The New York Times Company
Fourth Quarter 2019 Earnings Conference Call
February 6, 2020

Harlan Toplitzky

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

I'll begin this morning with our performance in 2019 as a whole – and what it says about our progress in our digital journey – and then dive into the Q4 results.

A few weeks ago we shared some key milestones of the year with our colleagues here at The Times, and the wider world. Back in 2015, we set ourselves the goal of doubling digital revenue to at least $800 million by the end of 2020. In fact, we managed to hit that goal a full year early with digital revenues of $801 million in 2019. Even more significantly, we were able to add more than a million net digital subscriptions last year – the largest number since the launch of the pay model in 2011, indeed the largest number in the history of The New York Times and, as far as we know, the history of American journalism.

Those new subscriptions meant that we ended 2019 with approximately 4.4 million digital subscriptions as well as 850,000 print subscriptions for a grand total of 5.3 million – again an all-time record for the Company.

So we're seeing continued real acceleration in our digital transition – and especially in our core digital-only subscription business. 2019 was another big year for news and no doubt that's part of the explanation, but I'd point to three other important factors.

First, our new customer journey which we launched halfway through the year, and which requires most users to register and log in if they want to access more than a limited number of Times stories, is clearly working. We now have many more millions registered users than we used to, and are seeing real success in converting them to subscribers.

Second, we're successfully graduating subscribers on even our lowest introductory offers to higher prices, and continuing to effectively manage retention as a whole. Seventeen months after the introduction of the dollar-a-week offer in the US – and five months after the first dollar-a-week cohorts hit the one-year mark, we're still seeing them retain in-line with other cohorts.

This week we begin to roll-out a price rise to a subset of our tenured digital-only news subscription base. Our broader progress with retention gives us confidence that we'll be able to execute this effectively too.

This is the first rise since the launch of the pay model in 2011. Since then, we've not only seen nine years of rising costs, but also unprecedented investment by The Times in its journalism and digital offerings. We believe that our digital news report still represents excellent value for money even with this price rise. Our loyal subscribers know that their financial contribution plays an essential role in maintaining the quality, breadth and depth of the report they value so much.

The third factor is this, under Meredith's leadership, we are now running digital operations at The Times in a radically different way than even a couple of years ago, with cross-disciplinary teams who enjoy significant autonomy and access to the machine learning, engineering and testing capabilities they need to achieve a set of key enterprise objectives. This new way of working has reduced decision cycle-times. It's enabled us to make some bold new bets – like that new registration and log in model – with greater speed and confidence than before. But it also means that we can continually optimize every part of the digital subscription business with dozens of parallel tests running in the background all the time.

We believe that this breakthrough in how we do digital is perhaps the biggest single reason why we're seeing such sustained momentum in the model – and why our core digital results are decorrelating with the rest of our industry. A similar objective-based, team-centered approach also explains the progress we made in 2019 with our standalone products - Cooking, Crossword and Wirecutter - as well as audio and TV.

But let's now look briefly at Q4 itself. We added a total of 342,000 net new digital-only subscriptions, of which 232,000 were to our core digital-only news product, the balance to Cooking and Crosswords, with Cooking especially having a spectacular end to a strong year with 68,000 net new subscriptions in the quarter. To underline my earlier point about acceleration, it's worth noting that the 232 thousand net new subscriptions to our core digital-only news product were 35 percent more than the 172,000 we added in Q4 2018, and 134 percent more than the 99,000 we added in Q4 2017.

Digital-only subscription revenue grew 16 percent compared to a year earlier to $122 million dollars. Encouragingly, despite the acceleration of subscription numbers, marketing costs actually fell year-over-year.

Although we will continue to spend marketing dollars to help drive digital growth when the economics make sense, and therefore do not guarantee that we will see reduced spend in this category in every future quarter, the fact that we saw these positive moves in both Q3 and Q4 suggests that improving operating leverage in our digital model is achievable.

We warned in our last call that the big spurt in digital advertising – 32 percent year-over-year – which we saw in Q4 2018 would make Q4 2019 a tough quarter for us, and we guided to a decline in the mid-teen percentages. In fact, we did a little bit better than that, posting an 11 percent year-over-year decline. As you'll hear when Roland gives you guidance in a moment, we expect to see a sequential improvement in Q1, despite another tough comp.

