The New York Times Company
Fourth-Quarter & Full-Year 2018 Earnings Conference Call
February 6, 2019

Harlan Toplitzky

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

On the call today, we have:

- Mark Thompson, president and chief executive officer;
- Roland Caputo, executive vice president and chief financial officer; and
- Meredith Kopit Levien, executive vice president and chief operating 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

Thanks Harlan. Good morning everyone.

A strong fourth quarter capped a strong 2018 for The New York Times Company. Digital subscriptions grew more quickly than at any time since the months immediately following the 2016 election. Our strategy for digital advertising is paying off with exceptional year-over-year growth. Our smaller digital products are performing excellently. Indeed, we've made so much progress on our five-year goal of doubling digital revenue that we've set ourselves an ambitious new target. I'll turn to that shortly.

First, let's look at the quarter in detail. One note first: Q4 2017 was a 14-week quarter. In our remarks this morning, we will use the phrase "like-for-like basis" when comparing revenue in

2018 to a 2017 adjusted to account for the extra week. We do not make such an adjustment on the cost-side.

Q4 2018

We added 265,000 new digital subscriptions in the quarter, of which 172,000 were for our core digital news product and the balance from Cooking and Crosswords. Although the midterm elections played a part in this strong showing, audience behavior and week-to-week subscription additions suggest that our present momentum is broad-based and far less reliant on the politics of the moment than the surge of two years ago.

By the end of the quarter, and the year, we had a total of 3.4 million digital subscriptions and – including print – 4.3 million total subscriptions.

On a like-for-like basis for the fourth quarter, estimated digital subscription revenue – including Cooking and Crosswords, grew 18 percent compared to 2017. On the same basis, total subscription revenues grew 5 percent.

We've taken a different approach to digital advertising than many other news publishers, with a focus on large-scale partnerships with the world's leading brands, a suite of creative services, and a relatively low exposure to open-market programmatic. This approach paid off for us in the fourth quarter with digital advertising revenue growing approximately 32 percent year-over-year on a like-for-like basis.

Indeed, in the quarter, digital advertising exceeded print advertising for the first time ever. Digital represented 54 percent of total advertising revenue, compared to 46 percent from print. We expect to see future quarters where the relative proportions reverse, but this is still a significant moment in the digital transition of The New York Times: in Q4 2018, print advertising - which was once the lion's share of The Times's revenue - was the smallest of our four principal revenue streams.

While print subscription revenue declined only modestly, print advertising fell on a year-over-year, like-for-like basis by 6 percent. This was a significant sequential deterioration after a Q3 where print advertising was nearly flat compared to the same period in 2017, but the strength on the digital side meant that total advertising revenue grew by 11 percent on a like-for-like basis.

Although, as you'll hear, we're guiding to continued healthy growth in our digital advertising business in Q1 2019, the character of our emerging digital advertising model – in particular its reliance on a relatively small number of high value deals – means that we may still see some variability in quarter-to-quarter results. But we're encouraged by the fact that, taking last year as a whole on a like-for-like basis, we grew digital advertising by more than 10 percent. Total advertising revenue for The Times for the whole of 2018 increased by nearly $10 million dollars on a like-for-like basis – the first year-over-year total advertising revenue growth since 2005.

Total **Company** revenue for Q4 grew on a like-for-like basis by 10 percent. Adjusted operating profit for the quarter was $94 million dollars, compared to $106 million in the same quarter last year. The two main reasons for the fall were first that extra week in 2017 and higher costs, especially in marketing.

Progress against the $800 million target

In 2015, we set ourselves the challenge of doubling pure-play digital revenue from around $400 million dollars to $800 million dollars by the end of 2020. The end of 2018 was the three-year mark in this five-year-journey. **And in 2018 we generated $709 million dollars in total digital revenue**. In other words, we're already more than three-quarters of the way to achieving our target.

We'll continue to report on our progress to and beyond the $800 million dollar goal, but now as a company we've decided to set ourselves a new public milestone.

