Harlan Toplitzky

Thank you, and welcome to The New York Times Company’s first quarter 2020 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 2019 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. I’ll start with a few high-level observations about the coronavirus pandemic. I’ll then ask my colleagues Meredith and Roland to go through the quarter in detail.

Today you’ll hear a broadly encouraging story about how The Times is performing so far during the pandemic – with record-breaking audiences and subscriptions and a firm belief that we can and should continue to roll out our ambitious growth strategy for the company.

But we haven’t and never will lose sight of the scale of the human tragedy and economic disruption and hardship that the coronavirus is bringing to America and the world.

Some of our reporter colleagues are chronicling this tragedy on the ground every day. Though we’re doing everything we can to keep them safe, they’re running some of the same risks as front-line healthcare professionals. Our thoughts are never far from them – or from
the patients and health workers they’re covering.

We’re incredibly grateful to them and indeed, to all of our colleagues who are working around the clock and overcoming any number of obstacles to keep this great newspaper strong and able to serve its readers everywhere at a time when those readers need it most.

Our business model, with its increasing emphasis on subscription revenue and reducing reliance on ad revenue, and our fortress balance-sheet put us in a far better position than most media organizations, not just to successfully ride out this storm but to thrive in a post-coronavirus world. But we should also have the humility to acknowledge that there’s much we still don’t know and can’t predict about this pandemic and its economic impact. Patience, responsiveness, flexibility and resilience will all be key over the coming quarters.

Our response to the crisis has so far been effective. We tracked the impact of the virus from the moment our reporters arrived on the ground in Wuhan to cover the first outbreak. We moved to home-working in the initial wave of US companies in the first half of March. Our previous home-working drills and overall business continuity planning helped ensure that the transition went smoothly and without interruption to either newsroom or business operations.

As a result, we are currently operating at a very high level of productivity despite the limitations and strictures of remote working and an inability to travel for all but essential journalistic reasons. We’re delivering what we believe is the most trustworthy news and most useful guidance about the coronavirus, as well as offering a full suite of non-virus news, opinion and features to inform and divert our readers through the crisis. Our digital teams are leaning aggressively into our growth strategy, while our print teams are doing a magnificent job in getting our newspaper printed and distributed to readers everywhere despite the immense challenges involved.

Like everyone else, we’d love to return to something approaching normality as soon as possible, but we are also being realistic. Yesterday we told colleagues that we don’t expect the majority of them to return to the office until the 8th of September at the earliest. Their health and safety will always be paramount for us. Given the current effectiveness of our remote working, we don’t believe this decision will have significant impact business results.

Our digital transformation has succeeded so far because we’ve maintained the momentum of change year-in year-out over many years now. We’re determined not to allow the present disruption to reduce this momentum. As you’ll hear, lower ad revenue will put pressure on profitability for some time. To mitigate that, we’ll cut costs where we can, but only in ways we believe will not slow down the execution of our strategy.

These cost reductions will likely lead to some job losses in the coming months, though we expect a comparatively small number of these. We expect no such job reductions in
journalism and none that would impact our core growth strategy. We will continue to invest in that strategy and to hire both in journalism and in engineering, data and the other digital product functions. We expect the company’s net headcount to increase rather than decrease by year’s end.

This is clearly a strange, unsettling time for everyone. But this week we do have some things to celebrate at The Times. Once again the work of our brilliant journalists has been celebrated with a clutch of Pulitzers – Meredith will give you the details of those in a moment. And, thanks to the amazing surge of new subscribers, The New York Times has passed some significant new milestones. By the end of April 2020 – in other words including the first month of the present quarter – we had more than FOUR millions subscriptions to our digital news product, more than FIVE million digital-only subscriptions in all, and more than SIX million total subscriptions across digital and print, all historic highs both for this company and the American news business.

But now let me hand to Meredith for a full review of Q1 and an assessment of our prospects going forward.

Meredith Kopit Levien:

Thanks, Mark. And good morning, everyone.

For over a decade, we have made the most ambitious investment in original journalism in the company’s history. The importance of that investment and its centrality to our business strategy has never been more evident. So let me start by thanking the extraordinary staff of The New York Times, our colleagues in the newsroom and every person in the organization who supports their work.

As Mark said, The Pulitzer Prizes were awarded earlier this week and The Times was honored with three-- for international reporting, for investigative reporting and for commentary. That brings the total number of Pulitzers awarded to this institution to 130, far more than any other news organization.

What’s so inspiring about this year’s awards, as our executive editor Dean Baquet said on Monday, is that “they involved many desks and many journalists, and they are a testament to a modern news organization,” honoring not just narrative storytelling but also work from our visual investigations, video, television and audio teams.
Our mission is to seek the truth and help people understand the world, and at this incredibly difficult time, our newsroom of more than 1,700 people is working tirelessly to arm our readers with the trusted information they need to understand and navigate the pandemic.

