The New York Times Company
Third-Quarter 2018 Earnings Conference Call
November 1, 2018

Harlan Toplitzky

Thank you, and welcome to The New York Times Company's third-quarter 2018 earnings conference call.

On the call today, we have:
- Mark Thompson, president and chief executive officer;
- Meredith Kopit Levien, executive vice president and chief operating officer; and
- Roland Caputo, executive vice president and chief financial 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 2017 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

This was an encouraging quarter for The New York Times. Strong growth in digital subscriptions saw us achieve some important new milestones: we now have more than three million digital subscriptions, and four million total subscriptions. There was a marked sequential improvement in our advertising performance, with digital ad revenue returning to strong growth, while print ad declines moderated during the quarter. As a result of these and other factors, total company revenue grew by 8 percent. It was the seventh consecutive quarter of revenue growth.

Let me begin with the digital subscription story. In the last earnings call, we said that Q3 tends to deliver higher numbers of net new subscribers than Q2 which, since the launch of our pay model, has typically been our quietest quarter of the year. So it proved, with a slow start to the quarter followed by a very strong late August and September. By the end of the quarter, we had added 143,000 net new subscriptions to our digital news product, and an additional 60,000 subscriptions to Cooking and Crosswords, for a total of 203,000 net new subscriptions.

We attribute these numbers to several factors: the seasonal boost we see every year towards the end of the quarter as much of the world goes back to school after the summer; a suddenly electrifying news environment with events that played to The Times's strengths – like the Kavanaugh hearings and the blockbuster Op-ed by "Anonymous;" the growing strength of our Cooking product, which has now passed the 120,000 subscription mark; and the launch of a more deeply discounted introductory offer for our main news product in late August.

You will continue to see us experimenting with introductory pricing, meter count and porosity, registration and log-in, and bundling through Q4 and into 2019. We're pleased with our progress so far, but believe we have the scope to accelerate subscriber growth further. We are continuing to spend marketing dollars efficiently and are monitoring subscriber acquisition cost and lifetime value carefully, but we will not hesitate to invest heavily in future growth where it makes sense. Indeed, we have launched a new brand marketing campaign – which includes TV spots – this week.

We also believe that our success with subscriptions across digital and print is a tribute to the quality and creativity of the journalism produced by our colleagues in The New York Times newsroom and editorial departments, and is a validation of our strategy of ramping up investment in journalism. Agenda-setting investigative journalism, outstanding global coverage, striking advances in our coverage of business and tech, a broadening of the voices and perspectives in our opinion pages, and groundbreaking new products and podcasts are all paying dividends in audiences, subscriptions, and new opportunities for advertisers.

And speaking of new audiences, Times journalism is read in every country on earth. According to our own data, we now have at least one online reader from every member country of the United Nations, including Tuvalu and Antarctica.

Overall subscription revenue – including print – grew by nearly 5 percent year-over-year to $258 million dollars.

There were also encouraging numbers on the advertising side. We had always expected a stronger second half of 2018 than the first, but are still pleased to have grown digital advertising in the quarter by 17 percent. Our strategy of driving growth with large-scale editorial partnerships with the world's leading brands is proving successful. We're also encouraged by the pipeline heading into Q4, the biggest advertising quarter of the year. Print advertising declines moderated in the quarter, decreasing by less than 1 percent year-over-year. As a result, overall advertising revenue increased 7 percent. Digital advertising represented 47.5 per cent of the total advertising number.

Roland will discuss costs in detail in a moment, but I will just note that additional costs –

including in marketing and our newsroom, both of which I associate with our digital growth strategy – meant that our adjusted operating profit was flat year-over-year at $54 million dollars, despite the increase in revenue. We expect investment associated with growth to keep our costs elevated for some time to come, as we continue to add new talent and resources to our newsroom and opinion departments, experiment with different marketing tactics at every level of the funnel, improve our core digital product and debut new ones, and prepare to launch our new TV show, "The Weekly."

It should be clear from my remarks this morning that we have high confidence in our strategy. It is true that intense interest in US politics gave us additional digital momentum in late 2016 and early 2017. We remain determined to cover that story with more authority and more original journalism than any other news provider, with the latest test of that coming as soon as next week with the midterms. But our strategy and current digital growth does not depend on that, or indeed any single strand of news. It is broadly based, includes a wider range of news and features than any of our competitors, not to mention lifestyle products, audio, television and a thriving international business. It is this breadth, and our proven ability to extend Times quality to new topics and new media that convinces us that we can scale our digital business further and faster than anyone else.

Now, for the detail of the quarter, here's Roland.

