

The New York Times Company
Second-Quarter 2016 Earnings Conference Call
July 28, 2016

Harlan Toplitzky

Thank you, and welcome to The New York Times Company's second-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.nytc.com.

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

Mark Thompson

Thanks, Harlan. Good morning, everyone.

We have a thesis that, in an unpredictable and sometimes frightening world, that the demand for truly exceptional journalism, which helps people make sense of what's happening, will only grow – and that more and more people will be prepared to pay for it. We plan to meet that demand not just by continuing to invest in world-class reporting, analysis and contextualization, but by aggressively innovating in the way we tell our stories, especially through new forms of visual and multimedia journalism, and by rapidly pivoting our products and our business model to address fast-changing user behavior and market conditions.

Now all of these themes played out in the second quarter of 2016. First, it has been a truly extraordinary period for news. I want to pay tribute to our newsroom and editorial departments, led by executive editor Dean Baquet and our new editorial page editor James Bennet, respectively. From the Orlando massacre to Brexit to Dallas to Nice to the conventions, they and

their colleagues have produced an amazing report day after day; a report that we believe sets The Times apart from even our closest competitors. Everything we do is built on that excellence.

In the quarter, consistent with where we believe consumption is moving, we increased our efforts to make our report more visual with video, virtual reality and live interactive journalism. In the quarter, we produced our 12th and 13th virtual reality films and have done more than 400 livestreams using Facebook Live. This platform allows for two-way communication between our journalists and Facebook users and helps increase audience engagement. Popular livestreams have ranged from breaking news stories, to beautiful nature scenes, to a truly riveting crack-of-dawn discussion of Brexit by our media commentator Jim Rutenberg and yours truly. What each Facebook Live video has in common is an active involvement with our audience.

And, we're being recognized for our achievements. This year, The Times won two significant prizes at the Cannes Lions Advertising Festival. We won the Mobile Grand Prix for our VR app. In presenting this award, the mobile jury president said that our VR efforts were "transforming the industry." We also won the Entertainment Grand Prix, for "The Displaced," our first virtual reality film, produced in collaboration with VRSE.works. The jury called this a "real business driver that has helped catapult the Grey Lady 100 years forward." Just a few days ago, we learned that we have been nominated for no fewer than nine News and Documentary Emmys for the great strides we're making in video.

So how did this play out in business results? Let me start with the digital story before turning to print and then to costs.

It was an excellent quarter for audience growth, engagement, and our digital subscription business. In the month of June, we attracted no fewer than 126 million unique users with engagement among non-subscribers up 20 percent year-over-year. Those numbers helped us add 51,000 net paid digital-only subscriptions to our news products in the quarter. That compares with 33,000 in the same quarter last year. We also added 16,000 net paid subscriptions to our Crossword product. Combined, at the end of the quarter, we had 1 million 424 thousand (1,424,000) digital-only subscriptions, an increase of more than 25 percent year-over-year. The acceleration in the number of digital subscriptions makes this not just a growing, but an accelerating revenue stream. Our consumer marketing team has made great progress in understanding and optimizing our conversion funnel, but both they – and we – believe there is the potential for significant further advances in the coming quarters.

Digital advertising was somewhat lower than we expected for the quarter, down 7 percent compared to Q2 2015. We continued to see large year-over-year increases in smartphone, branded content and programmatic, but these were not enough to offset declines in web homepage and other traditional display advertising. In our last earnings call, however, we predicted a much stronger second half to 2016 in digital advertising, and we are indeed already seeing a marked turnaround in July with strong year-over-year growth. We expect Q3 as a whole

to show double-digit year-over-year growth in digital advertising as well as in digital subscription revenue.

As we noted in our last earnings call, our digital advertising business is becoming more lumpy, but we are also now seeing a series of large-scale programs roll out and we are confident that our strategy – which is to replace standard desktop display with larger canvas, more integrated formats and a focus on smartphone, branded content, programmatic, video, VR, and other new forms of storytelling – is now paying off.

We continued to face tough market conditions in print advertising during the quarter. Although our visibility into September, the most important month in Q3, is limited, we do not expect these print advertising headwinds to moderate in the present quarter. But it is worth pointing out that print advertising only accounted for 23 percent of total revenue in Q2 2016 – we are, in other words, far less reliant on it than we once were. And when we put digital and print advertising revenue together, the substantial gains we expect in the first means that, despite continued pressure on the second, we expect a marked improvement in total advertising in Q3. Jim will spell that out when he gives his guidance shortly.

