Harlan Toplitzky

Thank you, and welcome to The New York Times Company’s third quarter 2019 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 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.

Q3 2019 was our best ever third quarter for new digital news subscriptions – indeed the fourth best quarter in the history of our pay model – and a very encouraging quarter for the company as a whole. We now have more than three million subscriptions to our digital news product, more than four million total digital subscriptions, and just under five million total subscriptions.

We also saw a number of other significant positive developments in the business to which I will turn shortly. We did slightly better than expected in digital advertising, though – as we warned on our last call – Q4 is going to be challenging too.

Overall, company revenue grew by 3 percent, in spite of a 7 percent decline in overall advertising revenue. The advertising decline, combined with content and digital product
development investment, meant than adjusted operating profit decreased from $54 million dollars in 2018 to $44 million dollars.

Let me begin with the digital subscription story. Overall, including NYT Cooking and Crosswords, we added 273,000 net new digital subscriptions in the quarter, of which 209,000 were subscriptions to our core news product. That 209,000 was 46 percent more than the equivalent net adds in Q3 2018, which were themselves more than a third higher than the adds in Q3 2017.

So we’re clearly seeing acceleration in our digital news subscription model. What accounts for it?

Well first, one of the liveliest news environments any of us can remember. After a quiet start to the quarter, there was a dramatic pick-up in the news cycle in the second half of August and through September. The volume and intensity has continued in the present quarter and looks set to persist into 2020, which is, itself of course, an election year. The weight and complexity of the stories – impeachment, Brexit, Boeing – have played to the strengths of Times journalism and our growing capabilities in infographics, podcasting, video and now TV. But there’s far more to The Times than news and comment: take the 1619 Project, our landmark reflection on the political, social and cultural impact of slavery on America. If you haven’t yet, you should read it and listen to the podcast.

Outstanding journalism is drawing more and more paying customers to The New York Times. But there’s another factor at work as well: we’re making major advances in our understanding of and ability to optimize the user journey towards subscription. In recent quarters, greater expertise, better use of data, deeper cooperation between our journalists and our digital product teams, and a better testing platform have given our subscription model fresh momentum and you’ve seen that in our subscription growth.

In Q3 we also made a significant change to our pay model. Most anonymous users now have to register and log in to The New York Times if they want to read more than a very limited number of stories. It’s much easier for us to encourage these logged-in users to engage more deeply with our content and consider subscribing. We certainly saw a positive effect from this change in our net subscription adds during the quarter, and encouragingly, the change has not so far led to any appreciable loss of overall unique users. In other words, we have not seen an adverse impact on the top of our funnel.
A second promising development concerns the retention of those customers who joined under the dollar-a-week introductory offer we launched in 2018. It’s still pretty early days – just under 80,000 dollar-a-week subscribers have reached their second billing cycle after promotion expiration – but so far, they’re retaining above our expectations, indeed only fractionally less well than those cohorts who have begun their subscriptions on $2 dollars a week offers. As a result, overall churn was in-line with recent quarters – another factor contributing to the high number of net adds in the quarter.

We are successfully migrating a substantial proportion of the dollar-a-week subscribers directly to full price, while moving most of the others to an intermediate price and keeping a small minority at a dollar-a-week. We will continue to adjust these proportions as we learn more and get better at assessing payment and retention propensity, subscriber by subscriber, but we’re very satisfied with these early results.

It’s also worth noting that we were able to achieve a record number of net new subscriptions while holding marketing spend roughly flat with the second quarter. In other words, per subscription acquisition cost fell and the lifetime-value-to-subscription-acquisition-cost ratio improved in the quarter. The organic strength of our model – journalistic quality, product experience, pricing and customer journey – did more of the work of subscription conversion and we needed relatively less paid marketing to deliver the overall result.

We had another strong quarter of net adds for our two smaller subscription products, NYT Cooking and Crosswords. As a result of that and the strength in the core, total digital-only subscription revenue rose by a healthy 14.5 percent.

I’ve talked in recent earnings calls about a potential price rise for our core news subscription. The success of our price rise tests, and our growing confidence in our ability to deliver discrete messages to different segments of our subscriber base has convinced us that we can execute a price rise for tenured subscribers with minimal risk of reducing new subscriber growth momentum. I haven’t got a date for you this morning, but we’re currently firming up plans for such a price rise in 2020.

Our increasing run-rate of new subscriptions makes our goal of hitting the 10 million total subscription milestone by or before 2025 look well within reach. But since we announced that
objective in February, we’ve often been asked how many of these subscriptions we expect to come from outside the US. I want to answer this question this morning.

