

**The New York Times Company
Third-Quarter 2014 Earnings Conference Call
October 30, 2014**

Andrea Passalacqua

Thank you, and welcome to The New York Times Company's third-quarter 2014 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
- 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.

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 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 third quarter was an encouraging one. Digital advertising grew strongly enough to offset a tough June and July on the print side and leave total advertising revenue broadly flat. On the digital subscription side, we added 44,000 new customers, a 20 percent year-over-year increase and the best quarterly result in nearly two years; we are on course to add more net new digital subscribers in 2014 than we did in 2013. As a result total revenue was up just under 1 percent.

Operating costs rose principally because of costs associated with previously disclosed workforce reductions and expenses related to our strategic initiatives, though the effect of these rises was moderated by efficiencies in other parts of the Company – and the workforce reductions will of course help us manage our costs in the medium-term. Adjusted operating profit was \$40 million in the third quarter compared to \$45 million in the same quarter last year.

We're pleased with our progress in advertising. Although we do not expect every future quarter to show as strong year-over-year digital advertising growth as this one – Q3 was up nearly 17 percent compared to Q3 2013 – we do believe we have the right strategy and the right talent to

deliver sustainable future success. Take Paid Posts, our native advertising product. We only introduced Paid Posts in January but will end the year with more than 30 clients. We also saw continued growth in video and on the smartphone platform, two other areas of strategic focus.

Print advertising rallied in September after two slow summer months and finished the quarter much better than we had anticipated – though, as you will hear from Jim in a few minutes, the outlook continues to be volatile and prediction is genuinely difficult. Over the quarter as a whole, print declined 5 percent year-over-year – a fall almost entirely offset by that 17 percent year-over-year growth in digital advertising.

Circulation revenue was also better than initially expected, as the combination of this year's increase in home-delivery prices and continued growth in the number of digital subscribers more than offset a decline in print copies sold and resulted in an overall increase in circulation revenues of 1.3 percent. Although much of our focus is on the development of our digital business, you will also see us innovating and investing in the physical New York Times. We recently introduced a new eight-page panoramic advertising unit for the main newspaper, which is a first in the United States. Take a look at how Christie's used it in yesterday's paper. And we are directing new investment at the main New York Times Magazine, where we have a brilliant new editor and big plans for 2015.

But let me turn now to the digital product story. As I said, we added approximately 44,000 net new digital subscribers in the quarter for a new total count of 875,000. Much of the growth came from new subscriptions to our core packages. There was a much higher proportion of these than in the previous quarter, most notably because of an encouraging number of new subscribers in the consumer education and international segments.

We gave an update on our new products a few weeks ago. As we said then, we're encouraged by the chord that NYT Now has struck with younger users, many of whom are new to The Times. We're going to focus on it as a smartphone-only app while we continue to test other lower-priced subscription offerings on the web and our core mobile apps. We also noted that Times Premier had got off to a strong start, and we're now focusing more resources on improving the range and richness of the content available to Premier subscribers, who are drawn from our most committed readers. NYT Opinion also attracted some passionate loyalists but, some four months after launch, we concluded that it just wasn't attracting the kind of new audience it would need to be truly scalable. So we decided to sunset the app, though we will continue to sell access to the Opinion section of the website as a separate offer.

Finally, our Cooking product – which showcases the unrivaled recipe database and outstanding food journalism of The Times – got off to an excellent start in the third quarter. The iPad app and website only launched in mid-September, but already we have seen nearly 2 million uniques in the month of October. We already have advertising on the site but want to develop awareness and use before taking the next steps on consumer monetization. Cooking has successfully built on many of our learnings with our other new products this year. It's evidence of the approach we're taking to digital product development: grounded in The Times's great strengths in journalism and design, but increasingly user-centric and data-driven, unashamedly experimental and willing to adapt.

The Times has much to be proud of in its digital story, not least is its launch of what is probably the world's most successful news-based digital pay model. But I have concluded that the full achievement of our ambitions requires further organizational change and, in particular, further injections of specialist digital expertise. We've already seen some significant recent promotions in our newsroom, especially in the areas of audience development and digital strategy. Two days ago, I announced some changes on the business side of the company. The current digital products and services division will be replaced by two new divisions: a marketing division led by the first CMO in the history of The New York Times and a new digital division led by a Chief Digital Officer, both of whom will report to me.

Denise Warren has made the decision not to occupy either of these positions and will therefore leave The New York Times Company after a remarkable 26-year career and many great achievements, not the least of which is the central role she played in the roll-out of that groundbreaking pay model in 2011. We wish her every success in the next chapter of her career.

I believe that the changes we are making will help us scale our business successfully, but we are determined not to lose momentum in the process, and have put appropriate interim arrangements in place with immediate effect. I look forward to updating you on these organizational changes and the wider track of our business as we go forward, 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.

In the third quarter, we logged strong digital growth on both the advertising and consumer sides of the business and made further progress in our work to ensure that we can maintain that strength. Despite print declines for both of our main revenue streams, the overarching digital strength prevailed, leading to third-quarter revenues that were up slightly overall.