Let me take a minute to set out a broader perspective on digital advertising and its place in our overall digital growth story.

The past few years in digital advertising have been generally tough for premium publishers, with the major digital platforms taking nearly all of the growth in the market and the shifts from desktop to mobile, and from direct-sold to open-market programmatic, both accelerating. At The Times, we bucked this trend with a cumulative annual growth rate of 7 percent over the past four years. We achieved that by reducing our reliance on generic digital display and developing distinctive new offerings in areas like branded content and marketing services and podcasting, as well as by improving our product offering and performance on mobile.

The pressures on the broader industry are likely to continue in the coming years, and we will continue to transform our advertising business to respond to them. As you know, in addition to the more traditional segments within our digital advertising mix, we're successfully forging large-scale partnerships with the world's leading brands and building revenue from audio and other new sources like last year's brilliantly successful Food Festival. This year we will launch formidable new first-party data based advertising solutions to create new privacy-safe ways of reaching our engaged and valuable audience.

We're ahead of many of the world's other publishers in all of this, we believe, but the pivot will take us time to complete. We expect a return to year-over-year revenue growth from our digital advertising business by the second half of 2020, but this growth rate will be relatively subdued - and below that 7 percent CAGR - for those and some subsequent quarters as the balance of the business shifts.

The strong and sustained growth we're seeing in our digital subscription business means that we remain confident about hitting our overall digital revenue targets, despite the more constrained immediate prospects for growth on the advertising side. Indeed, the current strategic track of the business strongly endorses our declaration four-and-a-half years ago that The Times is a subscription-first publisher.

That is why, when confronted with a potential trade-off between our digital subscription and advertising businesses, we generally favour subscriptions and the best possible user experience. A case in point is the departure of open-market programmatic advertising from our apps last week, which we believe will significantly improve the user experience, while also increasing the value of our directly-sold advertising.

Print subscription revenues in Q4 declined approximately 3 percent, and print advertising by 10-and-a-half percent year-over-year, but strength on the digital side meant that total company revenue grew in the quarter by just over 1 percent to $508 million dollars. Adjusted operating costs grew slightly year-over-year to $412 million dollars with higher content costs – including production costs related to our TV series "The Weekly" as well as increased staffing in our newsroom – partly offset by lower costs in print production and distribution, advertising, and that lower-than-expected marketing cost line I mentioned earlier.

The net result was that adjusted operating profit for the company grew from $94 million dollars in Q4 2018 to over $96 million dollars in Q4 2019.

So a good quarter to cap a strong year for the company – and we enter 2020 with real confidence not just in the current run-rate of the business but also in the potential of The New York Times to grow still further, both by finding additional levers of acceleration in our core digital news product, and by finding new ways of capitalizing on the incredible IP and customer loyalty that The Times commands.

But now, for a detailed look at the quarter, here's Roland.

Roland Caputo

Thank you, Mark, and good morning, everyone.

As Mark said, 2019 was a strong year for the company and we continue to be optimistic about the opportunity ahead.

Adjusted diluted earnings per share was 43 cents in the quarter, 11 cents higher than the prior year. We reported adjusted operating profit of approximately $96 million dollars in the fourth quarter, which is slightly higher than the same period in 2018.

Total subscription revenues increased approximately 4-and-a-half percent in the quarter, with digital-only subscription revenue growing 16 percent to $122 million dollars. This represents a sequential increase in the rate of quarterly growth. As Mark said, we remain very happy with the retention we're seeing from the $1 dollar-per-week promotional subscriptions who have passed the year-long promotional period. We continue to run a test that deliberately bifurcates subscriptions at promotion expiration with approximately half moving to full price, while the others are moved to an intermediate, step-up price. The goal of the test is to identify characteristics that might indicate whether a subscriber may be more price sensitive and therefore, may require additional engagement with our product before moving to full price. Over the longer-term, we expect that most subscriptions will eventually move to full-price.