Next week will be the seventh anniversary of my arrival at The New York Times as CEO. By the end of my first quarter as CEO, Q4 2012, we had 51,000 international digital subscribers to The Times. By Q3 2019, that number had grown to 525,000 – a 10-fold increase.

We’re finding growing demand for high quality serious journalism around the world. We believe we can access this international market largely through the strength of our core news report and our growing capability in engagement, AI-assisted personalization and improving pricing and marketing strategies, rather than by undertaking a large-scale build-out of local cost centers around the world.

So we have set ourselves a goal of quadrupling the number of subscribers outside of the U.S. to a total of 2 million by 2025. We therefore expect 20 percent of that overall milestone of 10 million subscriptions to come from international customers.

Before I turn to advertising, let me mention another recent positive development for The Times – namely the agreement we reached some weeks ago to take part in Facebook News.

Facebook News is a new initiative within the broader Facebook experience that is intended to offer users a curated selection of news from quality sources. Under the agreement, The New York Times will make its content available in the form of headlines, very short summaries and links. A small number of stories – under 1 percent of the whole – will be unlocked so that Facebook users can read them in their entirety. To do so, just as with the other stories, users will have to move from Facebook to our digital assets.

Facebook News should bring new users to The Times. Consumption of the overwhelming majority of stories will increment our pay meter and support our subscription model. But we chose to participate in the model only after we reached a multi-year agreement for a license fee which is a step change compared to previous content deals.

But more important than the immediate financial benefit of the agreement is its strategic significance. Although we have previously received small payments for participation in various experiments and innovations launched by the different digital platforms, this is the first time that a Silicon Valley major has recognized the value of Times journalism to its platform with a substantial multi-year fee.
I’ll turn to Advertising now. Digital advertising fell by 5 percent year-over-year in Q3 – as I said, a little less than we predicted – and print advertising by 8 percent. The main reasons for the decline on the digital side were a tough comp with Q3 2018 and fewer large deals than we achieved in that quarter – we’ve talked about this variability or “lumpiness” in the large-scale deals before.

As you’ll hear when Roland gives you the guidance, we expect this pattern to continue into Q4. We face an even more daunting comp – digital advertising grew in Q4 2018 by 32 percent on a like-for-like basis – with several individual partnerships, including one which brought in nearly 10 million dollars, not repeating. We decided to consolidate our influencer capabilities into Fake Love, our acquired advertising agency, and to close HelloSociety as a standalone business. This will have some revenue impact in Q4. Finally, in an effort to protect our users’ data, we are controlling the usage of tracking pixels by advertisers and agencies more stringently. Over time we believe this will be beneficial to our business as well as to Times readers, but it too will have some impact in the quarter.

But we remain confident in our strategy and our ability to grow digital advertising revenue in future quarters. Indeed, in recent weeks we’ve reached some of the largest commercial agreements in our history, including a multi-year deal with Verizon to offer free access to The New York Times to over 7 million students and teachers in Title 1 high schools across America. This deal comes in addition to our agreement with Verizon to support investment in 5G innovation in our newsroom.

We also believe that we have a big opportunity around first-party data. Our new digital access model means that we’re going to know far more about millions of our most engaged users and will be able to tailor advertising messages to them more effectively in ways that rely on this first-party data.

We have lots of running room in audio. “The Daily” is a monster hit with an astonishingly valuable audience and it just continues to grow. We’re also advanced in our plans to expand our creative capabilities, our audiences and our inventory in this promising category.

At the same time, for the past four years we have described ourselves as a “subscription-first company” and, where there is a trade-off to be made between engaged user experience and immediate advertising revenue, we will increasingly favor the subscription side.

Let’s take mobile apps. Our iOS and Android apps are the digital surfaces that drive the highest per-user consumption of our journalism. We’ve decided that beginning January 2020, in an effort to improve load-time and the overall user experience, we will no longer present open-market programmatic advertising within these apps. That will result in a loss of digital advertising
revenue in the single-digit millions, but we believe that this will be more than made up by gains in engagement and a higher propensity by app users both to subscribe and retain.

Taking the quarter as a whole, Q3 2019 suggested not just that our strategic thesis is working, but that it is scalable far beyond the traditional expectations of the news industry. We pulled a big new growth lever this summer with our registration model, but believe we have many further levers still to pull. On that note, let me hand you over to Roland who has more of the detail behind the drivers of the quarter.

Roland Caputo

Thank you, Mark, and good morning, everyone.

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

Adjusted diluted earnings per share was 12 cents in the quarter, three cents lower than the prior year. We reported adjusted operating profit of approximately $44 million dollars in the third quarter, which is lower compared with the same period in 2018 by approximately $10 million dollars.

