

The New York Times Company
Second-Quarter 2014 Earnings Conference Call
July 29, 2014

Andrea Passalacqua

Thank you, and welcome to The New York Times Company's second-quarter 2014 earnings conference call.

Joining me today to discuss our results are:

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

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 2013 10-K.

I should also mention that 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.

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

Mark Thompson

Thanks Andrea and good morning everyone.

The second quarter was a very busy one for the Company, and there's plenty to talk about in the results. On the consumer side of the business, we launched the first of our new digital products, and they've helped us continue to grow our pool of digital-only subscribers. On the advertising side, we continued to make progress on digital advertising with a second consecutive quarter of growth and real excitement around Paid Posts, our native advertising product, and video. By contrast, and in common we believe with the rest of the industry, we saw some loss of momentum in print advertising in the second quarter after a very good start to the year. We continued to keep a good grip of core costs, even though investments in our latest round of products and services meant that profits for the quarter were down year-over-year. We believe, however, that investment spending is essential to secure long-term sustainable growth for the Company.

Let me begin with the digital subscription story. In terms of numbers, at the end of the second quarter, our digital subscriber count was 831,000, an increase of approximately 32,000 during

the quarter. That is some 9,000, or 39 percent, more net new subscribers than we added in the same quarter last year, with the new products – including NYT Now, NYT Opinion and Times Premier – representing the majority of the growth in the quarter.

We've been pleased by the reaction of both consumers and the industry to the new products. NYT Now – our new iPhone app curated by New York Times editors that targets on-the-go consumers at a lower price point than our original digital subscription packages – has been particularly well-received. NYT Now, which has received real promotional support from Apple – including being named one of the best new apps early in the quarter – is reaching a younger demographic than our core digital packages. Demand and early statistics for retention of Times Premier, our highest-tier subscription package, have also been encouraging.

The rollout of this new suite of paid products is quite different from the launch three years ago of our original pay gate on the website, where we had a huge base of heavily engaged users from day one. Our new products, in particular the NYT Now and Opinion apps, must market to and reach brand new audiences, stand out on their own and compete in a crowded marketplace. This effort will take some time, and we'll need to build and flex some new marketing muscles.

We've already learned plenty from our experience so far with the new product launches. While the NYT Now app is a clear and attractive consumer offering, we've been much less successful in presenting a clear offer to non-subscribers for lower-priced access to The Times on the web and our existing mobile platforms. So, while we continue to have confidence in Now as a new mobile expression of Times journalism for a new audience, we need to do more work to refine and effectively market a lower-priced offering across our core platforms. We'll also assess and adjust the other products as necessary as our knowledge of real-world usage grows – and we'll of course build those learnings into any subsequent new products, including our Cooking app. Denise and her team will be launching that in the fall, and it will initially be available for free to build up as large and engaged an audience as possible before we begin to charge.

Within the total 32,000 net new digital subscribers added during the second quarter, the number of new subscribers to the core digital bundles was lower than we've seen and lower than we should be satisfied with. There were some one-off factors, including a large number of individually sold education subscriptions in the first quarter that, because of the college year, did not continue at the same rate in Q2.

Cannibalization by the new products was also a factor, though direct cannibalization has been less than we had projected. A more significant problem, we believe, is that we underestimated the challenge of presenting the new, wider range of choices to our users and left some consumers confused as a result – obviously we are working hard to pivot and correct that. In addition, and despite the fact that the overall digital reach of The Times remains substantial, the ongoing secular shift in consumer usage from web to mobile and from home page to article-based consumption, while not a new phenomenon, was also a factor in the lower number of core net additions, because it represents a shift to less effective channels to market to and convert potential subscribers.

We're addressing this last issue in two ways. First by committing to the implementation of our

recent Innovation Report, a study our newsroom leaders commissioned to address the rapidly changing digital landscape that highlighted these trends and set out some compelling recommendations on how to build and deepen the engagement of our digital audience. We've already completed some pilots using new audience development tools and practices – for instance in our digital coverage of the World Cup – where we've seen immediate and very encouraging results. We believe that we can maintain the excellence of our journalism but bring that journalism to a much wider audience by adopting state-of-art audience-building techniques both within and beyond our newsroom. This will yield benefits on both the digital subscription and advertising sides of the business.

Our second response is an aggressive focus on improving subscription and advertising monetization on mobile devices, especially smartphones. The progress we've made on the presentation of our content in both the Now and Opinion apps must be matched across all of the mobile offerings with improved pathways to subscription, and more advertising units supported by better ad tech.

Let me turn to advertising as a whole. As I said at the start, we saw another good quarter of digital advertising growth with particularly encouraging growth in June. We're early in the process of rolling out Paid Posts, our native advertising offering, but are very pleased with client demand and the numbers we're seeing for actual reader engagement. Video too is on a good track – this month we received a total of seven Emmy nominations – and is helping us to grow that advertising revenue stream as well. Video advertising is on course to nearly double in 2014, although it still represents a relatively modest portion of our total digital advertising revenue.

Print advertising had a somewhat tougher time, declining nearly 7 percent year-on-year in the quarter. As we've noted previously, print will continue to face quite challenging year-on-year comparisons in Q3 and Q4, though against that, I am encouraged by the progress Meredith and her team are making in developing and innovating within the print as well as digital advertising businesses. We've invested in the sales operation and new print and digital products and expect to see the benefit over the balance of the year, tempered of course by those tougher comparisons.

