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AHC - Q2 2017 A. H. Belo Corp Earnings Call

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CORPORATE PARTICIPANTS

Grant S. Moise *A.H. Belo Corporation - EVP and General Manager of Dallas Morning News*

James M. Moroney *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

Kathryn Mary Murray *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

CONFERENCE CALL PARTICIPANTS

Jonathon Fite

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to A. H. Belo Corporation's Second Quarter 2017 Conference Call. (Operator Instructions) Also as a reminder, today's teleconference is being recorded. At this time, I'll turn the conference call over to your host, Chief Financial Officer of A. H. Belo Corporation, Ms. Katy Murray. Please go ahead.

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

Thank you, Tony. Good morning, everyone, and welcome to our Second Quarter 2017 Conference Call. I am joined by Jim Moroney, our Chief Executive Officer, who will assist me in leading today's call, Grant Moise, Executive Vice President of A. H. Belo Corporation and General Manager of the Dallas Morning News, is also available for Q&A.

Before the market opened this morning, we issued a press release announcing our second quarter 2017 results. We have posted this release on our website under the Investor Relations section. Unless otherwise specified, comparisons used on today's call measure second quarter 2017 performance from continuing operations against second quarter 2016 performance from continuing operations.

Our discussion today will include forward-looking statements. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those statements. The company assumes no obligation to update the information in this communication, except as otherwise required by law. Additional information about these factors is detailed in the company's press releases and publicly available filings with the SEC.

Finally, today's discussion will include non-GAAP financial measures. We believe that non-GAAP financial measures provide useful supplemental information to assist investors in determining performance comparisons to our peers. Reconciliations to the most directly comparable financial measures presented in accordance with GAAP are provided on our website under the Investor Relations section.

Earlier this morning, we reported adjusted operating income, which excludes depreciation, amortization and severance expense, of \$2.8 million, a decrease of \$3 million compared to the \$5.8 million of adjusted operating income reported in the second quarter of 2016. The decrease year-over-year is primarily the result of the \$5.8 million decrease in revenue related to our publishing segment, offset by the \$2.2 million revenue growth in our marketing services segment. On a GAAP basis, net loss attributable to A. H. Belo Corporation was \$800,000, or a loss of \$0.04 per share, a decrease of \$0.07 per share compared to the second quarter of last year.

Turning to revenue highlights. For the second quarter of 2017, total revenue of \$63.1 million represents a decrease of a net \$3.5 million, or 5.3%, when compared to the \$66.6 million reported in the second quarter of last year.

Advertising and marketing services revenue of \$36 million reported this quarter reflects a net decrease of \$2 million, or 5.3%, when compared to the second quarter of 2016. While total revenue was down due to the decline in print revenues, marketing services revenue increased \$2.2 million, or 36.6%, on a year-over-year basis.



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Circulation revenue for the second quarter was \$19.1 million, representing a \$700,000 or a 3.7% decline when compared to the second quarter of '16. The decline was primarily due to a decrease in home delivery revenue. Single copy revenue increased slightly, driven by an increase in the daily single copy rate, which we put in place in the fall, November of 2016, partially offset by a decrease in single copy volume. Printing, distribution and other revenue reported was \$8 million, which reflects an \$800,000, or 9%, decline when compared to \$8.8 million reported in the second quarter of last year. This decline is primarily due to a decrease in the other revenue line related to events, which the company did not host in the second quarter of this year. Total consolidated operating expense in the second quarter was \$63.5 million, a decrease of \$500,000 or 0.7% compared to the prior year period.

Excluding severance expense of \$277,000 and depreciation and amortization expense of \$2.9 million, adjusted operating expense was \$60.3 million, a decrease of \$600,000 or 0.9% compared to the \$60.9 million of adjusted operating expense reported in the second quarter of last year. The decline is primarily due to decreases in outside services, newsprint and distribution expense, partially offset by an increase in DMV revenue-related expenses, driven by revenue growth of \$1.8 million, or 50.3%, in the quarter.

Turning to the balance sheet. As of June 30, we had \$64.9 million of cash and cash equivalents and no debt. Through June 30, we have spent approximately \$4.8 million of the \$13 million of capital expenditure budget planned for the full year 2017. The \$13 million does include the capital for the move to our new headquarters later this year. As of June 30, we had headcount of 1,189, which reflects an increase of 57, or 5%, from the 1,132 we had at June 30 of 2016. The primary headcount driver was the conversion of 117 production headcount from temporary to full-time employees and growth in personnel at DMV. As a reminder, our conversion of temporary to full-time employees has lowered our labor cost in our production facility.

