-over-year across the board. Print consumer revenue was also up, as was overall revenue for the company. And, despite continued headwinds in print advertising, adjusted operating profit also grew, albeit modestly.

These numbers, we believe, validate our thesis that there is a large and growing appetite in this country and around the world for journalism of seriousness and depth, and that a growing number of people are prepared to pay for it in digital as well as in print. They also support our view that quality news is a relationship business.

Social media and other digital platforms can be valuable as a way of enabling users – especially new users – to encounter and sample high quality news. But thoughtful readers will always want

to know the provenance of the news – who reported it, who edited it, who is ultimately responsible for its accuracy and fairness. This is why we believe in building a strong digital destination for news, and encouraging our most engaged readers to make us a daily habit.

We also believe that, when it comes to advertising, the world's best companies want the same things as thoughtful readers: digital environments where their brands are safe and they won't find themselves next to dishonest or tawdry content, and where they can associate themselves with journalism of quality and ambition. In the chaotic landscape of digital advertising, we believe that the guarantee of quality that we apply to our journalism is also a guarantee of safety and value for our advertisers.

So let me turn now to the detail of the results, beginning with our digital consumer business. In the quarter, we added 308,000 net digital-only news subscriptions, the largest quarterly addition in the history of our pay model. We've also seen exceptional growth in our digital crossword business, adding 40,000 subscriptions this quarter. Total subscriptions, combining digital news and crossword subs with our print home delivery subscriptions, stood at 3.2 million at the end of the quarter.

We saw some moderation in the rate of new subscription adds to our news product towards the end of the quarter, and expect that moderation to continue through Q2. I want to emphasize though that our digital subscription business had started to accelerate long before the 2016 presidential election cycle got into its stride. The acceleration was driven by data-driven adjustments to our pay model and greatly improved execution in our consumer marketing department. We have more improvements in the works and we're confident that, even after the intensity of the current news environment subsides, this underlying acceleration will continue.

We also saw exceptional growth in digital advertising in Q1, with a 19 percent year-over-year increase. Our strategy to pivot the business to focus on smartphone, branded content, innovation and marketing and creative services is paying off.

Print advertising remained tough with a decline of 18 percent year-over-year in the quarter. But it's a testimony to just how far our business has already transitioned towards digital that this steep decline did not stop us from growing our TOTAL revenue significantly in the quarter. When I arrived at The Times four and a half years ago, print advertising was such an important part of the company's economics that the idea of growing total revenue in the face of such stiff headwinds would have been unthinkable. The dynamism of our digital businesses now makes it possible.

Costs rose in the quarter, largely because of higher marketing expenses – not all of which will repeat in subsequent quarters – and the inclusion of costs from acquired companies. Despite this

increase in costs, the fact that total revenue for the company grew 5 percent in the quarter enabled us to grow adjusted operating profit slightly as well.

Let me finish with a few words about Times journalism. During the quarter, we launched a brand advertising campaign based on the proposition that ‘The truth is hard.’ It struck a chord not just in America, but around the world, and has been very widely commented on. Even the President of the United States was kind enough to draw attention to it. The campaign makes the case for the kind of deeply reported, courageous and serious journalism that The New York Times has always stood for. That journalism is as strong today as it’s ever been. In recent weeks, it has been recognized with an astonishing crop of awards, including three more Pulitzers.

We’ve also seen some exciting new talent arriving in both our newsroom and our editorial department. Our new deputy managing editor Rebecca Blumenstein and new business editor Ellen Pollock are now working together to reshape how The Times covers business and financial news. T Magazine has a new editor: Hanya Yanagihara, who will plot the future direction of one of the world’s preeminent style magazines. Our Editorial Page Editor James Bennet recently brought the Pulitzer prize-winning columnist Bret Stephens to our Op-ed pages.

We are now in rapid transition from a celebrated past as a great American newspaper to a future of even greater potential as a subscription-first, mobile-first news provider for thoughtful audiences everywhere. One of the things that gives us most confidence as we execute this transition is our access to talent: both the world-class talent we already have, and the exceptional talent we can attract into the company, talent like Rebecca, Ellen, Hanya and Bret, and other new colleagues in every part of The Times.

We are fully committed to the investment needed to maintain outstanding frontline reporting – indeed, as I noted in our last earnings call, we have actually boosted the newsroom’s budget in some critical areas. But my colleague Dean Baquet has also made it clear that our newsroom needs to adapt and develop if we’re to seize the opportunity in front of us. The recent 2020 Report set out some important recommendations for change, including the need to approach the task of editing our news report in a new way. You can expect to hear more about that – and about plans to recruit further new journalistic expertise and talent – over the course of the present quarter.

In February, we introduced “The Daily,” a new audio report that’s already had more than 27 million downloads and streams and is on track to surpass 100 million in its first year. “The Daily” is a new way to encounter Times journalism, and to get a behind-the-scenes flavor of what Times journalists do. Its freshness of style and the warmth and brilliance of its host, Michael Barbaro, have already made it an unmissable pleasure for its large and growing audience. Whether in audio, virtual and augmented reality, in digital products like our new

offering for Snapchat, or in ad formats, innovation is helping us to find new users and drive new revenue streams.

