The New York Times Company
Fourth-Quarter and Full Year 2017 Earnings Conference Call
February 8, 2018

Harlan Toplitzky

Thank you, and welcome to The New York Times Company's fourth-quarter and full year 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.nytco.com.

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

Mark Thompson

Thanks Harlan, and good morning everyone.

Q4 2017 was another strong quarter for the company with increased revenue and adjusted operating profit- more evidence of the successful rollout of our digital strategy. But before diving into the detailed results for the quarter, I'd like to spend a few minutes reflecting on 2017 as a whole.

It was a strikingly successful year for The New York Times Company. Our newsroom and opinion departments did brilliant work, with coverage of the new Trump administration front and centre – though the story of the year was not a conventional political one, but the explosive series of revelations about sexual harassment, most notably the allegations of harassment levelled at Harvey Weinstein, which set off a national and global firestorm of reaction which continues unabated to this day.

More than anything, our strategy as a company is to double-down on high quality journalism, to invest in it and support it in every way we can. We believe that this uncompromising commitment is not just good for democracy and society, but the only way of building a successful digital news business. In 2017, it paid off for our tens of millions of users, and for the company itself.

For the year, revenue grew 8% compared to 2016, and adjusted operating profit grew 18%. Much of that was driven by very strong digital subscription revenue growth, more than $100 million of new revenue in a single year. And, if we step back and look at the numbers, we can see how the economics of the company are changing.

Since 2015, we have defined ourselves as a “subscription first” company. In 2017 subscriptions for the first time in the history of The New York Times Company, delivered more than a BILLION dollars of revenue. We still regard advertising as an important revenue stream, but believe that our focus on establishing close and enduring relationships with paying, deeply engaged users, and the long-range revenues which flow from those relationships, is the best way of building a successful and sustainable news business. At the end of 2017, between our digital news product, our digital crossword and new digital cooking product, our loyal home delivery print subscribers, we had 3.6 million subscriptions - an unprecedented number for the Times, and one which is still growing strongly.

As you know, in late 2015 we set ourselves the goal of doubling our pure play digital revenue from just over $400 million dollars, which is what is was in that year, to at least $800 million. We set a timeframe of five years to achieve that goal, with 2016 being the first, and 2020 the last of the five years. I’m often asked how we are doing against the goal. We don’t provide a running commentary, not least because, as I’ve often noted, there can be real lumpiness on the advertising side, but the end of a calendar year is a good time for a progress report. So: at the end of 2017, year two of our five years, pure play digital revenue – digital-only subscriptions, digital ads, Wirecutter and other smaller purely digital revenue streams – accounted for $607 million dollars of our revenue as a company.

In other words, after just two years, we are halfway there. We believe we are scaling our digital revenue more effectively than any other comparable news organization in the world.

2017 was a year when the ecosystem around The Times also changed. In particular, the major search and social media platforms faced criticism for not doing enough either to support serious news publishers, or to ensure that the public could distinguish between real and fake or distorted news. I can’t do justice to this complex topic now, but let me note that Google’s decision to meet requests from The New York Times and other publishers to do more to support digital pay models in the way they surface news content in search is welcome, as is Facebook's recent announcement that they will give relatively more exposure to trusted news sources like The Times in their news feed. Although the impact of these changes will only become clear over time, we believe that the recognition by these major platforms of the value of trustworthy news, and the changes they are making are strategically beneficial to our digital business.

Let me turn to Q4 2017 in detail, beginning with our subscription business. We added 99,000 net digital news subscriptions. Our shift of our subscription meter from ten to five free stories per month happened late in the quarter. It is, so far, performing in-line with our modeling, and we believe it will help us maintain our strong growth momentum in 2018.

When you add crossword and cooking, we gained an overall 157,000 additional digital subscriptions in the quarter. We are pleased both with the continued strong growth represented in those headline numbers, and in the continued strong retention we're seeing among the large group of new subscribers who came to The Times from Q4 2016 onwards, and who are proving at least as loyal as previous cohorts. I can also say we've continued to make encouraging progress and are seeing far lower monthly churn than a few years ago.

Total digital-only subscription revenue for Q4 2017 was $96 million dollars. The quarter had 14 weeks: once adjusted so that it can be compared like-for-like with the 13-week quarter a year earlier, that represents an increase of 40 percent year-over-year. Print subscription and single-copy revenue was $173 million dollars, less than a half of a percentage point year-over-year decline on the same adjusted like-for-like basis.