When no U.S. government or public health agency was publicly tracking all county-by-county domestic cases of coronavirus, Times journalists leapt into action in late January and began building a comprehensive dataset. We made it publicly available so that other journalists, researchers, scientists and government officials could study and better understand the spread of the virus.

Having a deep bench of expertise has been especially helpful in this moment. You see it in the work of reporters like Donald McNeil, who has covered pandemics around the globe for more than 30 years. Or Dr. Sheri Fink and columnist Nick Kristof - who, along with their photographers and videographers - have reported from hospitals to tell the story of healthcare workers who are risking their lives to save others. And countless people on our news and business desks who are working around the clock to deliver live, up to the minute briefings on the spread of the virus and its implications for businesses, markets, and economies.

Our investment in original journalism has also meant we can innovate and adapt to changing reader needs. Over the last six weeks we’ve expanded our lifestyle coverage and service journalism to help people deal with quarantine. Our new “At Home” section includes recommendations on movies to watch, recipes to try, games to play, tulips to plant, and even instruction on how to give yourself a buzz cut.

All of this has meant record audiences and engagement. In March, well over half of all American adults came to The New York Times, and readers viewed 2.5 billion pages — almost double what we see in a typical month. We had around 240 million global uniques based on our internal data, by far the highest number ever.

The new customer journey that we launched almost a year ago -- which requires registration and login in most places to see more than one story -- meant we also saw millions more readers register and then return and login each week. That, combined with the surge in audience, gave us a historic number of total net digital-only subscription additions in the first quarter at 587,000, including 468,000 for news, and 119,000 for standalone products. To put that in context, 587,000 total digital-only additions is two-thirds more net adds than we brought in in the first quarter of 2017 at the peak of the so-called “Trump bump.”

Given the extraordinary circumstances, we made the decision in early March to open up access to the vast majority of our virus coverage. That meant that readers did not see a paywall on the vast majority of the Times stories they viewed. While fewer readers converted
to subscription because they ran into a paywall, anonymous readers AND those who registered still subscribed in record numbers.

While we don’t expect the striking surge in traffic from the first quarter to continue indefinitely -- indeed, we’ve already seen anonymous traffic begin to come down -- we’ve been encouraged by the behavior of registered readers whose return rates are improving week over week. That’s in part because of the unique nature of the news cycle, but it’s also because of deliberate work on stimulating return by helping people follow storylines, get continuous live updates, and explore a broader range of interests. While the news environment will change as it always does, we expect that the larger number of registered readers and our growing effectiveness at getting them to return and form a habit will mean an improvement in the underlying rate of net additions vs. the period prior to the crisis.

Another encouraging sign is the continued diversification of our subscriber base. Our newest subscribers are more likely to be younger and more diverse, both geographically and also in terms of race and ethnicity.

Subscriptions to our Cooking and Crossword products have been especially strong, as has affiliate revenue from Wirecutter. Crossword had its highest quarterly net adds on record in the first quarter and Cooking had its second highest. It should surprise no one that Melissa Clark’s advice on how to stock your pantry has gotten more than two-and-a-half million page views and counting.

We continue to be excited about our early foray into TV with The Weekly, and proud of the work our team has made with our partners at FX and Hulu. In fact, a Weekly episode shared one of the three Pulitzer prizes I mentioned earlier for its investigation into how reckless loans devastated a generation of New York City taxi drivers. We expect to continue to work with FX and Hulu when tv production resumes -- likely in the form of a smaller number of longer specials -- but we don’t expect this change to have a material impact on our bottom line.

We’ve talked in prior calls about the importance of audio in enabling The Times to reach new audiences and play new roles in people’s lives. The Daily’s audience has surged to almost 3 million downloads every day, despite change in the morning routine for many listeners.

We’re also continuing to add to our audio talent ranks and programming. We announced last week that opinion contributor Kara Swisher will launch a new interview show with us this fall, and last month we launched a new slate of shows and series that we are referring to as “The Quarantine Season.” We also made a small acquisition in the quarter of an audio subscription app and business called Audm, which provides read-aloud audio versions of
magazine stories including our own and those of the Atlantic, New Yorker and New York Magazine among others.

All to say that even with the profound difficulties caused by this crisis, it’s been a period of growth, innovation, and strategy acceleration in our journalism, across our platforms, and in our subscription business.

The story on advertising is quite different, though here, too, we see an opportunity for strategy acceleration.

