The New York Times Company
Second-Quarter 2018 Earnings Conference Call
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Harlan Toplitzky

Thank you, and welcome to The New York Times Company's second-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

Q2 was another solid quarter for the company. We grew revenue and GAAP operating profit in the quarter, though our own measure of adjusted operating profit fell by around 8 percent as we ramped up spending on higher-funnel marketing in particular.

During the quarter, we announced a deal to create a new TV show, "The Weekly," to be distributed by FX and Hulu. Like our phenomenally popular podcast "The Daily," we hope that "The Weekly" will bring Times journalism to new audiences, generate substantial revenue itself, and support engagement and subscription to our core digital news and opinion offering. It joins a growing body of work – including "The Daily" and other podcasts, Wirecutter, Cooking and Crosswords – that complement our central news product. It will first air in 2019.

Subscriptions

Let's look now at the revenue streams in detail, beginning with digital subscriptions. In Q2, we added 109,000 net new digital-only subscriptions, for a total of 3.8 million subscriptions, 2.9 million of which are digital-only. Of the net new digital-only subscriptions, 68,000 were to our core digital news and opinion products, the balance to our stand-alone Crosswords and Cooking products.

The net adds to the core product were lower than we've seen in recent quarters, but still much higher than we've typically achieved in Q2 since the launch of the pay model. The second quarter generally sees lower audiences than other quarters and therefore fewer net subscription adds, though this effect was less apparent in Q2 2017, a quarter which fell within the initial "Trump-bump," and which featured a number of exceptional news events, including the firing of James Comey and the appointment of Special Counsel Robert Mueller. Lower audiences year-over-year in Q2 2018 also played a part in our digital advertising performance in the quarter.

A second, less significant factor in the digital subscription result was our decision during the quarter to reduce our marketing spend on Facebook because of concern about the way Facebook intended to categorize our marketing messages. We have subsequently made some progress in our discussions with Facebook, and hope to increase spending with them again in Q3.

Overall churn, and specifically churn among the election and post-election cohorts, remains very encouraging. We're also pleased with our progress in driving international subscriptions, especially in markets like Australia and the UK where we're making coordinated efforts with journalism, opinion and new marketing tactics. Across both subscription and advertising businesses, our international strategy has begun to bear fruit.

We remain confident that we can scale our digital subscription business much further, both by attracting more new subscribers at home and abroad, and by making additional inroads into churn. We'll do that by deepening engagement through an improved product experience and personalization, incentivizing registered and logged-on use, developing a more compelling customer journey, and optimizing both our pay-model architecture and pricing and bundling strategy. Our newsroom and editorial departments and product, marketing, tech and data science teams are working together on this challenge. We'll report back on progress in future earnings calls.

Print subscription revenue declined in Q2 at a higher rate than in recent quarters. We believe this does not represent a new trend, but rather is because we were comp'ing this quarter against an exceptional increase in print sub revenue a year earlier – again part of that initial "Trump-bump" effect.

Advertising

Now advertising. In the last earnings call I warned that we expected Q2 to be a second down-quarter in digital advertising, and so it was. Total digital advertising was down 7.5 percent year-over-year at $51 million dollars. But I also said in that call that we expected a rebound in the second half of the year and we're certainly seeing a strong sequential uptick in early Q3. As you'll hear, our guidance calls for 10 percent year-over-year growth in the current quarter. Q4 is also currently looking very encouraging. We were particularly pleased in Q2 by the rate of growth of our directly-sold business and the increasing number of major idea-driven partnerships we are signing with big brands.

The new European regulations on data usage – GDPR – became effective mid-way through the quarter. Preparing for the new regulations required significant work across the Company. So far, the impact on our advertising revenue has been minimal. More broadly, we will continue to carefully monitor how changing attitudes and regulation, as they relate to user data, may affect the digital advertising market.

Costs

On the cost side, second quarter adjusted operating costs increased year-over-year, primarily as a result of higher marketing costs and additional costs associated with the growth in commercial printing at our owned and operated College Point production facility.

