

The New York Times Company
Second-Quarter 2013 Earnings Conference Call
August 1, 2013

Paula Schwartz

Thank you. Good morning and welcome to our second-quarter 2013 earnings conference call. On the call today are:

- Mark Thompson, president and chief executive officer;
- Jim Follo, executive vice president and chief financial officer; and
- Denise Warren, executive vice president, digital products and services.

All of the comparisons on this conference call will be for the second quarter of 2013 to the second quarter of 2012, unless otherwise stated.

Our discussion will include forward-looking statements, and our actual results may differ from those predicted. Some of the factors that may cause them to differ are included in our 2012 10-K. Our presentation will also 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 corporate Web site at www.nytc.com under Investor Relations.

And now, I would like to turn the call over to Mark Thompson.

Mark Thompson

Thanks Paula. Hello and good morning everyone.

In summary, our second-quarter results reflect significant progress both in the immediate run-rate of our business and in the roll-out of our medium-term strategy for The New York Times Company. The Company's operating profit before depreciation, amortization and severance for Q2 2013 was \$77.8 million dollars. That compares to \$68.8 million in the same period of 2012 and represents an increase of 13 percent year-on-year.

In the quarter, we saw a continued increase in digital subscribers, a marked improvement in both print and digital advertising compared to Q1, and are on course to deliver key elements of the growth strategy I outlined in our last earnings call.

Let me begin with the digital subscription story. Since digital consumer revenues are an important and growing part of our business, we have decided – starting this quarter – to provide some new financial information on this revenue stream. In the second quarter, revenues from digital-only subscriptions were approximately \$38 million, an increase of about 44 percent from the same quarter in 2012. For the first half of 2013, digital-only subscriptions totaled around \$75 million, up nearly 52 percent compared to the

same period last year.

The number of digital subscribers continued to grow and at quarter-end paid digital subscriptions across the Company were approximately 738,000, an increase of nearly 40 percent year-on-year. We did see some slowing in the number of net new adds to our digital subscriber base in the quarter. We attribute the deceleration to a combination of seasonality, a relative lack of major news stories, and the law of large numbers as we enter the third year of our pay model. As you know, we are currently working on a suite of new paid products and services; that roadmap includes enhancements to the existing core digital product, which we believe will increase its attractiveness to potential subscribers. In the meantime, we expect the net new digital adds in Q3 to be roughly in line with the Q2 numbers.

Advertising performance was significantly better in Q2 than Q1. Although we continued to see substantial volatility month-to-month, especially on the print side, company-wide advertising declined by 6 percent versus the prior year, compared to an 11 percent decline in the first quarter. This relative improvement, combined with strong circulation revenue and further progress on cost reduction, accounts for the increase in operating profit in the quarter. Jim will discuss the advertising and cost numbers in more detail in a few minutes.

Last quarter, I laid out my initial thinking on a strategy to put the Times Company on a path to revenue and profitability growth. We are making good progress and are on track with these strategic growth initiatives.

- We will re-brand the International Herald Tribune as the International New York Times at the beginning of the fourth quarter. The first edition of the International New York Times will be on October 15th.
- As I've already said, we are well under way on the development of a series of new paid digital products and services to attract a wider audience of subscribers. At this early stage, we're very pleased with how the product design and development work is progressing.
- On the video front, we're looking to create significantly more high-quality content to meet the growing demand of users and advertisers. Just last week we published our first Times-branded documentary and we have a number of innovative video projects that we will be sharing with users over the next couple of months. Our strategy also includes aggregating high-quality videos from other organizations. A recent example of a success is our collaboration with Retro Report, a documentary news organization, to showcase its video series, which re-examines major news stories of the past few decades. The quality and subject matter of Retro Report is a perfect match for The Times. To expand the awareness of our video presence and grow our streams, we began offering free unlimited access to The Times's online video section during the second quarter.

Earlier this week, Meredith Kopit Levien joined the Company as the new executive vice president of advertising. Meredith comes to us with a proven track record as a highly skilled executive known for success, energy and creativity in all of the advertising arenas important to The Times, namely print, digital and live events. She'll oversee the generation of all advertising revenue across The Times's multiplatform products and services and will provide great leadership of our already excellent global ad sales team. We have also been hiring new technology talent to support the building phase of our new initiatives.

And we've also made progress in our efforts to sell the New England Media Group, which Jim will touch on in a minute.