First quarter advertising revenue declined 15% overall, with the economic slowdown beginning to play a role in March where the declines were much steeper. As Mark suggested, there is much macroeconomic uncertainty so our visibility is limited. But we are expecting a pronounced downturn in advertising for at least the next quarter and likely beyond. The declines will likely be steeper in print than digital, but significant in both places.

That said, we continue to have real confidence in our ability to run a sustainable and highly profitable ad business in a post-pandemic world -- one that is both downstream of, and draws its unique strengths from, our large and growing subscription business.

We have been on a multi-year journey to transform our ad business, and the current circumstances mean we will hasten that transformation as the key trends we’ve been talking about for some time play out faster in a recession.

One of those trends is a greater concentration of our ad business in a smaller number of growing categories like tech, telecom and financial services where we are able to build larger multi-platform collaborations like the ones we’ve talked about with Google and Verizon.

Another trend is significant growth in demand for advertising products that bring brands closer to the deeply engaged audience of The Times. As we’ve talked about in prior quarters, we are increasing our investment in and focus on ad products that get their value from first-party data collected from our readers in privacy-forward ways, and consumer insights about what drives and engages those readers.

Our ad business will also benefit from our increasing investment in audio. Podcast ad revenue grew 30% in the first quarter as The Daily became an even larger and more sought-after platform for our advertisers. We do expect some softening of demand for both data-driven display and audio during the recession, but less so than in our legacy products.
Let me pull all of what I’ve just said together: notwithstanding pressure from advertising, the fundamentals of our subscription-first business model give us real confidence in the long term prospects for the company.

I’ll end where Mark began. We’re living through a surreal and harrowing period for our city, our country, and the world. We so appreciate the essential workers, first responders, and medical professionals everywhere who are saving lives and keeping so many of us safe. And we’re deeply grateful to all of our Times people in New York and around the world who are helping our audience understand and navigate this unprecedented crisis. They have our profound thanks.

And with that, I will turn it over to Roland.

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**Roland Caputo**

Thank you, Meredith, and good morning.

Although we expect short term results to be negatively affected by a decline in advertising, our subscription business, which represents approximately two-thirds of our revenue, provides a source of strength and resilience through a recurring revenue stream that we expect to grow further as we continue to excel at our core mission.

Adjusted diluted earnings per share was 17 cents in the quarter, three cents lower than the prior year. We reported adjusted operating profit of approximately $44 million dollars in the first quarter, which is eight million dollars lower than the same period in 2019.

Total subscription revenues increased approximately 5-and-a-half percent in the quarter, with digital-only subscription revenue growing 18 percent to $130 million dollars. This represents a continuation in the sequential increase in the rate of quarterly growth, largely as a result of the large number of new subscriptions we have added in the past year, as well as strength in retention of the $1 dollar-per-week promotional subscriptions who have passed the year-long promotional period and have graduated to higher prices.

Quarterly digital news subscription ARPU declined approximately 10 percent compared to the prior year and approximately 3 percent compared to the prior quarter, consistent with the rates of decline we reported for the fourth quarter of 2019. For both sequential and year-over-year ARPU trends, the large number of newly acquired subscriptions, mostly on the $1 dollar per week promotion domestically and at deeper promotional rates in many areas outside of the U.S., more than offset the benefit from subscriptions graduating from their introductory promotion to either step-up or full price, as well as a one-month benefit from price increases on 500 thousand of our more tenured, full-price subscriptions.
We expect that the digital news subscription price increase, which went into effect in March, will begin to more significantly benefit ARPU in the second quarter, but will be more than offset by the impact of continued strength in subscription additions, largely at the $1 dollar per week promotion, as well as from continued outsized growth in international subscriptions, which monetize at a lower rate than our domestic ones. International subscriptions made up approximately 18% of our digital-only news subscriptions at quarter-end.

On the print subscription side, revenues were down three-point-four percent largely due to a decline in single-copy sales as many sales outlets were closed beginning in the latter half of March, and, to a lesser extent, declines in the number of home delivery subscriptions. This decrease in print subscription revenues was partially offset by a home delivery price increase that was implemented early in the year. Total daily circulation declined eleven-point-nine percent in the quarter compared with prior year, while Sunday circulation declined eight-point-six percent. While the rate of decline in home delivery copies was in-line with recent historic trends, the increase in the rate of overall copy decline was driven by reduced newsstand and other single-copy sales. The closure of hotels, universities and other outlets as a result of stay-at-home orders across the country contributed approximately one percentage point to the copy decline, while the loss of Starbucks as a distribution outlet in August of 2019 contributed approximately 2 percentage points to the decline. Production and distribution of our print product, both in the New York-area and across the United States, continue to operate like clockwork, albeit with new safety measures in place. While we expect that the continued closure of newsstands will be more dilutive to revenue in the second quarter than in the first quarter, I am happy to report that our home delivery business has been much less impacted and we are receiving and fulfilling many NEW orders for home delivery subscriptions both locally and across the nation.