Roland Caputo

Thank you, Mark, and good morning, everyone.

As Mark said, this quarter represents encouraging progress for the Company.

Adjusted diluted earnings per share was 15 cents in the quarter, three cents better than the prior year. We reported adjusted operating profit of approximately $54 million dollars in the third quarter, which is flat compared with the same period in 2017.

Total subscription revenues increased four-and-a-half percent in the quarter, with digital-only subscription revenue growing 18 percent in the quarter to $101 million dollars. On the print subscription side, revenues were down due to declines in the number of home delivery subscriptions as well as a continued shift of subscribers moving to less frequent and therefore, less expensive delivery packages. Total daily circulation declined nine-point-nine percent in the quarter compared with the prior year, while Sunday circulation declined six-point-seven percent.

Quarterly ARPU declined less than 1 percent compared to both the prior year and prior quarter, largely a result of the $1 dollar per week promotion introduced domestically in last six weeks of the quarter. We expect that the more aggressive promotional offer, which yielded strong net subscription additions in the quarter, and other promotional tests will continue to put downward pressure on ARPU.

Total advertising revenue increased 7 percent compared to the third quarter of 2017, our best overall result in recent memory, with digital advertising growing 17 percent and print nearly flat. The increase in digital advertising revenue was largely driven by our creative services business and growth in our traditional, direct-sold advertising on our digital platforms. The relatively strong print advertising result was mainly due to growth in the financial, technology, and telecommunications categories offset by declines in entertainment and luxury. As you can imagine, we are very pleased with the print numbers in the quarter; however we do not expect similar results in the fourth quarter. We do see them as confirmation that there remains a place for print in a marketer's total media buy today.

Other Revenues grew nearly 50 percent versus the third quarter in 2017, to $38 million dollars, principally driven by growth in our commercial printing operations from the Newsday suite of products. We are nearly complete with the ramp-up of the Newsday work. Growth in Other Revenues was also driven by four-and-a-half additional floors of rental income from our headquarters building. We recently executed a lease on an additional floor and now have signed leases on five-and-a-half of the seven floors we have made available through our headquarters project and expect to execute leases on the remaining one-and-a-half floors and begin recording rental income from them in the next few quarters. Affiliate revenue from the product review and recommendation website, Wirecutter also contributed to growth in Other Revenues.

GAAP operating costs increased eight percent, while adjusted operating costs increased 10 percent in the quarter. Costs grew primarily as a result of marketing expenses to promote our brand and products, costs associated with our growing commercial printing business, and continued investment in our journalism.

The growth in marketing costs, the largest driver of expense growth in the quarter, was directly related to the strong net subscription additions we are reporting. In the quarter, we spent into elevated demand unleashed with the introduction of a $1 dollar per week promotional offer, something we had already tested internationally. As a result, we were able to efficiently grow subscription acquisition spend with expected returns that remain well above our internal hurdle rate. As Mark said earlier, you can expect that we will continue to experiment in the coming quarters.

We recorded one special item in the quarter, an approximately $5 million dollar gain from a pension plan liability adjustment.

Our effective tax rate for the third quarter was 28-point-8 percent.

Moving to the balance sheet, our cash and marketable securities balance increased by $15 million dollars during the quarter, ending at $795 million dollars. Total debt and capital lease obligations, principally related to the sale-leaseback of our headquarters building, were approximately $253 million dollars.

Let me conclude with our outlook for the fourth quarter of 2018. As a reminder, fiscal 2017 included an extra week and therefore, the fourth quarter of 2017 contained 14 weeks, as opposed to 13 weeks in 2018. We disclosed the estimated impact on revenue of this extra week in our fourth quarter 2017 results; however, estimating the cost impact of this extra week is more difficult and, therefore, we did not disclose this detail. Our earnings press release, which we issued earlier this morning includes revenue guidance as compared to Q4 2017 inclusive of this extra week.

Now, on a comparable 13-week basis,

Total subscription revenues are expected to increase in the mid-single digits, compared with the fourth quarter of 2017, with digital-only subscription revenue expected to increase in the mid-teens.

Overall advertising revenues are expected to be approximately flat compared with the fourth quarter of 2017, and digital advertising is expected to increase in the mid-teens.

Other revenues are expected to increase approximately 40 percent, largely due to anticipated growth in our commercial printing operations.

On a 13-week 2018 to 14-week 2017 basis,

Operating costs and adjusted operating costs are expected to increase in the mid-single digits compared with the fourth quarter of 2017 as we continue to invest in marketing and our newsroom, as well as ramp-up our commercial printing operations.

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.