Lastly, we are aware that capital allocation remains a key topic of interest to our shareholders. While we have had a good quarter and have improved our financial position, the advertising market remains volatile and our growth initiatives are at an early stage of their gestation. For the present, we believe it is in the best interests of the Company to maintain a conservative balance sheet, but we will keep this position and the question of capital return under close review as we go forward.

In conclusion then, this was a quarter in which we made progress on several fronts, though we also know that much work still lies ahead. I look forward to updating you on future calls, but for now I would like to turn the call over to Jim Follo.

Jim Follo

Thank you, Mark, and good morning, everyone.

Our Company's positive results in the second quarter were truly an organization-wide effort – with contributions from virtually every area of the business enabling us to deliver operating profit before depreciation, amortization and severance of \$78 million, an increase of 13 percent compared to the second quarter of 2012. This progress was the result of continued growth in our digital subscription initiatives on the circulation side, moderation in losses on the advertising side that led to the best print trends in more than a year, and another strong showing on cost performance.

The continued growth of The New York Times's digital subscription numbers combined with print price increases at both The Times and The Boston Globe together enabled circulation revenues to largely offset advertising losses, resulting in total revenues down about 1 percent in the quarter. Circulation revenues rose 5 percent for the Company and 7 percent for The Times Media Group in the second quarter, with the monetization of our digital products as the largest contributor to the growth.

Advertising revenue trends improved in the second quarter relative to the first, with print advertising revenues down 7 percent and digital advertising revenues down 3 percent, leading to an aggregate advertising decline of 6 percent versus the prior year – compared to an 11 percent total advertising decline in the first quarter. Despite this sequential improvement, advertising revenue continues to be affected by secular trends, economic factors and an increasingly complex digital marketplace that is facing a widespread shift toward programmatic buying channels, as we have discussed here over the past couple of quarters.

Rounding out our results for the quarter, operating expenses before depreciation, amortization and severance decreased about 3 percent, and on a GAAP basis costs were also down 3 percent. We reported an operating profit of \$53 million, up 21 percent over the second quarter of 2012. Diluted EPS excluding severance and a 2012 special item was 14 cents in the second quarter compared with 11 cents in the second quarter of 2012.

Now let me provide some additional detail on our second-quarter results. Total advertising revenues decreased 6 percent year-over-year and were down 2 percent in April, 12 percent in May and 4 percent in June, a pattern that demonstrates the significant month-to-month volatility and short-term buying decisions we continue to see in the market. Second-quarter print advertising revenues decreased in the national, retail and classified categories, with national and retail equally driving the decline. Digital advertising revenues also decreased, as growth in the automotive and other classified categories was offset by declines in the national, retail and remaining classified categories. Mobile advertising reversed course from last quarter and saw robust growth.

Turning to The Times Media Group, total revenues were up 1 percent in the quarter, with circulation revenues up 7 percent and advertising revenues down 5 percent. Other revenues were down 7 percent as a result of our exit from the education business at the end of last year, part of our continued effort to focus on our core New York Times brand. The overall advertising revenue decline was largely a result of print losses in all three major advertising categories: national, retail and classified, with retail experiencing the largest year-over-year percentage decline. While the national and retail categories saw growth on the digital side, they were outweighed by digital losses in the real estate and recruitment classified categories.

Digital display advertising continued to experience challenges in the quarter from programmatic-buying issues along with pricing pressure caused by the glut of available ad inventory across the market. The Times Media Group aims to return to digital advertising revenue growth by focusing more heavily on opportunities in video, tablet and unique custom advertising.

As our paid products strategy moves into the next phase, The Times's digital focus remains on growing its subscriber base while extending its brand across platforms. As of the end of the quarter, The Times Media Group, including subscribers to The Times and the IHT digital packages, had about 699,000 paid digital-only subscribers, an increase of 37 percent year-over-year. Digital subscription acquisition growth moderated in the second quarter, but we are confident our new initiatives will enable continued progress and ensure that we remain an industry leader on this front. In the meantime, we expect net new digital subscriber additions in the third quarter to be roughly in line with the second-quarter increase.

Moving to the New England Media Group, total revenues were down 7 percent in the second quarter, with circulation revenues down 2 percent and advertising revenues down 10 percent. Other revenues were down 14 percent largely as a result of lower revenues from commercial printing and distribution and direct mail advertising services. In the second quarter the Globe began to cycle against higher commercial printing and distribution revenues and the associated costs in connection with the printing and delivering of a local competitor that began last year.

