

**The New York Times Company**  
**Second-Quarter 2017 Earnings Conference Call**  
**July 27, 2017**

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**Harlan Toplitzky**

Thank you, and welcome to The New York Times Company's second-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](http://investors.nytc.com).

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

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**Mark Thompson**

Thank you Harlan. Good morning everyone.

Well, we've had another strong quarter. We grew revenue and operating profit year-over-year. And we passed two million paid digital-only news subscribers – a first for any news organization. But we're still determined to move faster in our digital transformation and, as you'll hear, we're making significant changes throughout the company to make that happen.

This was also a quarter of spectacular journalism from our newsroom and editorial department. You could see that both in areas of classic New York Times strength – breaking story after story, especially in our coverage of the Trump White House and domestic politics – and in exciting new ventures, like our podcast The Daily, which has grown from a standing start in Q1 to become one of the most highly regarded, and most popular, podcasts in the world. Indeed, just this week the New York Times was nominated for eight News and Documentary Emmy Awards.

We believe that the demand for quality, in-depth journalism is growing, not only in the United

States but across the globe. We can see that in the response of users to Times journalism and in the growth of our digital audience. And we believe that more and more people are prepared to pay for access to this kind of journalism. This is the foundation of our strategy.

So let's look at some of the detail, beginning with our digital subscription business. As we indicated in our last earnings call, we've seen a moderation in the rate of new subscription additions since the two previous exceptional quarters, but we still added 93,000 net new subscribers to our digital news product, a 69 percent increase in the number of subscription additions compared with the same quarter last year, and enough to take us over the two million mark. We've reached the second million in less than half the time it took to get to the first million.

We also added 21,000 net new digital crossword subscriptions, an increase of 31 percent over this quarter last year. This means that, together with our home delivery print subscriptions, we now have 3.3 million total subscriptions, an increase of 37 percent since the same quarter last year. In July, we also transitioned our popular Cooking offering to a paid product with the goal of converting a percentage of its 10 million monthly unique users into paying subscribers. We expect to use our Cooking and Crossword products not just as standalone paid offerings, but also as added features to encourage some subscribers to opt for higher-priced subscription offers.

Revenue from the Company's digital-only subscriptions, which includes news product and Crossword product subscriptions, increased 46 percent compared with the second quarter of 2016, to nearly \$83 million dollars. Overall subscription revenue – including digital subscriptions, print home delivery and print single-copy sales – rose 14 percent to \$250 million dollars.

Turning to advertising, our total advertising revenue grew for the first time since Q3 2014. Q2 marked our 4th consecutive quarter of double-digit revenue growth for digital advertising. In this case, it was up 23 percent year-over-year. At 11 percent, the rate of print advertising decline was lower than we saw in the previous two quarters, though we regard this more as a reflection of the monthly volatility in this revenue stream rather than a significant turn in the market. Total advertising revenues were \$132 million, slightly up from the previous year.

Revenues for the company as a whole were \$407 million, up 9 percent, while our adjusted operating profit of \$67 million represents a 23 percent increase, compared with the same quarter last year. This increase was driven by the growth in digital and print subscription revenue I just discussed. It's worth noting that in the quarter, digital subscription revenue overtook print advertising revenue for the first time. Print advertising represented just 19 percent of the quarter's total revenues.

We continue to implement the strategy outlined in "Our Path Forward" and our newsroom's 2020 Report, and are confident that we will achieve our stated target of \$800 million dollars of

annual digital revenue by 2020. Our newsroom is undergoing a process to streamline its editing function to match the speed and form of digital journalism while freeing up resources to put more journalistic boots on the ground, deliver more investigations and help us further develop our capabilities in visual journalism. The process is not an easy one and will see the departure of many valued colleagues. But I can assure you that we are maintaining – and, where possible, increasing - our investment in our journalism, hiring significant numbers of journalists with the expertise we need for our digital future. We expect the total size of our newsroom and editorial departments to remain comparable with today. We are also reorganizing our company to accelerate our transition to digital. In June, Meredith Kopit Levien was named chief operating officer and leads a new operations group, which includes the teams responsible for product, design, audience, brand, consumer revenue, and advertising.