Digital advertising performed slightly better than we expected, ending the quarter at $84 million dollars, which represents an adjusted like-for-like increase of 1%. Although there was significant variation over the quarters, digital advertising grew by a strong 11.5% for 2017 as a whole compared to 2016. As you'll hear when Jim discusses the outlook for the first quarter, we believe 2018 will also see considerable variation across the quarters, beginning with Q1 which we expect to be slightly down year-over-year. However, we believe that 2018 will be another year of overall growth in this revenue stream. Print advertising declined in Q4 by 12% on a 13-week basis, an improvement on trends in earlier in the year.

Costs grew as we continued to invest in brand and performance marketing, in current and future new digital products, and in critical parts of our newsroom and editorial departments. We expect to continue to invest in all these things in 2018 – we see the opportunity for further growth, and want to continue to spend to secure it – and that too will be reflected in Jim's cost guidance.

The net result of all of this was that the company's revenue for the quarter grew to $484 million dollars, and adjusted operating profit grew to $108 million dollars.

And that brings me finally to Jim Follo himself. This is Jim's last earnings call for The New

York Times Company – he retires from the company and his role as CFO at the end of this month. I do want to say that the results we are announcing today – and the strong balance-sheet that sits behind them – are a testimony to the brilliant job he has done for us, for our shareholders, for our readers and for everyone who believes that great journalism is an essential part of a great democracy. Jim has helped this company through some difficult times to a point of financial stability, strong free cashflow, substantially reduced debt and effectively managed pension obligations, and above all, real GROWTH and business SUCCESS. I've greatly enjoyed working alongside him for the past five years and, like all of my colleagues on the board and in the company, will miss him greatly. We're deep in the process of selecting a successor and expect to have news on that in the coming weeks, but I just want to take this moment to thank Jim, to wish him and his family every happiness in his next chapter – but yes, OK, also to invite him for one last time to put some detail behind those financial results. Jim.

Jim Follo

Thank you, Mark, for those kind remarks and good morning, everyone.

As Mark said, 2017 marked a milestone year for the Company.

Adjusted diluted earnings per share was 39 cents in the fourth quarter, compared with 30 cents in the prior year. We reported GAAP operating profit of approximately $23 million dollars, compared with an operating profit of $56 million dollars for the same period of 2016. The lower operating profit was mainly due to the charges related to our pension obligations.

As Mark referenced, our fiscal calendar in 2017 included an extra week and therefore, our fourth quarter included 14 weeks instead of the typical 13. The Earnings Release distributed this morning reports revenues on both a 14 and estimated 13-week basis; my comments on revenues today will exclude the impact of the extra week. However, estimating the cost impact of this extra week is more difficult and subjective.

Total subscription revenues increased by 11 percent in the quarter, with digital-only subscription revenue continuing to grow strongly at 40 percent in the quarter. On the print circulation side, revenues were down slightly as declines in single copy revenue were mostly offset by higher home delivery revenues. Total daily circulation declined 8.2 percent in the quarter compared with the prior year, while Sunday circulation declined 3.5 percent. We implemented a home delivery and single copy price increase in January of 2018.

ARPU on our digital-only products stabilized in the fourth quarter as subscribers who initiated subscriptions in late 2016 began to cycle out of their promotion offer in the quarter. Since we experienced a significant increase in net subscription additions in the first quarter of 2017 as well, we expect this trend in ARPU to continue as more of these year-old subscriptions step-up to full price.

Moving along to advertising, we reported that total advertising revenue declined 7 percent as the print advertising decline more than offset slight growth in digital advertising. The growth in digital advertising revenue was driven by smartphone and marketing services, which more than offset declines in direct-sold desktop advertising. Lower print advertising revenue was mainly due to declines in the luxury, entertainment, retail and real estate categories, partially offset by growth in the technology and telecommunications categories.

On a monthly basis, overall advertising revenue declined 14 percent in October, 8 percent in November and grew 2 percent in December compared to last year.

Other revenues grew 10 percent, to $32 million dollars, versus the same quarter in 2016, principally driven by affiliate referral revenue from the product review and recommendation website, Wirecutter, which we acquired in the fourth quarter of 2016.

GAAP operating costs increased 8 percent in the quarter, while adjusted operating costs increased 9 percent. The cost increase was related to the impact from the additional week in the quarter, as well as higher costs from marketing, which were partially offset by lower print production and distribution costs.

In the quarter, we recorded five special items that have been excluded from our adjusted results.