In conclusion, we remain confident in our strategy, the pillars of which are investment in quality journalism, ever-deeper audience engagement and subscription-first monetization. We already have more subscribers than at any time in The Times's history – and will soon pass three million digital-only subscribers and four million total subscribers. But we're working across the company to grow our digital subscription business even faster.

Week-by-week, we're winning new audiences – in many cases younger audiences – with "The Daily" podcast. We hope to do the same soon with "The Weekly" on TV. Meanwhile, our newsroom and opinion departments are gearing up for what promises to be the liveliest set of mid-term elections in modern U.S. history.

Now for details on the quarter, here's Roland Caputo.

Roland Caputo

Thank you, Mark, and good morning, everyone.

As Mark said, this quarter represents continued progress in the execution of the Company's strategy.

Adjusted diluted earnings per share was 17 cents in the quarter, flat compared with the prior year. We reported adjusted operating profit of approximately $59 million dollars in the second quarter, compared with an adjusted operating profit of $65 million dollars for the same period in 2017.

Total subscription revenues increased 4 percent in the quarter, with digital-only subscription revenue growing 20 percent in the quarter to $99 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 less expensive delivery packages. Total daily circulation declined 10-and-a-half percent in the quarter compared with the prior year, while Sunday circulation declined seven-point-seven percent. These declines continue to reflect difficult comparisons with a strong second quarter of 2017 when we experienced elevated post-election home delivery subscription and single copy demand for the newspaper.

ARPU on our digital-only news products in the second quarter was down very slightly compared with the first quarter of 2018 due to lower-priced international offers compounded by a strengthening of the U.S. dollar during the quarter.

Quarterly ARPU declined approximately 1 percent compared to the prior year, which represents continuing sequential improvement in the variance versus the prior year.

Total advertising revenue declined 10 percent compared to the second quarter of 2017 as both print and digital advertising were lower in the period. Digital advertising revenue declined seven-and-a-half percent driven by a smaller audience as well as a decline in creative services revenue. Lower print advertising revenue was mainly due to declines in technology, telecommunications, entertainment and luxury categories, partially offset by growth in the financial category.

On a monthly basis, compared to last year, overall advertising revenue declined 9 percent in April, 19 percent in May and 1 percent in June. Going forward, we intend to discontinue providing this monthly disclosure due to the highly variable nature of monthly advertising revenue.

Other Revenues grew 40 percent versus the second quarter in 2017, to $35 million dollars, principally driven by growth in our commercial printing operations from the Newsday suite of products. We expect the ramp-up of Newsday production to be nearly complete by the end of the third quarter. Growth in other revenue was also driven by four additional floors of rental income from our headquarters building, as well as affiliate referral revenue from the product review and recommendation website, Wirecutter.

GAAP operating costs decreased one percent, while adjusted operating costs increased 4 percent in the quarter. The decrease in operating costs was largely related to lower severance costs in the quarter, which was partially offset by higher marketing costs. Adjusted operating costs grew primarily as a result of higher marketing and commercial printing costs.

In the quarter, we recorded one special item, which has been excluded from our adjusted results. This $1 million dollar charge represents non-capitalizable expense related to the reconfiguration of our headquarters building to make more space available to generate rental income. We have signed leases for four-and-a-half of the seven new floors we have made available, four of which were reflected in the revenue we reported in the second quarter. We still expect to execute leases on the remaining floors and to begin recording rental income from them over the next several quarters.

Our effective tax rate for the second quarter was just shy of 30 percent.

Moving to the balance sheet, our cash and marketable securities balance increased during the quarter, ending at $779 million dollars. Total debt and capital lease obligations, principally related to the sale-leaseback of our headquarters building, were approximately $252 million dollars.

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

> Total subscription revenues are expected to increase in the mid-single digits, compared with the third quarter of 2017, with digital-only subscription revenue expected to increase in the high-teens.
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> Overall advertising revenues are expected to decrease in the low-single digits, compared with the third quarter of 2017, and digital advertising is expected to increase approximately 10 percent.
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> Other revenues are expected to increase approximately 50 percent largely due to the growth in our commercial printing operations.
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> Operating costs and adjusted operating costs are expected to increase approximately 10 percent compared with the third quarter of 2017 as we continue to invest in marketing and 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.