Total subscription revenues increased approximately 4 percent in the quarter, with digital-only subscription revenue growing 14 percent to $116 million dollars. On the print subscription side, revenues were down three-point-three 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 nine-point-one percent in the quarter compared with prior year, while Sunday circulation declined seven-point-nine percent. At the end of August, the Starbucks retail chain discontinued the distribution of all newspapers, including The New York Times, at its corporate-owned locations. This had a meaningful impact on copies, accounting for approximately 1 percentage point of the declines. Subscription revenue was immaterially impacted by the loss of this distribution channel.

Quarterly digital news subscription ARPU declined approximately 11 percent compared to the prior year and approximately 3 percent compared to the prior quarter, as the impact from the large number of newly acquired subscribers, mostly on the $1 dollar per week promotion, was significantly larger than the benefit from existing subscribers whose promotional offers ended and graduated to higher prices during the period. This quarter also included the conclusion of the 52-week promotional period for the first $1 dollar per week cohort whose subscriptions
began in late August and September of 2018. As Mark said, we’re very happy with the retention we’re seeing from the first cohort who has now passed their second post-promotion billing cycle. While many of these subscribers were stepped up to full price, a portion of this cohort were stepped up to an intermediate price providing a somewhat smaller benefit on ARPU than would otherwise have been realized.

The proportion of subscribers on promotion, relative to the total subscriber base, continues to grow. Given the success we’re experiencing in retaining new subscribers beyond their initial promotional period, either at full price or an intermediate, step-up price, we plan to continue to use a low introductory price to acquire long-retaining, profitable subscribers. As such, we expect downward pressure on ARPU to continue into 2020. We expect both year-over-year and sequential declines in ARPU to moderate somewhat as subsequent cohorts of new subscribers graduate from the $1 dollar per week introductory offer to higher prices.

Total advertising revenue declined approximately 7 percent compared with the prior year, with digital advertising declining 5 percent and print declining by 8 percent. The decrease in digital advertising revenue was largely driven by declines in our core direct-sold platforms, partially offset by continued growth in podcasts. The print advertising result was mainly due to declines in the financial services, home furnishings and luxury categories, partially offset by growth in the advocacy category.

Other Revenues grew 26 percent compared with the prior year, to $48 million dollars, principally driven by revenue associated with our television series, “The Weekly,” which aired 8 new episodes in the quarter.

When we laid-out our goal of at least 10 million subscriptions by 2025, we noted that achievement of this milestone would require investment, specifically in three areas: journalism, product and marketing. The growth in GAAP operating costs and adjusted operating costs, which each increased approximately five-and-a-half percent in the quarter, was directly related to accelerating the rate of subscription growth towards that goal. Specifically, costs grew as a result of increased content costs, reflecting both higher staffing in the newsroom, as well as production costs related to “The Weekly.” Growth in the number of employees working in digital product development also drove costs higher. We are particularly pleased that we were able to incur slightly lower marketing spend in the quarter at the same time that subscription net additions were so strong. Continued investment in content and product should allow us to moderate marketing spend over time while continuing to grow digital subscriptions unabated. While the cost guidance we provided in our Earnings Release this morning states that we expect cost growth to slow considerably in the fourth quarter, note that we expect to return to higher levels of investment in subsequent quarters.
We recorded two special items in the quarter:

- A $4 million dollar charge related to a restructuring, and
- A $2 million dollar gain from a multi-employer pension plan liability adjustment.

Our effective tax rate for the third 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 with some variability around the quarterly effective rate. Due in large part to a tax benefit we received in the first quarter of 2019, we expect the effective tax rate for full year 2019 to be in the high teens.

Moving to the balance sheet, our cash and marketable securities balance increased during the quarter, ending at $878 million dollars. Total debt, which is now entirely related to the sale-leaseback of our headquarters building and which we intend to repay in December 2019, was approximately $246 million dollars.

In the quarter, we entered into a $250 million dollar revolving credit facility. Our strong balance sheet and an accommodating credit market provided an opportunity to lock-in favorable terms now for a source of liquidity should the need arise in the future.

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

Total subscription revenues are expected to increase in the low- to mid-single digits compared with the fourth quarter of 2018, with digital-only subscription revenue expected to increase in the mid-teens.

Overall advertising revenues and digital advertising revenues are expected to decrease in the mid-teens compared with the fourth quarter of 2018.

Other revenues are expected to increase approximately 25 to 30 percent, largely due to our television series, “The Weekly” and licensing revenue from the recently announced Facebook News agreement.

Both operating costs and adjusted operating costs are expected to increase in the low-single digits compared with the fourth quarter of 2018, but, as I mentioned earlier, are expected to return to higher levels in 2020 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.