As of the end of the quarter, BostonGlobe.com had about 39,000 paid digital-only subscribers, an increase of 70 percent year-over-year. The Globe raised its print home-delivery prices in May.

We are deep into our efforts to sell the New England Media Group and expect to have more to share on this topic before the end of the third quarter. Now that we have a better sense of the structure a transaction might take on, we can say pretty confidently that pension obligations are unlikely to be included in the sale. We expect that a sale will help the Company's overall operating and EBITDA margins, based upon past performance and absent any other factors that impact our margins. There is not

much more we can share now, but we hope to be revisiting this topic with you soon when we have something more concrete to say.

Moving on to costs, the Company's performance on expense management was strong in the second quarter, as we again found ways to trim across a broad spectrum of cost categories, resulting in a decline in operating costs of approximately \$14 million. Lower compensation and benefits costs – primarily lower pension expense – and lower raw materials expense were the largest contributors to the decline.

We will continue to be diligent in trimming expenses and managing legacy costs but will also remain prepared to invest where necessary. The costs associated with our new strategic initiatives will accelerate in the second half of this year and into 2014, as we begin to market these efforts domestically and internationally. That said, we continue to expect that the contribution to operating profit connected with the initiatives will turn positive in late 2014 and that we will see full-year growth in 2015. As we have previously stated, we estimate that operating profit will be negatively impacted by about \$20 to \$25 million in 2013 as a result of these initiatives, with a modest contribution to revenues, while we make significant investments in the growth initiatives.

Raw materials costs declined 14 percent in the second quarter, mainly due to lower newsprint consumption and lower newsprint prices.

Moving to the balance sheet, at the end of the second quarter, our cash and marketable securities totaled approximately \$918 million, exceeding total debt by approximately \$224 million. The increase in our cash balance was the result of cash flow from operations as we continue to generate meaningful cash. In the quarter, we also repurchased approximately \$5 million principal amount of our 6 5/8 percent senior notes.

As discussed in the press release this morning, in the second quarter we recorded an adjustment of our prior-period pension benefit obligation related to an error in the actuarial valuation of accrued benefits. The correction of these pension obligations reduces our GAAP underfunded status by about \$50 million and reduces operating costs by approximately \$3 million annually.

As of June 30, 2013, taking into account this adjustment as well as the recent developments in the interest rate environment, year-to-date asset performance and the pension contributions we made earlier this year, we believe that our underfunded status for the qualified plans has improved from year-end and is now estimated to be approximately \$150 million on a pre-tax basis. As such, we do not plan to make any further contributions this year beyond the \$7 million in mandatory requirements we are still committed to, which we expect will bring our full-year total to \$75 million.

Also on the pension front, as we get closer to a fully funded status, we are shifting our asset portfolio increasingly toward fixed income investments, which positions us well from a liability-matching perspective going forward. On the flip side, that shift also means the potential impact of future interest rate changes on our overall funded status will be somewhat moderated.

Looking further at the balance sheet, we have seen substantial and growing interest in the value of our headquarters building in recent months. While we are not in the commercial real estate business and

therefore do not want to speculate on the potential value of the building, I'd like to quickly review some of the details around our March 2009 sale-leaseback transaction.

The transaction encompassed 21 floors, or approximately 750,000 square feet. We still own outright seven floors, or 216,000 square feet – which were not included in the transaction – six of which we now lease to a third party and one that we still occupy but have the option of renting out. The rental income we receive on the six floors we lease out is recorded in other revenues.

The structure of the sale-leaseback transaction allows us to repurchase the 750,000 square feet in 2019 at \$250 million. Given that we believe the value of the underlying real estate far exceeds the \$250 million liability associated with the repurchase option price, it is almost certain that the option would be exercised at that time.

We believe the value of the real estate we own combined with the real estate subject to the repurchase option significantly exceeds the liability we carry associated with the real estate on our balance sheet as of June 30.

Moving to our outlook, third-quarter circulation revenues are expected to increase in the low- to mid-single digits, as we expect to see continued benefit from our digital subscription initiatives, as well as from the most recent price increases at The Times and the Globe.

Third-quarter advertising is typically very difficult to forecast since advertising revenues tend to be so concentrated in September. Trends in the third quarter continue to be affected by volatility comparable to the first half of 2013.

Third-quarter operating costs are expected to be in line with the same period last year.

And with that we'd be happy to take your questions.