Our analysis of our market opportunity in the U.S. and around the world, together with our success in recent years in scaling our digital subscription business, has led us to reset our ambition for how large our subscriber base could grow. So we're setting ourselves the goal of **at least 10 million subscriptions** by 2025. There's reason to believe that the ultimate number of subscribers could be far larger, but we've decided that exceeding the 10 million mark is the right target – stretching but realistic – over the time period.

Investment

So how we will go about meeting this new goal?

First, journalism. Our journalism is already widely recognized as being among the very best in the world. Indeed the quality and extraordinary breadth of The Times's journalism is the primary reason why our digital subscription model is currently growing so healthily. This was especially true in 2018.

But our ten million-plus goal implies a further significant expansion of committed Times users – those who really make The Times an essential part of their lives – both domestically and around the world. To achieve that, we want to broaden and deepen our journalism still more; to further enhance our leading position in investigative reporting; to continue to support the renaissance of opinion; to explore new ways in audio, visual and multimedia, of telling the most important stories of the day.

The foundation of our mission, our strategy, and our offer to every new subscriber, is high quality journalism. That's why we have consistently invested in our newsroom. Last year alone, we added more than 120 new journalistic positions and today, we have about 1,600 journalists on staff, a high-water mark for the New York Times. In 2019, we will make a further targeted investment in journalism, which will include continued hiring.

To hit the 10 million subscription milestone, we need not only to project The Times brand and Times journalism to new audience groups around the world, but also to become more expert and more coordinated at engaging those audiences, and converting them into paying subscribers. So we will also make a significant investment in digital product and in marketing, with the intention of accelerating medium-term growth of the model.

Next, innovation. From the multimedia breakthrough "Snowfall" way back in 2012 to our smash-hit podcast "The Daily" – creativity and innovation have transformed the way people now think about The New York Times. More importantly, they've attracted new audiences. I never tire of reminding people that nearly three quarters of the audience to "The Daily," Apple's most downloaded podcast in 2018, are 40 years old or younger.

2019 will see plenty more innovation and experimentation. Some of it will be cash-generative from the get-go, like our new TV show "The Weekly," which launches in June, and the 5G partnership with Verizon that we announced together at CES. But again, we won't hesitate to back great new ideas with investment if needed.

Finally, we'll continue our work optimizing both our customer journey and pay model. As you've heard me say before, despite our progress to date we still believe there is considerable further scope to accelerate subscription growth. Indeed, we currently have multiple tests in the field.

Margin

As Roland will shortly confirm, we expect these investments to have some impact on total costs in Q1 and subsequent quarters. But I want to emphasize that we also remain very focused on margin. We're unusual in having been able to rapidly scale a digital business while remaining strongly profitable, and we're determined to maintain that record. We have an opportunity to further accelerate digital subscriptions through additional investment now, that will fuel future margin expansion.

We will also begin to field-test a price rise for digital subscribers in the early part of this year. Although this would be the first increase since the launch of the pay model in 2011, we have many years of experience of adjusting prices for our home delivery product to reflect the changing economics of print. We're confident that our digital subscribers will also understand why the price paid for high quality journalism sometimes has to increase if the journalism itself is to flourish.

Dividend

Finally, let me turn to the question of capital return. As you know, in recent years our Board has opted for a conservative approach to our balance sheet. This is not because we believe in conserving cash for its own sake, but because we want to maintain maximum flexibility regarding capital allocation as we navigate the opportunities and risks of our ongoing long range business transformation. As you've heard, we're still exploring the scope for further effective investment to accelerate the growth of our existing digital sub model, and we're still on the look-out for tuck-in investments that could help us scale the total digital business faster.

Nonetheless, we've clearly made some progress and, in light of that, the Board of Directors has approved a modest 1 cent per share dividend increase to 5 cents a share. As you'd expect, the Board will continue to keep the balance sheet and the best use of capital under close review, and we do not rule out further adjustments to the dividend in the future.

Now with details of the quarter here's Roland.

Roland Caputo

Thank you, Mark, and good morning, everyone.