1) First, we recorded a $37 million dollar gain largely related to the settlement of contractual funding obligations for a post retirement plan.
2) We also recorded a $3 million dollar charge in non-capitalizable expense for the reconfiguration of our headquarters building to make more space available for rental income. Through the course of 2017, we recorded $10 million dollars in this non-capitalizable expense and approximately $60 million dollars in capital related to this reconfiguration. I'm pleased to report that we have a signed lease for the rental of four floors, which we expect will begin generating rental income in the second quarter of 2018. We continue to be encouraged by the interest we have seen in the three remaining available floors and expect to begin recording rental income on these three floors at some point in the second half of this year. On a related note, last week we communicated our intent to exercise our option in 2019 to repurchase the 21 floors of our headquarters building currently subject to a sale-leaseback arrangement.
3) Next, we recorded a $15 million dollar charge in connection with exiting two joint venture investments. In the fourth quarter, we sold our interest in Donohue Malbaie, a Canadian newsprint company, and we are in the later stages of winding down our investment in Madison Paper Industries, a partnership that previously operated a

papermill. We expect to receive our proportionate share of a cash distribution from the wind down of our Madison investment, which we expect to be approximately $12 million dollars in 2018.

4) Continuing with the discussion of special items we've reported in the quarter, as a result of the federal tax legislation enacted late last year, the Company has recorded a $69 million dollar charge primarily related to the remeasurement of our net deferred tax assets. While we continue to analyze the future impact of the legislation, we believe that tax reform will ultimately benefit the Company's results beginning in 2018 with an effective tax rate expected in the high-20 percents from the approximately 40 percent we've reported historically.
5) And finally, as part of our continued effort to reduce the size and volatility of our pension obligations, during the fourth quarter we entered into transactions with two insurance companies to transfer future benefit obligations and annuity administration, allowing us to reduce our overall qualified pension plan obligations by $263 million. With these transactions, we have recorded a $102 million dollar settlement charge, which represents the acceleration of deferred charges that had been accrued in accumulated other comprehensive income in the Company's stockholders equity section of the balance sheet. Separate from these transactions, the Company made discretionary pension contributions of $120 million dollars pre-tax, or about $72 million dollars after tax, funded by cash on hand. These contributions improve the funded status of the plans, allowing us to further reduce both pension volatility and the need for required contributions to the plans for at least several years in the future.

As a result of the discretionary contributions and strong asset performance, the funded status of our qualified pension plans improved significantly in the year. The underfunded balance of our qualified pension plans at the end of the year was approximately $69 million, an improvement of approximately $153 million over the prior year.

With the beginning of 2018, the rules with respect to pension reporting are changing. The impact of this change will be to move substantially all costs related to our pensions below Operating Profit. We have been reporting adjusted results excluding many of those costs already; however, the impact of this change will result in slightly higher adjusted operating costs and lower adjusted operating profit going forward and prior year reported amounts will be restated to reflect this change.

Moving to the balance sheet, our cash and marketable securities balance declined during the quarter, ending at $733 million dollars. This decrease was largely due to the discretionary pension contributions I mentioned earlier. Total debt and capital lease obligations, principally related to the sale-leaseback of our headquarters building, were approximately $250 million dollars.

Let me conclude with our outlook for the first quarter of 2018.

> Total subscription revenues are expected to increase in the mid- to high-single digits, compared with the first quarter of 2017, with digital-only subscription revenue expected to increase approximately 25 percent.
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> Overall advertising revenues are expected to decrease in the mid- to high-single digits, compared with the first quarter of 2017, with digital advertising decreasing in the low- to mid-single digits.
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> Other revenues are expected to be flat.
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> Operating costs and adjusted operating costs are expected to increase in the low- single digits, compared with the first quarter of 2017.
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> Non-operating retirement costs, which going-forward will appear below GAAP operating profit, are expected to be approximately $2 million dollars in the first quarter.
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> We expect total capital expenditures to remain elevated for an additional year at between $60 and $70 million dollars, largely related to our printing facility in Queens, technology investments and the redesign of our headquarters building.

Before I conclude, as Mark said earlier, I will be retiring from the Company at the end of this month. Working for The New York Times Company for the past eleven years has been a great honor and a privilege. I've been particularly lucky to have served in this role for such a pivotal period in the Company's history, one of enormous change and innovation in all parts of the business. The Times's mission has never been more important and I firmly believe that the Company is well positioned for continued success.

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.