Revenues for the company as a whole were down 3 percent, while our adjusted operating profit of \$54 million represents a 15 percent decline compared to the same quarter last year. This decline is due in part to that advertising revenue weakness, which as I said, we expect to see moderate in Q3, and in part to the investments we are making in our international business, in visual journalism and in our digital products to deliver “Our Path Forward,” the strategic roadmap we unveiled last fall. However, we are continuing to bear down on costs. During the quarter, we announced a voluntary buyout program and various other cost savings initiatives are now also underway. We will have more to say about these initiatives and others in future quarters.

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 second quarter reflects solid digital subscriber growth, but a challenging advertising environment – both in print and traditional digital.

Adjusted diluted earnings per share was \$0.11 cents in the second quarter, compared to \$0.13 cents in the prior year. We reported GAAP operating profit of about \$9 million, compared to an operating profit of \$38 million for the same period in 2015. Overall, revenues were down 3

percent in the quarter, with weakness in advertising offsetting circulation and other revenue growth.

Total circulation revenues increased by approximately 3 percent in the quarter, with digital-only subscription revenue growing strongly, up 15 percent, to \$56 million. As a reminder, beginning in the first quarter of this year, we include revenues from both our core news products and our Crossword product within digital-only subscription revenues. On the print circulation side, revenues were down less than 1 percent driven by lower single copy revenues. Home delivery revenues increased slightly in the quarter as a home delivery price increase in early 2016 more than offset volume declines. Total daily circulation declined 6 percent in the quarter, while Sunday circulation declined 4 percent.

Total advertising revenues were down 12 percent in the quarter, with print advertising declining 14 percent, and digital ad revenue declining 7 percent. As Mark noted earlier, the digital advertising results reflect the changing mix of advertising that we have been experiencing over the last several quarters. In the second quarter, we saw strong growth in mobile, programmatic and creative services revenues, while traditional web display advertising was weak. Mobile revenues continued to grow at a rapid rate versus 2015 and represented approximately 22 percent of total digital advertising revenues in the quarter. We did record a full quarter of digital advertising revenue from our February acquisition of HelloSociety; however, its contribution was immaterial to the result in the quarter.

Lower print advertising revenue was due to declines in both The New York Times and International New York Times. For The New York Times, luxury, entertainment and retail categories were particularly weak, while the luxury category was primarily responsible for the decline in the International New York Times.

On a monthly basis, overall advertising revenues were down 13 percent in April, down 6 percent in May and down 15 percent in June.

And finally on the revenue side, other revenues were up 4 percent in the quarter largely driven by our NYT Live business.

GAAP operating costs decreased 1 percent in the quarter, while adjusted operating costs remained relatively flat. 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 both advertising and technology. Non-operating retirement costs were lower, while severance and depreciation and amortization were slightly lower as well.

Non-operating retirement costs, which exclude special items, were down in the quarter to \$5 million, from \$9 million in the prior year, due to a change in the methodology of calculating the discount rate applied to retirement costs. To reiterate Mark's comments, we continue to focus efforts on our cost structure and while we expect to experience an increase in operating costs in the second half of 2016 due to targeted investments, we will begin to accelerate reductions to our structural cost base thereafter.

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

First, we incurred a \$12 million charge 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. Most of this charge was for severance.

Second, we recorded a \$12 million charge for a partial withdrawal obligation under a multiemployer pension plan following an unfavorable arbitration ruling.

In addition to these two charges, we incurred severance of approximately \$2 million in the quarter. As part of our ongoing cost management efforts, we recently completed a voluntary buyout program, and as a result, we expect to record a severance charge in the third quarter of approximately \$11 million.

Moving to the balance sheet, we grew our cash and marketable securities balance during the quarter, and ended the quarter at \$915 million, with debt and capital lease obligations of \$434 million. We have a debt maturity due in December and at that time, we expect to use approximately \$190 million of cash on hand to retire that obligation.

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

Circulation revenues are expected to increase at a rate similar to the second-quarter trend, driven by the continued benefit of our digital subscription revenue growth, partially offset by slightly lower print circulation revenues. We expect approximately 55-60,000 net additional subscriptions to our digital news products and approximately 15,000 net additional subscriptions to our digital Crossword product.

Overall advertising revenues are expected to decrease in the mid- single digits, with double- digit growth in digital advertising. As Mark mentioned, it's worth noting that our visibility into September's print advertising revenue is limited, which is not unusual at this point in the quarter. However, since September's print advertising revenue typically represents a disproportionate amount of the third quarter's advertising revenues, any change to the month will likely have an outsized impact on the quarter.

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

And on the cost side, operating costs are expected to increase in the mid- single digits, which will include severance of approximately \$11 million, which I had just mentioned.

And third-quarter adjusted operating costs are expected to increase in the low- to mid- single digits.

And finally, we expect non-operating retirement costs to be approximately \$5 million in the third quarter.

And 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.