As Mark said, this quarter represents a strong result for the Company.

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. The earnings press release we distributed this morning reports revenue on both a 14 and estimated 13-week basis. Like Mark, my comments on revenues today will exclude the impact of the extra week; however, estimating the cost impact of this extra week is more difficult and therefore all comparisons for expenses and profitability will be made versus the full 14 weeks of 2017 expenses.

Adjusted diluted earnings per share was 32 cents in the quarter, six cents below the prior year. We reported adjusted operating profit of approximately $94 million dollars in the fourth quarter, which is lower compared with the same period in 2017 by approximately $12 million dollars.

Total subscription revenues increased five percent in the quarter, with digital-only subscription revenue growing 18 percent in the quarter to $105 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-six percent in the quarter compared with the prior year, while Sunday circulation declined six-point-five percent.

Quarterly digital subscription ARPU declined approximately three-and-a-half percent compared to both the prior year and prior quarter, as the number of newly acquired subscribers on promotion was significantly larger than the number of existing subscribers whose promotional offers ended and graduated to full price. This downward pressure was magnified by the $1 dollar per week promotional offer which was in market during all sales periods in the quarter. We expect that the more aggressive promotional offer, which continued to yield strong net subscription additions in the quarter, and other promotional tests will continue to put downward pressure on ARPU in 2019.

I wanted to note that in the fourth quarter, Google ran a cross-promotion where they provided a limited number of their customers with a six-month free subscription to our digital news product. As is our practice, these promotional subscriptions are not reflected in the 172,000 net News additions we are reporting today and will only be counted in the event they elect to convert their free subscriptions to a paid one at the time of promotion expiration.

Total advertising revenue increased 11 percent compared to the fourth quarter of 2017, our best overall result in recent memory, with digital advertising growing 32 percent and print declining by six percent. The increase in digital advertising revenue was largely driven by growth in both direct-sold advertising on our digital platforms and creative services. The print advertising result was mainly due to declines in the luxury and financial services categories, partially offset by growth in advocacy, media and books.

Other Revenues grew 50 percent versus the fourth quarter in 2017, to $47 million dollars, principally driven by growth in our commercial printing operations from the Newsday suite of products; growth in affiliate revenue from the product review and recommendation website, Wirecutter; our live events business; as well as additional floors of rental income from our headquarters building.

Both GAAP operating costs and adjusted operating costs increased eight percent in the quarter. Costs grew primarily as a result of marketing expenses to promote our brand and products, our growing commercial printing business, and costs related to growth in our advertising creative services business, which were partially offset by lower print production and distribution costs related to our newspaper.

We recorded two special items in the quarter:

An $11 million dollar gain, from the wind down of our investment in Madison Paper Industries, a partnership that previously operated a supercalendered paper mill.

And a one and a half million dollar charge, which represents the noncapitalizable expense related to the reconfiguration of our headquarters building to make more space available for rental income. This project is now substantially complete.

Our effective tax rate for the fourth quarter was 29 percent.

The underfunded balance of our qualified pension plans at the end of the year was approximately $81 million dollars and the plans were approximately 95 percent funded.

Moving to the balance sheet, our cash and marketable securities balance increased by $32 million dollars during the quarter, ending at $826 million dollars. Total debt and capital lease obligations, principally related to the sale-leaseback of our headquarters building, which we expect will be repaid in the fourth quarter of 2019, were approximately $254 million dollars.

Let me conclude with our outlook for the first quarter of 2019.

> Total subscription revenues are expected to increase in the low to mid-single digits, compared with the first quarter of 2018, with digital-only subscription revenue expected to increase in the mid-teens.
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> Overall advertising revenues are expected to decrease in the low to mid-single digits compared with the first quarter of 2018 and digital advertising is expected to increase in the mid-teens.
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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 ten percent compared with the first quarter of 2018 as we continue to invest in the digital subscription growth drivers of marketing, product and journalism. In addition, our commercial printing operations are fully scaled and comping against a quarter in 2018 with no significant costs.

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.