Excluding the increase in DMV headcount and the production conversion headcount, headcount decreased by 71, or 6.3%, when compared to the prior year period. In the second quarter, we announced that we had placed our 3 downtown lots for sale. We are pleased with the interest that we have seen to date and optimistic that we will be able to complete one or more transactions.

In regards to the pension, consistent with prior updates, we do not have any mandatory contribution this year or for the next several years. I will now turn the call over to Jim Moroney.

James M. Moroney - A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News

Thank you, Katy, and good morning, everyone. In the second quarter, we continued to see positive momentum in our growth strategies, which are built around 2 principal pillars, digital and marketing services revenue and digital subscriptions. Our digital and marketing services revenue results this quarter continue to reflect the strong growth of marketing services revenue, especially coming from DMV. Against the second quarter of last year, DMV revenue grew \$1.8 million, or 50.3%, which is on top of a 90% growth that it had in the second quarter of 2016 over the second quarter of 2015.

Additionally, the Dallas Morning News sales team generated 283 sales to DMV and Speakeasy in the second quarter of this year and that compares to 137 sales generated in the second quarter of 2016, more than doubling the number from last year, and this represents continued evidence of how we can leverage our newspaper customer base and improve the performance of our acquisitions.

The growth in our digital and marketing services revenue also continues to play a more meaningful part in contributing to our revenue. In the second quarter of 2017, total digital and marketing services revenue was \$13.9 million, an increase of \$1.8 million, or 14.8%, over the \$12.1 million reported in the second quarter of 2016. The \$13.9 million represents 38.5% of our total second quarter advertising and marketing services revenue compared to 31.8% for the same period in 2016, a 670 basis point improvement. In addition, the \$13.9 million represents 22% of our second quarter total revenue compared to 18.1% for the same period in 2016, a 390 basis point improvement. We're also pleased with the growth in digital subscriptions. At the end of the second quarter, we had 20,270 paid digital subscribers, an increase of 3,269, or 19%, when compared to the digital subscriber base at the end of last year and an increase of 2,101 subscribers, or 11.6%, over the total at the end of the first quarter.

In the second quarter, we were very pleased to be recognized with numerous awards for our continued focus on excellence in journalism. Most recently, we were awarded a national Edward R. Morrow Award for our breaking news coverage of the July 7 police ambush in Dallas. Previous



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winners of this award include The New York Times for its coverage of the Paris attacks and The Boston Globe for its reporting on the Boston Marathon bombing. Earlier in the year, we received the 2016 Sigma Delta Chi Award from Society of Professional Journalists for editorial writing in the large newspaper category. The award merits the Ambush Dallas coverage produced by the Dallas Morning News' editorial team. And also in April, we were awarded 14 National Headliner Awards, including 4 first-place prizes for our journalism in 2016. This annual contest is one of the oldest and largest of its kind to recognize journalistic merit in the media industry.

In addition, we were also recognized as a finalist for the prestigious Pulitzer Prize for breaking news reporting for last summer's deadly ambush of police in downtown Dallas and the coverage that we provided.

I'd like to take a minute now to recognize Keven Willey, our Vice President and Editorial Page Editor, who announced that she will be retiring at the end of this year after 15 years of service to our company. Keven's leadership of our editorial board stands as a testament to how an editorial board still plays a critical role in shaping the agenda of the city it serves and how it fosters informed discussion of important issues. There is no better example of this than the 10-year editorial series, Bridging the North-South Gap, which highlights the persistent inequities in our city and has been one of the most notable examples of her editorial vision. In 2010, 3 Dallas Morning News editorial writers were honored with the Pulitzer Prize for editorial writing for their work on this series. I am grateful for all that Keven has contributed to this institution and to the mission it serves.

In closing, the work we are doing supports our mission to make our community stronger through quality journalism and to provide innovative ROI-based marketing solutions to our customers. We look forward to the second half of this year as the company continues to deliver on our strategy of diversifying our sources of revenue, principally through growth and paid digital subscribers and marketing services revenue. Tony, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And first question will come from Jonathon Fite with KMF Investments.

Jonathon Fite

I have a couple of balance sheet questions. I just wonder if you guys have an update on the timing of the headquarters move and any updates on asset sales that you could provide?

