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AHC - Q4 2015 A. H. Belo Corp Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the fourth-quarter and full-year 2015 conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions). Also as a reminder, today's teleconference is being recorded. At this time, we will turn the conference over to your host, CFO for A. H. Belo Corporation, Ms. Katy Murray. Please go ahead.

Katy Murray *- A.H. Belo Corporation - SVP & CFO*

Thank you, Tony. Good morning, everyone, and welcome to A. H. Belo Corporation's fourth-quarter 2015 and full-year 2015 conference call. I am joined by Jim Moroney, our Chief Executive Officer, who will assist me in leading today's call. Grant Moise, Senior Vice President, Business Development and Niche Products, is also available for Q&A.

Before the market opened this morning, we issued a press release announcing our fourth-quarter 2015 and full-year 2015 results. We have posted this release on our website under the investor relations section.

Unless otherwise specified, comparisons used on today's call measure fourth-quarter 2015 and full-year 2015 performance from continuing operations against fourth-quarter 2014 and full-year 2014 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 direct comparable financial measures presented in accordance with GAAP are provided on our website under the investor relations section.

Before I start with our fourth-quarter results, I want to say how motivated and pleased we are with the results not only for the fourth quarter, but for the full year. We had every confidence that the fourth quarter would have a strong performance and we were right.

Now to the results. This morning, A. H. Belo Corporation reported total revenue of $73.1 million in the fourth quarter of 2015, flat to the $73.2 million recognized in the prior year. Advertising and marketing services revenue of $42.5 million was down slightly from the $43.3 million recognized for the same period of 2014.

Circulation revenue was flat at $21.4 million compared to the fourth quarter of 2014 due to both our best performance in home delivery subscription starts among all quarters this year and to a decrease in churn as a result of our increased focus on retention and loyalty programs. And printing, distribution, and other revenue increased by 7.6% to $9.1 million, primarily due to the $1.1 million or 131% increase in revenue from our event marketing business, CrowdSource, about which Jim will be sharing more details in his comments.

Total consolidated operating expense in the fourth quarter was $82.6 million, a 3.1% increase compared to the prior year. Excluding the pension settlement charges of $15 million recorded in Q4 of 2015 and $7.6 million recorded in Q4 of 2014, severance expense of $100,000 in Q4 of 2015 and $900,000 in Q4 of 2014 and the $2.9 million of Q4 2015 operating expenses associated with DMV acquired in the first quarter of this year, operating expenses were down a net $6.9 million or 9.7% compared to the fourth quarter of 2014 total operating expenses as adjusted of $71.6 million. This reflects the Company's continued focus on expense efficiencies.

For the fourth quarter, we reported a net loss attributable to A. H. Belo Corporation of $13.7 million or a loss of $0.64 per share, a decrease of $3.71 per share compared to the fourth quarter of 2014. This decrease is primarily due to the high pension settlement charge we recorded in the fourth quarter of this year compared to the same period in 2014 and to the prior-year gain of $77.1 million on the sale of the Company's investments in Classified Ventures.

In regards to our full-year 2015 results, we reported total revenue of $272.1 million, which is essentially flat to the $272.8 million reported in 2014. Advertising and marketing services revenue of $156.8 million was down $1.4 million or less than 1% from the $158.2 million reported in 2014.

Circulation revenue was $83.6 million, down $1.3 million or 1.6% from the $84.9 million reported for 2014. Printing, distribution and other revenue increased by 6.9% to $31.7 million, primarily due to the $2.7 million or 219% increase in revenue from our event marketing business, CrowdSource.

Total consolidated operating expense for the full-year 2015 was $290.4 million, a 3.5% increase compared to the $280.5 million in consolidated operating expenses for 2014. Excluding the pension settlement charges of $15 million recorded in 2015 and $7.6 million recorded in 2014, the severance expense of $2.8 million recorded in 2015 and $1.2 million recorded in 2014 and the $9.2 million of operating expenses associated with DMV for the full year of 2015, full-year operating expenses were down a net $8.4 million or 3.1% compared to the full-year 2014 operating expenses of $271.7 million as adjusted. Again, this decrease was driven by the Company's continued focus on expense efficiencies.

For the full-year 2015, we reported a net loss attributable to A. H. Belo Corporation of $17.8 million or $0.84 per share, a decrease of $4.66 per share compared to the full-year 2014. This decrease is due to the increase in pension settlement charge compared to 2014, the $1.7 million increase in severance expense over 2014, and to the prior-year gains of $95.6 million related to the sale of the Company's interest in Classified Ventures.