Total advertising revenues declined approximately 15 percent in the quarter. As you would expect, results for the month of March were significantly below those of January and February. Digital advertising declined approximately 8 percent in the quarter compared with the prior year, largely as a result of strong comparisons in the prior year in direct-sold advertising, as well as lower demand related to the pandemic. Higher traffic on the site resulted in an increase in open market programmatic advertising, which partially offset lower direct-sold demand. Print advertising, which declined approximately 21 percent, was more directly impacted by the pandemic, especially in the luxury, media, entertainment and financial categories.

Other Revenues grew 21 percent compared with the prior year, to $52 million dollars, principally driven by revenue associated with our television series, “The Weekly,” which aired 7 new episodes in the quarter, as well as from licensing revenue related to Facebook News.

As a prelude to the discussion of our costs for the quarter, I want to call attention to a change we have made in the presentation of our operating costs. These changes were made in order
to better reflect how we manage the business and to provide readers with more clarity into the investments the Company is making to further its subscription-first strategy. As a reminder, we have repeatedly said that these investments are expected to come in three main areas:

1. Journalism, to fulfill our mission and create compelling content,
2. Product, to enhance the digital products through which our journalism is consumed, and
3. Marketing, which we expect will become increasingly efficient as we continue to invest into the first two areas.

Most costs previously labeled ‘Production’ are now included in ‘Cost of Revenue’ and reflect all costs related to our newsroom, print production and distribution, digital content delivery and subscriber and advertiser servicing.

The ‘Selling, general and administrative’ costs have been split into three categories: Sales and Marketing, Product Development and General and Administrative.

Please see the Earnings Release we published this morning for a more detailed description and reconciliation of first quarter 2019’s results in the new presentation, as well as two years of quarterly history under this presentation. We have also posted two years of quarterly history under the new presentation on our investor relations website.

GAAP operating costs and adjusted operating costs each increased approximately three percent in the quarter. Cost of revenue increased slightly, largely due to higher journalism costs, including growth in the number of newsroom employees and costs related to “The Weekly,” which was partially offset by lower print production and distribution costs. Sales and marketing costs decreased approximately one-and-a-half percent as lower advertising sales costs were partially offset by higher marketing costs. Media expenses, a component of sales and marketing costs, increased only slightly in the quarter, demonstrating that we have become less reliant on increased acquisition spend to drive subscription growth. Product development costs increased by approximately 30 percent largely due to growth in the number of employees engaged in digital subscription strategic initiatives.

Our effective tax rate for the first quarter was 15-and-a-half percent, which was lower than the statutory tax rate largely due to a benefit from stock price appreciation on stock-based awards that settled in the quarter. On a going forward basis, we continue to expect our tax rate to be approximately 25 percent on every dollar of marginal income we record with some variability around the quarterly effective rate.

Moving to the balance sheet, our cash and marketable securities balance ended the quarter at $687 million dollars, which was flat compared with the fourth quarter. The company remains debt-free with a $250 million dollar revolving line of credit available. On our last earnings call, I reported that our qualified pension liability was 99 percent funded. While we typically only update the status of these plans annually, given the recent market volatility, I will make an exception to that practice and report that as of yesterday, we estimate the funded ratio to
be approximately 94 percent, and we continue to believe that performance of the plans’ assets alone should be sufficient to fully close the funded status over time without any material need for Company cash. The consistently conservative approach we have taken in managing our balance sheet in tandem with the continued strong results produced by our subscription-first business has provided us the financial flexibility and confidence to continue pursuing our growth strategy even as we manage through the economic fallout of the Covid-19 crisis.

Let me conclude with our outlook for the second quarter of 2020, which is based on our current knowledge and assumptions and could be impacted by the evolving pandemic:

Total subscription revenues are expected to increase in the mid- to high-single digits compared with the second quarter of 2019, with digital-only subscription revenue expected to increase in the high-twenties.

Overall advertising revenues are expected to decrease approximately 50 to 55 percent compared with the second quarter of 2019 and digital advertising revenues are expected to decrease approximately 40 to 45 percent.

Other revenues are expected to decrease approximately 10 percent, as licensing revenue from Facebook News is expected to be more than offset by lower revenues from our television series ‘The Weekly,’ and lower revenue from our live events business as a result of the Covid-19 pandemic.

Both operating costs and adjusted operating costs are expected to be flat or to decline in the low-single digits compared with the second quarter of 2019 as we pull back on non-essential spending while continuing to invest in the drivers of digital subscription growth.

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.