The New York Times Company
First Quarter 2019 Earnings Conference Call
May 8, 2019

Harlan Toplitzky

Thank you, and welcome to The New York Times Company's first 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, and good morning everyone. Well - another encouraging quarter. In the first three months of 2019, we saw continued healthy growth in digital subs as well as further vindication of our distinctive approach to digital advertising. Demand for our Crossword and Cooking products was also very strong in Q1 – I have some news to share this morning about our very latest product launch – and we're in the final stages of preparation for the debut of our new TV program "The Weekly."

But let me begin with journalism. Last month, The Times won two Pulitzers. One for our explanatory reporting for Susanne Craig, David Barstow and Russ Buettner's 18-month investigation into Donald Trump's family wealth, and one for our brilliant editorial writer Brent Staples who won The Times's first Pulitzer for editorial writing in 23 years.

We also shared in the Pulitzer awarded to ProPublica's Hannah Dreier for feature writing. Hannah's award-winning work was featured in The New York Times Magazine, among other outlets. These are only three of the dozens of awards our journalists have won over the past twelve months.

The mission of this company is to deliver great journalism to the world. We attribute the recent success of our digital strategy to the fact that this mission drives everything we do – including our investment decisions. At nearly 1,600 people, our newsroom is the largest it has ever been and we plan to expand it further over the course of 2019.

Investigative journalism remains a particular priority. Original Times investigations drive user engagement and digital subscriptions, but they also drive America's and the world's agenda.The Mueller Report was released last month and it cited The New York Times more than any other news organization, indeed more than one hundred times, confirming both specific episodes The Times revealed and the broader portrait The Times painted of how the White House operates. As recently as last night, we published yet another breakthrough story about Mr. Trump's taxes in the 80's and 90's.

Let me now turn to our results in the quarter. In Q1, we added 223,000 net new digital-only subscriptions, of which 144,000 were to our core news product. That took the company's total number of subscriptions to four and a half million. For the first time, digital-only subscription revenue was more than a quarter of total Company revenue.

Looking ahead, we expect that - as in previous years - we'll see a seasonal dip in the rate of sub growth in Q2. But we remain bullish about our ability to build on our present momentum in subsequent quarters. Over the coming months, you'll see us make some changes to our pay model. We don't have any details of these changes to share with you this morning, beyond saying that they're based on extensive testing in the US and other markets - testing which has given us real confidence that we have the scope to accelerate digital subscription growth even further.

I also want to call out the progress we're making with our Crossword and Cooking products. This quarter, the Crossword product passed the 500,000 total subscription mark, which makes it, in its own right, the fifth largest digital subscription product from a US news provider. Cooking is also scaling rapidly – and indeed continues to beat every internal forecast we set for it.

Meanwhile, today we launch our latest new product, Parenting, in beta. Made by parents for parents, this new product brings trademark Times authority, authenticity and edge to one of the most critical parts of many of our users' lives. We're very excited about it – as we are about "The Weekly," our new TV program for FX and Hulu, which launches in less than four weeks time.

I mentioned that we'd had another very strong quarter in digital advertising. Revenue grew 19 percent year-over-year, with growth coming increasingly from directly-sold inventory – in particular related to the large-scale commercial partnerships we are securing – as well as from our podcasts and marketing services. As you'll hear, we expect the strong growth to continue in Q2, aided in part by comparatively easy comps with the previous year. Our digital advertising strategy is unique in the market - and it's working.

Print advertising, by contrast, fell by 12 percent year-over-year, a return to familiar – and somewhat deeper – declines after the more moderate trends we saw in the second half of 2018. Total advertising revenue was flat. Revenue from print subscriptions also fell slightly in the quarter, this time more in-line with recent quarters.

The good growth in digital revenue more than compensated for print declines and total company revenue grew by 6 percent. Although costs were a little lower than our first quarter guidance had suggested, total operating costs were still 7 percent higher than a year ago. These higher costs - largely attributable to the additional investment we are making in our digital business - meant that, despite the increase in revenue, adjusted operating profit fell from $55 million dollars in Q1 2018 to $52 million dollars in 2019. We expect costs associated with this investment to remain elevated in subsequent quarters.

Let me now hand over to Roland for more detail on the results.

Roland Caputo

Thank you, Mark, and good morning, everyone.

As Mark said, this quarter represents another strong result and solid progress for the Company.

Adjusted diluted earnings per share was 20 cents in the quarter, three cents higher than the prior year. We reported adjusted operating profit of approximately $52 million dollars in the first quarter, which is lower compared with the same period in 2018 by approximately $3 million dollars.

Total subscription revenues increased four percent in the quarter, with digital-only subscription revenue growing 15 percent in the quarter to $110 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 as well as a continued shift of subscribers moving to less frequent and therefore, less expensive delivery packages. This decline was partially offset by a home delivery price increase that began early in the year. Total daily circulation declined eight-point-six percent in the quarter compared with the prior year, while Sunday circulation declined six-point-four percent.

Quarterly digital subscription ARPU declined approximately seven percent compared to the prior year and approximately three percent compared to the 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 resulted in strong net subscription additions in the quarter, and other promotional tests will continue to put downward pressure on ARPU throughout 2019.

Total advertising revenue was flat compared to the first quarter of 2018, with digital advertising growing 19 percent and print declining by 12 percent. The increase in digital advertising revenue was largely driven by growth in direct-sold advertising on our digital platforms including revenue sold against our Podcasts. The print advertising result was mainly due to declines in the studio entertainment, luxury and financial services categories, partially offset by growth in packaged goods, technology and education.

Other Revenues grew 56 percent versus the first quarter in 2018, to $43 million dollars, principally driven by growth in our commercial printing operations from the Newsday suite of products and from additional floors of rental revenue from our headquarters building, both of which we will begin to anniversary next quarter.

GAAP operating costs increased seven percent 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, expenses associated with our growing commercial printing business, and continued investment in the newsroom. Although costs grew slightly less than we predicted, we remain committed to scaling our digital consumer business and expect spending to continue at elevated levels in subsequent quarters.

Our effective tax rate for the first quarter was four percent. The low rate was primarily a result of a tax benefit from the impact of stock price appreciation on our equity based compensation that settled in the quarter. We expect the effective tax rate for full year 2019 to be between 20 and 25 percent.

Moving to the balance sheet, our cash and marketable securities balance decreased slightly during the quarter, ending at $809 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 the fourth quarter of 2019, were approximately $255 million dollars.

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

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

Overall advertising revenues are expected to be approximately flat compared with the second quarter of 2018 and digital advertising is expected to increase in the mid-teens.

Other revenues are expected to increase approximately 35 percent, largely due to the growth in our commercial printing operations and the debut of our television show, The Weekly.

Both operating costs and adjusted operating costs are expected to increase approximately eight to ten percent compared with the second quarter of 2018 as we continue to invest in the digital subscription growth drivers of journalism, product and marketing.

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.