Kathryn Mary Murray - A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary

Jonathon, this is Katy. As we mentioned on the call, we do still have the 3 lots in downtown Dallas, 2 are parking lots and 1 is WFAA Plaza. Those are held-for-sale. There is a fair amount of activity on those, and I just mentioned, I am optimistic that we will probably close one or more transactions regarding those lots. We are not disclosing price right now. Obviously, we're just in early stages into the negotiation. In regards to our downtown campus, what we have said in the past and it still holds, until we actually move, which we're scheduled to move later this year into our new headquarters, we have not made any formal decisions around the campus that we have here. And at that time, when we do, we will definitely come back and let the investors know what our next steps and plans are. But again, we don't have to move out yet, and until we do, we're going to hold on that decision.

James M. Moroney - A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News

Katy, would you tell him kind of still what is our -- at least the timing around our move as we know it now?



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Kathryn Mary Murray - A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary

Right now, the anticipated timing of moving is starting in October. And I would expect that we will be able to be complete by the end of the year.

Jonathon Fite

Okay, thank you for that. Is there any priority for the lots. It sounds like whatever happens with the headquarters facility, like maybe a 2018 event, but for the lots that you guys are in process with, has there been any discussion on the priority of use of proceeds for that?

Kathryn Mary Murray - A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary

There hasn't been. Right now from a real estate perspective, felt like it was the right time to start looking at consideration for that. And once we have either completed transactions or have any additional information, we'll talk about capital allocation. That's something that we do consistently talk about, but there has been no specific discussion on the use of proceeds.

Jonathon Fite

Okay. And can you remind me the 10-year rate was kind of in the 2.50% range at the end of last fiscal year. If we were to approach something close to 3% by the end of this year, can you talk a little bit about the pension sensitivities there?

Kathryn Mary Murray - A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary

Yes, the pension sensitivity, consistent with prior discussions, about 0.25 point move on interest rates, holding all of the investment side, so all the returns and everything else being held consistently, basically reduces our pension liability, call it, by anywhere between \$10 million and \$12 million. Again, that's holding the return on the asset side. I mean, a lot of times when interest rates go up, you know that the returns go down. But all things being consistent, a full point would be close to between \$45 million and \$50 million.

Jonathon Fite

Okay. So 0.5 point is almost \$1 per share of improvement to the book value. And I think on previous calls, you all had talked about kind of a sales alliance, kind of a national negotiating arm, as it relates to the print side. Can you talk a little bit about the traction that, that has taken and kind of what that might bode for the outlook over the next few quarters?

Grant S. Moise - A.H. Belo Corporation - EVP and General Manager of Dallas Morning News

Jonathon, it's Grant Moise. I'm happy to kind of update you there. That group selling entity is called Nucleus. The group represents the top 30 newspapers, the top 30 largest markets in the United States. That team is in full swing. I've been very pleased with the pipeline that they're showing of the number of advertisers that we're having new conversations with, who have not historically been newspaper advertisers. The early returns and revenue coming in off that initiative is -- has definitely slowed the decline of that area of our business. However, it's not getting us back into the black and seeing growth year-over-year in national advertising. But I am pleased that they've helped kind of mitigate that decline of what we saw last year and actually have almost cut that in half. And again, if the pipeline can convert to closed sales, we'll be very pleased at how that helps each of us in the top 30 markets to have more active selling conversations with these national advertisers rather than what has historically been, what I call, caught business where we just kind of catch what we're able to get. But I'm happy to have this group and pleased with the number of sales calls that they're making on our behalf.



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Operator

(Operator Instructions) I'm showing no additional questions at this time. Please continue.

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

Jim, with no additional questions, do you want to conclude?

James M. Moroney - *A.H. Belo Corporation - Chairman, CEO, President, CEO of the Dallas Morning News and Publisher of the Dallas Morning News*

Let's call it a wrap.

Kathryn Mary Murray - *A.H. Belo Corporation - CFO, Principal Accounting Officer, Senior VP, Treasurer and Assistant Secretary*

All right, thank you, Tony, very much.

Operator

Thank you. And ladies and gentlemen, this conference will be available for replay after 11 a.m. Central Time today running through August 8 at midnight. You may access the AT&T Executive Playback Service at any time by dialing (800) 475-6701 and entering the access code of 426163. International participants may dial (320) 365-3844. That does conclude our conference call for today. We do thank you for your participation and for using AT&T's Executive Teleconference. You may now disconnect.

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