Quarterly digital news subscription ARPU declined approximately 10 percent compared to the prior year and approximately 3 percent compared to the prior quarter. While the impact from the large number of newly acquired subscriptions, mostly on the $1 dollar per week promotion, continued to be larger than the benefit from existing subscriptions whose promotional offers ended and graduated to higher prices during the period, this marks a slight deceleration in the rate of ARPU decline over both the prior year and quarter.

Given the success we're experiencing in retaining new subscriptions 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 was mentioned, in this quarter we have begun to phase in a price increase for many of our more tenured digital news subscriptions; with those currently paying $15 dollars per billing cycle moving to $17 dollars. We expect the phase-in to consist of a handful of tranches, with the largest tranche of subscriptions affected beginning with their March bill. We expect approximately 750,000 domestic subscriptions to see a price rise by the end of 2020. The effect on Q1 digital subscription revenue from this price increase is expected to be modest due to the roll-out occurring late in the quarter and this is reflected in our guidance. We also expect the rate of pressure on ARPU to moderate in subsequent quarters this year.

On the print subscription side, revenues were down 3.2 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 10.3 percent in the quarter compared with prior year, while Sunday circulation declined 8.3 percent. As we mentioned on last quarter's call, at the end of August, the Starbucks retail chain discontinued the distribution of all print newspapers, including The New York Times, at its corporate-owned locations. This had a meaningful impact on copies, accounting for approximately 2 percentage points of the decline. Print subscription revenue was approximately one percentage point lower as a result of the loss of this distribution channel. The effect was more dramatic than in the third quarter when only one month of sales was affected.

Print and digital advertising revenue each declined approximately 10.5 percent compared with the prior year. The decrease in digital advertising revenue was largely a result of strong comparisons in the prior year in direct-sold advertising, both on our core digital platforms and in creative services, partially offset by continued growth in podcasts. The print advertising result was mainly due to declines in the luxury and financial categories.

Other Revenues grew 30 percent compared with the prior year, to $62 million dollars, principally driven by revenue associated with our television series, "The Weekly," which aired 10 new episodes in the quarter, as well as from our licensing revenue related to Facebook News.

GAAP operating costs and adjusted operating costs each increased approximately one percent in the quarter, as a result of higher 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. These increases were substantially offset by lower costs in print production and distribution, advertising and marketing.

Our effective tax rate for the fourth quarter was 10 percent, which was lower than the statutory tax rate largely due to the reduced tax rate on foreign-derived income and federal tax credits for research activities. On a going forward basis, we continue to expect our tax rate to be approximately 25 percent on every dollar of marginal income with some variability around the quarterly effective rate.

The underfunded balance of our qualified pension plans at the end of the year was approximately $12 million dollars and the plans were approximately 99 percent funded.

Moving to the balance sheet, our cash and marketable securities balance ended the year at $684 million dollars, a decrease from the prior quarter as a result of an approximately $245 million dollar payment made to exercise our option to retire the sale-leaseback of our headquarters building. With this debt retirement, the Company has regained full control of our original leasehold condominium interest in our headquarters building and the Company is debt-free. As a result, the interest expense line on our Income Statement will flip to interest income in the first quarter of 2020.

Given the strong results in 2019 and the retirement of our last piece of outstanding debt, the Company's Board of Directors has approved a one-cent per share or 20% increase to the dividend, to six-cents. Management and our Board will continue to keep the balance sheet and our plans for capital allocation under close review. But as I have previously stated, we have a strong preference for maintaining the flexibility to invest when and in the manner we want in order to fuel further growth in our digital businesses independent of the vagaries of the market and we will therefore continue to take a relatively conservative approach to the management of our balance sheet.

Let me conclude with our outlook for the first quarter of 2020:

> Total subscription revenues are expected to increase in the mid-single digits compared with the first quarter of 2019, with digital-only subscription revenue expected to increase in the high-teens.
>
> Overall advertising revenues are expected to decrease approximately 10 percent compared with the first quarter of 2019 and digital advertising revenues are expected to decrease in the mid-single digits.
>
> Other revenues are expected to increase approximately 15 percent, largely due to our television series, "The Weekly" and licensing revenue from Facebook News.
>
> Both operating costs and adjusted operating costs are expected to increase approximately 5 to 7 percent compared with the first quarter of 2019 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.