The New York Times Company
Second Quarter 2019 Earnings Conference Call
August 7, 2019

Harlan Toplitzky

Thank you, and welcome to The New York Times Company's second quarter 2019 earnings conference call.

On the call today, we have:

- Mark Thompson, president and chief executive officer, who is joining us from our office in London;

while in New York, we have:

- 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 2018 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.

Well, we had another encouraging quarter with good growth in both digital subscriptions and digital advertising and the successful launch of our new television series, "The Weekly."

We attribute these positive results to a sound strategy, the commitment, hard work and growing digital expertise of all of our colleagues – and, above all, to the dedication and talent of our amazing reporters, columnists and editors. Having the best journalists in the world is our not-so-secret sauce. That's why we continue to *increase* our investment in journalism.

But let's turn to the quarter and begin, as usual, with digital subscriptions. Our core news subscriptions grew faster than we'd expected. This quarter we added 131,000 net new subscriptions to our core news product. Of these, 8,000 came from a Google promotion, and should be considered a one-off – but the remaining 123,000 net adds still represents a significant year-over-year increase on the 68,000 we saw in Q2 2018.

It's the strongest Q2 performance in years with a milder than expected second quarter dip. Several factors account for this – some big news stories, the effect of the more aggressive introductory offer pricing we introduced last year, and growth optimization driven by a much higher number of better designed tests.

On the subject of the dollar-a-week introductory offer, the first U.S. subscriptions that began on this promotion are about to reach their first anniversary. We're obviously going to track them closely over the coming weeks and months, but I can tell you that retention continues to trend similar to previous cohorts.

As you know, we're committed not just to driving immediate subscription results, but to ensuring that we deliver strong growth in the medium and long-term.

We've talked in recent earnings calls about the testing we've been doing to further optimize our pay model, with a particular focus on scaling direct relationships and engagement. When a user is registered and logged-in, we can communicate with them and understand their preferences and patterns of consumption more effectively than if they are anonymous. That typically leads to higher engagement and subscription conversion.

At the start of July, we launched more extensive testing of registration and log-in. The tests play out differently on different platforms, and we plan to experiment with a range of parameters and business rules – how many free articles a given user is able to read, for example, in return for registration – over the coming months. We don't expect this testing to have a dramatic near-term effect on net subscription additions. Over time, however, we believe that the growing numbers of registered and logged in users of The Times will help us maintain or increase our momentum in building out our subscription base.

Turning back to Q2 2019, we also added 66,000 new subscriptions to our Cooking and Crossword products. The Cooking product, which crossed the 250,000 subscription mark in the second quarter, and the Crossword product, with more than 500,000 subs in its own right, are two of America's largest digital subscription products from a news provider. Together with the growth in the core, that made for 197,000 new digital subscription adds, and a grand total of 3.8 million digital-only subscriptions for the company.

Q2 2019 was also a good quarter for advertising. Digital advertising grew by 14 percent year-over-year, with a strong performance in direct sales, including from "The Daily" and our creative services. These gains on the digital side were more than enough to offset the familiar secular declines in print, and total advertising revenue grew slightly.

Roland will give you guidance on advertising for Q3 in a moment, but it's worth noting now that we don't expect the second half of 2019 to be as strong in digital advertising as the first half. In recent quarters, we've been tracking against relatively weak digital advertising comparisons from a year earlier. That's played a part in the significant year-over-year gains we've achieved in those quarters. From Q3 onwards, we begin to comp against the strong gains from last year, and we expect that to have an impact.

One of the factors that contributes to the comp challenge is what I've previously called "lumpiness." Our digital advertising business is increasingly focused on large-scale multi-month, and in some cases multi-year partnerships with some of the world's leading brands. Demand for advertising partnerships with The New York Times is strong – indeed in recent months we have concluded some of the largest deals in our history as a company, deals from which we will see much of the benefit in 2020.

These partnerships are distinctive and difficult to replicate, and give us real pricing power. That's why we're pursuing them so energetically and are willing to accept the increased variability that comes with them.