Expenses rose in the quarter, as our focus on reducing core costs was offset by severance expense related to some workforce reductions as well as the investments we are making in our strategic initiatives. Going forward, the strategic initiative expenses should flatten out in the fourth quarter, as we are now cycling the ramp-up of that spending in Q4 2013. Severance expense should decline sequentially in the fourth quarter as well. We will also continue to monitor our investment spending as we learn more about the near-term revenue potential for our new products.

Operating profit before depreciation, amortization, severance, non-operating retirement costs and special items decreased to \$40 million in the quarter from \$45 million in the prior year. The decline was driven mainly by an \$8 million, or 3 percent, increase in adjusted operating costs, most of which is attributable to our strategic initiative investments. We reported a GAAP operating loss of approximately \$9 million in the quarter, driven by \$21 million in severance expense, compared with an operating profit of \$13 million in the same period of 2013.

Circulation revenues increased 1 percent in the third quarter, with our digital subscription revenue stream more than offsetting print revenue declines. On the print side, we benefited from January's home-delivery price increases, although higher revenue from the new rates was outweighed by overall volume declines. In the third quarter, digital-only subscription revenues were approximately \$43 million, an increase of 13 percent from the same quarter in 2013.

Advertising accelerated its momentum on the digital platform in the quarter and almost completely offset the print decline. Digital advertising continues to see a boost from Paid Posts, which is our version of branded content, and many of those units are being created by our newly formed custom content studio. The staffing of this in-house branded content group is part of the investments we have recently made in the advertising department, and that team continues to grow as demand for Paid Posts remains strong.

Moving on, overall advertising revenues continue to exhibit month-to-month volatility and reflect short-term buying decisions, demonstrated by declines of 1 percent in July and 7 percent in August, which were followed by growth of 5 percent in September, driven by a print rally late in the quarter.

Other revenues grew 3 percent in the quarter, driven by higher revenues from our online retail store and content licensing.

Expense-management efforts remained a top priority in Q3, as we took additional steps to lower core costs while maintaining the investments associated with our strategic initiatives. Early in the fourth quarter, we announced a cost-cutting plan that involves headcount reductions across the Company. We are confident we can achieve those targeted reductions without affecting our world-class journalism and believe the plan reflects our commitment to strengthening our operating efficiencies while safeguarding our long-term profitability. These reduction initiatives should allow us to maintain or slightly lower our costs in 2015, relative to 2014 levels, while also investing in certain areas of growth.

Costs were up 9 percent on a GAAP basis, capturing the severance expense I just referenced, and we reported a diluted loss per share of 8 cents. Diluted EPS excluding severance, non-operating retirement costs and special items was 3 cents in the third quarter compared with 1 cent in the prior year. Costs also rose due to higher compensation and benefits expenses associated with our strategic initiatives, in addition to increased retirement costs, partially offset by efficiencies in print distribution and customer care.

Our non-operating retirement costs increased by more than \$3 million in the quarter, and retirement costs will continue to be higher in the fourth quarter, due primarily to lower expected returns on pension assets – which we are increasingly allocating to fixed income – and to 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 fourth quarter of approximately \$9 million.

Moving to the balance sheet, our strong liquidity position remained largely unchanged in the third quarter. Our cash and marketable securities balance was \$966 million, and our total cash

position exceeded total debt and capital lease obligations by approximately \$296 million. During the third quarter, we repurchased approximately \$18 million principal amount of our 6 5/8 percent senior notes due in 2016. While our cash balance remained substantial in the third quarter, we are still in the early stages of a multiyear transformation – as we have outlined today and in recent earnings calls – so our plans for that cash remain unchanged, and we expect to maintain a conservative balance sheet for the foreseeable future.

Moving to our outlook, fourth-quarter circulation revenues are expected to increase at a rate similar to the third-quarter trend, driven by the benefit from our digital subscription initiatives and the most recent home-delivery price increase, despite continued challenges particularly for newsstand volume. We expect the total number of net new digital subscriber additions in the fourth quarter to be in the mid-30 thousands, which is in line with the number of additions we saw in Q4 2013, largely due to the seasonal nature of the consumer education business, which benefitted us in Q3.

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 in the high single digits. Our advertising forecast embeds October performance, which is our largest advertising revenue month of the quarter, and actually of the whole year. Due in part to the comparisons we've mentioned, print advertising revenue in October is expected to decline approximately 10 percent while digital advertising revenue is expected to increase approximately 15 percent, resulting in total advertising revenue for the month being down approximately 5 percent.

Other revenues are expected to grow more than 10 percent in the fourth quarter, driven mainly by seasonality in our conference and e-commerce businesses.

Fourth-quarter operating costs and adjusted operating costs are expected to be roughly flat as we begin to cycle the ramp of investments around the Company's strategic initiatives.

There are a couple of items I wanted to point out as we think about 2015, as they are likely to be very different from 2014. We expect depreciation and amortization to decline to \$60 to \$65 million for full-year 2015, as we are sunsetting a major enterprise software system. We also expect interest expense to be lower, in the range of \$40 to \$45 million for the year, as we intend to repay with existing cash balances our 5 percent senior notes at maturity in March.

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