But now let me turn it over to Jim for a more detailed financial review.

Jim Follo

Thank you, Mark, and good morning, everyone.

As Mark said, the first quarter results reflect solid growth.

Adjusted diluted earnings per share was 11 cents in the first quarter, compared to 10 cents in the prior year. We reported GAAP operating profit of approximately \$29 million, compared to an operating profit of \$28 million for the same period of 2016. Overall, revenues were up five percent in the quarter, as strong consumer - both print and digital - as well as digital advertising revenues more than offset continued weakness in print advertising.

Total consumer revenues increased by 11 percent in the quarter, with digital-only subscription revenue continuing to grow strongly, up 40 percent, to \$76 million. Both our core news and crossword product revenues grew at this rate in the quarter. On the print circulation side, revenues were nearly two percentage points higher as home delivery revenues more than offset a decline in revenue from single copy sales. Home delivery revenues increased in the quarter compared to the prior year, as a home delivery price increase in early 2017 more than offset volume declines. Total daily circulation declined 4.7 percent in the quarter compared to the prior year, while Sunday circulation was flat.

As was the case last quarter, ARPU continued to decline in the first quarter largely due to the sharp increase in net subscription additions, most of which start on a promotional discount, relative to the size of our total subscriber base. As we have experienced a significant increase in net subscription additions over the past three quarters, we expect ARPU to continue to decline before stabilizing when these new subscriptions step up to full price.

As I said on last quarter's call, predicting the number of net additional digital subscriptions has become increasingly difficult and we are discontinuing forward guidance on this metric. We will continue to provide customary revenue guidance.

As Mark mentioned, over the course of the last several weeks, we have experienced a slowdown in the rate of net additions to our news product relative to our experience over the past two quarters. While we do not expect second quarter additions to continue at a similar rate to the last

two quarters, we do expect them to grow at a healthy rate relative to last year's second quarter. I'll also remind you that the second quarter is generally a slow quarter for digital subscription growth.

We continue to focus on retention of our subscribers. To date, we have seen nothing to suggest that the large number of new subscribers is retaining differently from historical retention levels.

In the first quarter, we launched a program that allows individuals to sponsor student subscriptions to our digital news products. Revenue recognized in the quarter from this program, while small, is reflected in other revenues and does not impact our digital subscription count.

Moving along to advertising, we reported our third consecutive quarter of double-digit growth in digital, while challenges in print remain. The growth in digital advertising was driven by programmatic, mobile and our marketing services business, while our desktop homepage and direct-sold products continued to decline.

Lower print advertising revenue was mainly due to declines in the luxury, technology and telecommunications, financial and travel categories.

On a monthly basis, overall advertising revenue was down nine percent in January, one percent in February and ten percent in March.

Other revenues grew 21 percent versus the same quarter in 2016 to \$26 million dollars, principally driven by affiliate referral revenue from the product review and recommendation websites, The Wirecutter and The Sweethome, which we acquired in the fourth quarter of 2016.

GAAP operating costs increased 4.5 percent in the quarter, while adjusted operating costs increased 5.5 percent. 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 marketing, as a result of our brand campaign and to drive the increased level of consumer acquisition. Additionally, we experienced cost growth in advertising, and as a result of the three companies we acquired in 2016.

In the quarter, we recorded one special item, a nearly two and half million dollar charge, which has been excluded from our pro forma results, for the reconfiguration of our headquarters building to make more space available for rental income. Including this quarter's charge, we expect to incur approximately \$10 million in non-capitalizable expense related to this project over the course of 2017, which will be broken out as a special item each quarter. As I said last quarter, we expect to incur approximately \$50 million in capital expense related to this project in 2017. We have begun to market the space and expect to begin recording rental income in

2018.

Moving to the balance sheet, our cash and marketable securities balance grew during the quarter, and ended the quarter at \$753 million, with total debt and capital lease obligations, principally related to the sale-leaseback of our headquarters building, of approximately \$248 million dollars.

Now let me conclude with our outlook for the second quarter of 2017:

Total print and digital consumer revenues are expected to increase at a rate similar to the first quarter of 2017, driven by the continued benefit from our digital subscription revenue growth. We also expect digital-only consumer revenue to grow at a rate similar to that of the first quarter of 2017.

Overall advertising revenues are currently expected to decrease in the low- to mid-single digits, with growth in digital advertising in the mid-teens.

Other revenues are expected to increase in the mid-teens, largely from the impact of the Wirecutter business we acquired late in 2016.

And we expect increased costs related to an elevated level of marketing and advertising spend to support digital revenue growth, higher newsroom costs reflecting the active news environment, as well as additional costs associated with the three acquired companies.

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

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

Harlan Toplitzky

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