In conclusion, we believe that our strategy of increasing our digital revenues by broadening and deepening the engagement of our audience and developing new digital consumer and advertising offerings is the right path to growth for the Company. In recent months, we've shown we have what it takes – outstanding content, great design and tech – to deliver innovations both in consumer products and in digital advertising that really capture the imagination of customers. But we know we have more to do in fundamental audience development, in fine-tuning and marketing our portfolio and in seizing the opportunities of mobile. And, because we recognize that sustainable long-term growth for our digital business will take some time to secure, we will also continue to pay very close attention to our expenses and to the returns on our new investments.

I will look forward to updating you along the way, but for now I'll turn it over to Jim Follo for a more detailed financial review.

Jim Follo

Thank you, Mark, and good morning, everyone.

The second quarter marked an important milestone in our effort to scale our audience of paying digital users, as some of our new products hit the market and began to ramp. While it will take time for the revenues associated with these new products to reach substantial levels, we are already seeing incremental effects. But despite this progress, second-quarter revenues ended slightly down overall, mainly reflecting weakness in print advertising, which more than offset ongoing growth in the digital areas of our business.

Expenses were up again in the quarter, as planned, as our intense focus on reducing core costs was offset by the investments we are making in our strategic initiatives as well as by higher retirement costs. The strategic initiative expenses will continue to drive up costs in the second half of the year, although we will be closely monitoring that spending as we evaluate the near-term revenue potential for the new products and where to best prioritize our investment spending.

Operating profit before depreciation, amortization, severance, non-operating retirement costs and special items decreased to \$56 million in the quarter from \$71 million in the prior year. The decline was driven mainly by an \$18 million increase in operating expenses compared with the second quarter of 2013, most of which was attributable to our strategic initiative investments. We reported GAAP operating profit of \$16 million in the quarter compared with \$46 million in the same period of 2013.

Circulation revenues increased 1 percent in the second quarter, with our digital subscription revenue stream offsetting print declines. We saw 19 percent year-over-year growth in the Company's digital subscriber total and also benefited from January's home-delivery price increases, although revenues from the new rates were outweighed by volume declines, particularly on single-copy sales. In the second quarter, digital-only subscription revenues were approximately \$42 million, an increase of about 14 percent from the same quarter in 2013.

As we've mentioned in the past, the 831,000 digital-only subscriber total that Mark highlighted includes group subscriptions from corporate and education entities. Those units saw solid growth in the quarter and contributed substantially to the overall growth in our core packages, although they do come in at a lower rate of average revenue per user.

Advertising maintained its momentum on the digital platform in the quarter – sustaining its positive growth at more than 3 percent – but did not offset the more significant print decline of nearly 7 percent.

Advertising revenues continue to exhibit month-to-month volatility and short-term buying decisions, demonstrated by declines of 7 percent in April, 2 percent in May and 3 percent in June. As Mark noted, digital advertising saw significant strength in June.

Print national advertising drove the ad declines in the second quarter, despite seeing growth on the digital side. Retail advertising rose in print and overall in the quarter while total classified advertising increased on both platforms.

Other revenues grew nearly 8 percent in the quarter, driven by higher revenues from our online retail store, conferences and other events, and content licensing.

Rounding out our results, operating expenses before depreciation, amortization, severance and non-operating retirement costs increased 4 percent. Costs rose 5 percent on a GAAP basis, and we reported diluted earnings per share of 6 cents. Diluted EPS excluding severance, non-operating retirement costs and special items was 7 cents in the second quarter compared with 13 cents in the 2013 quarter.

The Company sustained its expense-management efforts in Q2, as we found ways to lower core costs while investments associated with our strategic initiatives accelerated. Costs rose mainly due to higher compensation and benefits expenses as well as increased marketing costs, all associated with our strategic initiatives, in addition to increased retirement costs and investment spending in our advertising department, partially offset by efficiencies in customer care and print distribution. For the remainder of 2014, we will continue to prioritize investing in the business but also intend to re-address cost structure issues as we get a better sense of the revenue potential associated with our new digital products and other strategic initiatives.

We continue to closely manage our pension-related obligations as well. To that end, in the first quarter we offered certain former employees who participate in certain non-qualified pension plans the opportunity to receive their pension benefit now as a lump-sum payment. We made related settlement payments of approximately \$24 million in the second quarter from Company cash, reduced pension obligations by \$32 million, and recorded a settlement charge of approximately \$9.5 million.

Our retirement costs will continue to be higher in the second half, due primarily to lower expected returns on pension assets – which we are increasingly allocating to fixed income – and higher retiree medical costs and multiemployer withdrawal expenses, both triggered by the sale of the New England Media Group. We expect non-operating retirement costs in the third and fourth quarters of approximately \$9 million each.

Moving to the balance sheet, our strong liquidity position remained largely unchanged in the second quarter. Our cash and marketable securities balance was roughly constant at approximately \$972 million, and our total cash position exceeded total debt and capital lease obligations by approximately \$286 million.

Moving to our outlook, third-quarter circulation revenues are expected to be flat, as the benefit from our digital subscription initiatives and from the most recent home-delivery price increase is likely to be offset by print weakness.

Although at this point in the quarter we have very low visibility into the month of September, advertising revenues are currently expected to be down in the mid-single digits, driven by print

declines partially resulting from more challenging year-over-year comparisons. Digital is expected to maintain positive growth at similar levels to the first half of the year.

Third-quarter operating costs and adjusted operating costs are expected to increase in the low- to mid-single digits as investments around the Company's strategic initiatives are now in full force.

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