

The New York Times Company
First-Quarter 2016 Earnings Conference Call
May 3, 2016

Harlan Toplitzky

Thank you, and welcome to The New York Times Company's first-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, and good morning everyone. 2016 is the first year of implementation of 'Our Path Forward,' our new strategy direction for The New York Times Company. As you know, the plan calls for the doubling of our digital revenue. To achieve that, we need to more than double our audience, to deepen their engagement, and to innovate and develop our digital advertising and subscription models, while running our cash-generative print platforms effectively and managing costs tightly across the whole company.

Our big themes are: innovation and creativity in story-telling and user experience, backed by continued investment in great journalism; audience and digital subscription growth, driven by better use of data and clearer offers and customer journeys; innovation in digital advertising, where we're seeing great success with branded content and smartphone; international, where we've made some important recent announcements; and tough-mindedness about costs everywhere.

The first quarter of 2016 saw all these themes playing out in the real world. Our audience grew strongly – at 113 million unique users in March, our global audience was the largest ever recorded for The Times. The balance of that audience is shifting too. According to Comscore, we had 31 million U.S. millennials consuming Times journalism on digital in March, 11 million more than in March 2015. Audience engagement is growing steadily as well.

It's not surprising then that this was a very strong quarter for our digital subscription business. We added 67,000 net new digital subscriptions to our news products, the highest number of quarterly adds since Q4 2012, and a real achievement as our pay model reaches its fifth anniversary. The rate at which we are adding subscriptions is continuing to accelerate. Revenue for our digital news subscription business grew 13 percent year-over-year.

Perhaps this is a good moment to celebrate our other digital subscription business, which is the Times Crossword product. This separate subscription count reached 196,000 in the quarter, and since then has exceeded 200,000. Revenue from this business is much smaller than for the core – the quarterly total went past \$2 million for the first time in Q1 – but at 59 percent growth year-over-year, it too is building strongly.

From now on, we will disclose both the separate subscription counts and revenue figures for news and Crossword, and the combined totals. The combined digital-only subscription total for the quarter was 1,357,000 digital-only subscriptions. We expect this combined number to exceed one and a half million by year's end.

Digital advertising was a more uneven story. Our headline result of roughly flat was a blend of continued success with smartphone, branded content and programmatic – smartphone, for instance, more than doubled compared to Q1 2015 – with pressure on web home page and other web display. We remain bullish about our strategy, however, and believe that our timely pivot from traditional digital advertising towards branded content and marketing services, video and more seamlessly integrated ad formats on both mobile and desktop will deliver growth in the second half of 2016. Late in the quarter, we bought Hello Society, a social influencer network and the company's first acquisition in eight years, to add another element to the growing suite of content creation and distribution capabilities we can offer advertisers.

Print advertising continues to experience strong secular headwinds and was down 9 percent in the quarter. Print circulation was down just under 1 percent year-over-year, though total circulation was up because of success on the digital side. Revenues for the company as a whole were down 1 percent for the quarter, while adjusted operating profit was \$52 million, down 13 percent compared to the same quarter last year, due to that advertising revenue weakness and the initial impact of investment associated with 'Our Path Forward.'

On that topic, during the quarter, we announced our intention to invest more than \$50 million over the next three years on exploiting the international digital potential of The New York Times. We have also announced a significant reorganization of the editing and preparation of The International New York Times, our global physical newspaper, to ensure its continued contribution. These two announcements – demonstrating a willingness to invest substantially in digital growth, while applying rigor and realism to the economics of our mature print platforms – illustrate the approach we are taking everywhere.

As I noted in our last earnings call, we are fully committed to restoring the company to adjusted operating profit growth beyond 2016, and believe that we will achieve that through a combination of growing digital revenue and a continued focus on costs. We believe there is considerable scope for further savings in the company, and we will be going after it in the coming months.

Encouraging and accelerating progress on digital subscriptions. Exciting developments but more to do on digital advertising. A commitment, not just to build digital revenue, but to manage our costs to defend and grow profitability. Those are my headlines this morning.

Now over to Jim.

Jim Follo

Thank you, Mark, and good morning, everyone.

As Mark said, the first quarter reflects solid digital subscriber growth, but a challenging advertising environment – in both print and digital.