We intend to continue to invest in the growth of our digital business – I expect further investment in both brand and performance marketing in the rest of 2017 – but we’re also continuing to bear down on costs and improve efficiencies. To give one example, we are currently in the process of transforming our use of space in our headquarters building here on Eighth Avenue, freeing up multiple floors to generate additional rental income, but also to develop a more collaborative and creative work environment.

In closing, I’d like to comment on our remarkable international growth. In the past year, our digital subscriptions have soared and The New York Times now has subscribers in 195 countries. International subscribers make up 14% of our over 2 million paid digital-only news subscriptions and continue to grow at a faster rate than our domestic additions. In fact, international subscriptions grew 80 percent compared with the same period last year. But we also believe that we have only begun to tap the potential for subscribers and advertisers beyond our domestic market.

Let me turn it over to Jim for a more detailed financial review.

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**Jim Follo**

Thank you, Mark, and good morning, everyone.

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

Adjusted diluted earnings per share was 18 cents in the second quarter, compared with 11 cents in the prior year. We reported GAAP operating profit of approximately \$28 million dollars, compared with an operating profit of \$9 million dollars for the same period of 2016.

As Mark mentioned, total subscription revenues increased by 14 percent in the quarter, with digital-only subscription revenue continuing to grow strongly, up 46 percent, to \$83 million

dollars. Revenue from our core news products grew 47 percent in the quarter, while our Crossword product revenues grew 43 percent. On the print subscription side, revenues were nearly 3 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 3.8 percent in the quarter compared with the prior year, while Sunday circulation declined 0.9 percent.

As was the case last quarter, ARPU continued to decline in the second 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.

Moving along to advertising, we reported total advertising revenue growth of 1 percent, as digital advertising growth more than offset print advertising decline. The growth in digital advertising was driven by smartphone, programmatic, and our marketing services businesses. Lower print advertising revenue was mainly due to declines in the luxury, real estate, technology and telecommunications, and travel categories.

On a monthly basis, overall advertising revenue increased one percent in April, five percent in May and declined four percent in June.

Other revenues grew 13 percent versus the same quarter in 2016 to \$25 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. The increase was partially offset by lower revenue from our live events business, which held fewer conferences in the quarter compared with the prior year.

GAAP operating costs increased 11 percent in the quarter, while adjusted operating costs increased 7 percent. Our print production and distribution costs were lower in the quarter, while costs grew due to higher compensation, consumer marketing costs, and costs related to companies we acquired in 2016.

In the quarter, we recorded two charges that have been excluded from our pro forma results. First, we recorded a \$19 million dollar severance charge largely related to a workforce reduction principally within our newsroom, which was announced earlier in the quarter.

We also recorded a \$2 million dollar charge in non-capitalizable expense for the reconfiguration of our headquarters building to make more space available for rental income. Through the first half of 2017, we have recorded \$4 million dollars in non-capitalizable expense related to this project and as I said last quarter, we expect to incur approximately \$50 million dollars in capital expense and \$10 million dollars in non-capitalizable expense related to this project throughout

2017. We are encouraged by the interest we have seen as we continue to market the space we are making available 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 \$807 million dollars, with total debt and capital lease obligations, principally related to the sale-leaseback of our headquarters building, of approximately \$249 million dollars.

Let me conclude with our outlook for the third quarter of 2017:

Total subscription revenues are expected to increase at a rate similar to the second quarter of 2017, driven by the continued benefit from our digital subscription revenue growth. We expect digital-only subscription revenue to grow approximately 40 percent compared with the third quarter of 2016.

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

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

We expect operating costs and adjusted operating costs to increase in the mid-single digits, reflecting an elevated level of marketing and advertising spend to support digital revenue growth, higher newsroom costs reflecting the active news environment, and additional costs associated with the three acquired companies.

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

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**Harlan Toplitzky**

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