A big moment for us in Q2 was the successful launch of our television series, "The Weekly," which premiered in June on FX and Hulu. "The Weekly" is a fabulous opportunity to expose Times journalism to new audiences in an exciting new medium. Both we and our partners are pleased with its progress so far. "The Weekly" was the largest driver of the 30 percent growth in "Other" revenue in the quarter.

But "The Weekly" is important for another reason. Along with "The Daily," Wirecutter, and our Cooking and Crossword products, it's evidence of the extensibility of The New York Times brand across verticals and across different media, and our ability to delight and engage audiences far beyond our traditional heartland. It is this breadth of appeal – and the enthusiasm and imagination with which our newsroom is embracing these new expressions of Times journalism – combined with the continued strength of our core digital subscription offering, that gives us so much confidence in our future.

But let me hand over now to Roland for more details on the quarter.

Roland Caputo

Thank you, Mark, and good morning, everyone.

As Mark said, we remain pleased with the progress as we continue to execute against our strategy.

Adjusted diluted earnings per share of 17 cents was flat compared to the prior year. We reported adjusted operating profit of approximately $56 million dollars in the second quarter, which is lower compared with the same period in 2018 by approximately $4 million dollars.

Total subscription revenues increased 4 percent in the quarter, with digital-only subscription revenue growing 14 percent to $113 million dollars. On the print subscription side, revenues were down two-and-a-half percent due to declines in the number of home delivery subscriptions, a continued shift of subscribers moving to less frequent and therefore, less expensive delivery packages, as well as a decline in single-copy sales. 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 eight-point-five percent in the quarter compared with prior year, while Sunday circulation declined seven-point-one percent.

Quarterly digital news subscription ARPU declined approximately nine percent compared to the prior year and approximately two percent compared to the prior quarter, as the impact from the number of newly acquired subscribers on promotion, largely at $1 dollar per week, was significantly larger than the benefit from existing subscribers whose promotional offers ended and graduated to full price. We expect that the more aggressive promotional offer, which resulted in another strong quarter for net subscription additions, and other promotional tests will continue to put downward pressure on ARPU throughout 2019.

Total advertising revenue grew 1.3 percent compared with the prior year, with digital advertising growing 14 percent and print declining by 8 percent. The increase in digital advertising revenue was largely driven by growth in direct-sold advertising on our digital platforms including advertising sold in our podcasts and our creative services businesses. The print advertising result was mainly due to declines in the financial services, retail and media categories, partially offset by growth in technology.

Other Revenues grew 30 percent compared with the prior year, to $45 million dollars, principally driven by the premiere of our television series, “The Weekly,” which debuted on June 2nd and from our commercial printing operations, which had not yet achieved full scale at this point last year.

GAAP operating costs and adjusted operating costs each increased approximately seven percent in the quarter as a result of increased content costs, reflecting both higher staffing in the newsroom, as well as production costs related to “The Weekly.” Expenses associated with our growth in the commercial printing business and higher advertising also drove the increase.

Our effective tax rate for the second quarter was 27 percent. On a going forward basis, we expect our tax rate to be approximately 26 percent on every dollar of marginal income we record. Due in large part to a tax benefit we received in the first quarter of 2019, we now expect the effective tax rate for full year 2019 to be between the high teens and low twenties.

Moving to the balance sheet, our cash and marketable securities balance increased during the quarter, ending at $847 million dollars. Total debt and finance lease obligations, principally related to the sale-leaseback of our headquarters building, which we expect will be repaid in December 2019, were approximately $254 million dollars.

Let me conclude with our outlook for the third quarter of 2019:

> Total subscription revenues are expected to increase in the low- to mid-single digits compared with the third quarter of 2018, with digital-only subscription revenue expected to increase in the mid-teens.
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> Overall advertising revenues and digital advertising revenues are expected to decrease in the high-single digits compared with the third quarter of 2018.
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> Other revenues are expected to increase approximately 25 to 30 percent, largely due to our television series, “The Weekly.”
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> Both operating costs and adjusted operating costs are expected to increase in the high single digits compared with the third quarter of 2018 as we continue 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.