Adjusted operating profit declined 13 percent in the quarter to \$52 million, while adjusted diluted earnings per share was \$0.10 cents in the first quarter, compared with \$0.11 cents in the prior year. We reported GAAP operating profit of \$28 million, compared to an operating loss of \$11 million for the same period of 2015. Overall, revenues were down 1 percent in the quarter, with weakness in advertising offsetting circulation and other revenue growth.

Circulation revenues increased approximately 2 percent in the quarter, with digital-only subscription revenue growth more than offsetting print declines. As Mark mentioned, beginning this quarter, we have begun to report digital subscription revenues from our Crosswords product within circulation revenues. Previously, this revenue was reported in Other Revenues. With this change, total digital-only subscription revenues grew 14 percent from the same quarter in 2015 to approximately \$54 million.

On the print circulation side, revenues were down 1 percent driven by lower single copy revenues. We again implemented a home delivery price increase at the beginning of 2016, at a rate similar to recent annual increases and we benefited from this, although higher revenue associated with the new rates was outweighed by overall print volume declines.

Advertising revenues were down 7 percent in the quarter, with print advertising declining 9 percent, and digital revenue declining 1 percent.

As Mark noted earlier, digital advertising reflected the changing mix of advertising that we have been experiencing over the past several quarters. In the quarter, we saw strong growth in mobile and creative services revenues, while traditional web display advertising was weak. Mobile revenues continued to grow at a rapid rate versus 2015, and now represent approximately 21 percent of total digital advertising revenues. We did record a small amount of digital advertising revenue in the quarter from our March acquisition of Hello Society.

The lower print advertising revenue was due to declines in The New York Times, while we experienced growth in The International New York Times. In The New York Times, luxury, technology and telecom, and media categories all performed well in the quarter, while entertainment and the financial categories were particularly weak. The growth in the International New York Times was driven mainly by an increase in the luxury category.

As usual, we experienced significant month-to-month volatility in advertising revenues, as illustrated by the fact that overall advertising was down 1 percent in January, down 18 percent in February and down 1 percent in March. Both print and digital experienced this volatility.

And finally on the revenue side, other revenues were up 1 percent in the quarter, with NYT Live driving that growth.

Operating costs remained relatively flat in the quarter, while adjusted operating costs increased 1 percent. The increase in adjusted operating costs was mainly due to higher spending in advertising, technology and newsroom, which were substantially offset by print production and distribution efficiencies. Non-operating retirement costs were lower, while severance and depreciation and amortization increased. Our focus on reducing legacy costs remains a top priority, while at the same time, we will continue to invest in growing our digital revenue. We continue to focus efforts on our cost structure and while we expect to experience an increase in operating costs in 2016, we will begin to make reductions to our structural cost base thereafter.

As I said, non-operating retirement costs 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.

In the quarter, we incurred a loss of \$41 million, or \$20 million after tax and net of non-controlling interest. This loss resulted from the decision to shut down a paper mill operated by Madison Paper Industries, in which the Company has a 40 percent interest. This loss resulted from severance and other costs, recorded in the first quarter, by Madison Paper, of which we have recorded our proportionate share. We currently believe that Madison Paper has sufficient existing assets to settle all its obligations when taking into account proceeds from the expected sale of Madison Paper assets, which we anticipate to take place later in the year. Accordingly, we do not currently expect that we will be required to use any of our cash in the wind down of this investment.

Moving to the balance sheet, our cash and marketable securities balance was \$874 million at the end of the quarter, and our debt and capital lease obligations were approximately \$432 million.

The Hello Society acquisition was completed late in the quarter, with a purchase price of approximately \$12 million.

The Company has repurchased approximately 6.5 million Class A shares for \$86.0 million to-date, under our previously announced \$101 million share repurchase authorization.

And now let me conclude with our outlook for the second quarter of 2016:

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, partially offset by lower print circulation revenues, despite the impact of the home delivery price increase. We expect approximately 45,000-50,000 net digital subscription additions to our news product and approximately 10,000 -15,000 net digital subscription additions to our Crossword product.

Overall advertising revenues are currently expected to decrease at a rate similar to that of the first quarter of 2016, with digital advertising expected to be flat.

Other revenues are expected to increase approximately 10 percent.

And second-quarter adjusted operating costs are expected to increase in the low-single digits, while operating costs are expected to increase in the mid-single digits, as we expect to record a restructuring charge of approximately \$15 million in the quarter related to the proposed streamlining of our international print operations.

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

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