Turning to the balance sheet, as of December 31, we had $78.4 million of cash and cash equivalents and no debt. We have 1100 full-time employees with almost all employees located in Texas.

In regards to real estate, as of December 31, 2015, we owned four parking lots in downtown Dallas and three contiguous lots in Providence, Rhode Island. The value of all of these lots is approximately $15 million to $20 million. In addition, the lots in Dallas in aggregate are cash flow positive.

In the fourth quarter, we recognized a non-cash pension charge of approximately $15 million relating to the pension lump sum offer that was initiated in the third quarter of 2015 with disbursements finalized in early December. We were very pleased with the results of our derisking initiative. We had 931 or 33.1% of the eligible population make lump sum elections totaling approximately $100 million, which reduces our present benefit obligation from approximately $369 million pre-offering to $262 million post-offering. On an economic basis, the success of this program has reduced the estimated termination liability by almost $20 million and lowers the ongoing cost of administering the plans.

For the fourth quarter, operating income, excluding depreciation expense, amortization expense, severance expense and pension settlement expense, was $8.6 million, an increase of $3.2 million or 59% from the $5.4 million reported in the fourth quarter of 2014. For the full year, operating income, excluding depreciation expense, amortization expense, severance expense and pension settlement expense, was $12.4 million compared to our guidance of $11 million to $13 million for the full-year 2015.

Reconciliations of operating income or loss for 2014 and 2015 are available on the investor relations section of the Company's website. I will now turn the call over to Jim Moroney.

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

Thank you, Katy. Good morning, everyone. Before I talk about the specific results, I want to repeat what Katy said. We are very pleased not only with our fourth-quarter results, but with our financial results for all of 2015. It's been an exciting year for us operationally and we finished the year with a very strong quarter.

As Katy mentioned, our total full-year revenue of $272.1 million is virtually flat with the $272.8 million we reported in 2014. As we all recognize, our industry continues to face headwinds in regards to print-related revenues and to be able to report that our total revenue is flat to last year is very encouraging.

Let me give you some highlights from 2015. Total digital advertising and marketing services revenue of [$42.5 million in 2015 represents an increase of $10.2 million or 31% from the $32.3 million reported in 2014] (corrected by company after the call). The growth in our digital and marketing advertising revenue continues to accelerate and for the 2015 period, this source of revenue represents [15.6% of our total revenue compared to 11.9% for 2014] (corrected by company after the call).

Also, for full-year 2015, total digital and marketing services revenue was [27.1% of total advertising and marketing services revenue and this compares to 20.5% for full-year 2014] (corrected by company after the call). These accelerations are a reflection of our continuing focus on revenue diversification through both organic growth and strategic acquisitions.

As you recall, on January 2 of last year, we acquired three marketing services businesses -- Distribion, Vertical Nerve, and Marketing FX or DMV. The performance of DMV in 2015 exceeded our expectations on many fronts. First, the Dallas Morning News sales team generated $1.3 million of sales for the DMV marketing services offering. We had 61% of our salespeople sell into one or more of the DMV businesses and in addition, our salespeople brought 174 new customers to DMV in 2015. For 2016, we expect this momentum to continue with $2 million to $3 million in cross-selling marketing services from our DMN sales force into the DMV businesses.

Second, from a top-line perspective, DMV generated over $10 million in revenue and over $900,000 in EBITDA. Third, and maybe most importantly, both the DMV and the Dallas Morning News teams are working seamlessly together. We expected this acquisition to demonstrate that we could leverage our sales force and our local customer relationships to improve the revenue trajectory of DMV, and we did just that. Year-over-year 2015 revenue growth for DMV was 34%.

Turning to circulation revenue, like print advertising revenue, it continues to face industry headwinds as well. However, in 2015, we were able to report circulation revenue of $83.6 million, which is only a slight decline from 2014 of 1.6%. In 2015, we continued to focus on ways to efficiently increase quality starts in our home delivery business, as well as to focus on our existing subscribers by enhancing our loyalty programs. While we are proud of how our marketing initiatives helped to improve results for home delivery, we are confident that our ability to maintain our circulation revenue is very closely tied to the quality and depth of the journalism that we provide to the Dallas-Fort Worth and North Texas communities.

In addition to the growth and stability that we saw in areas of our core business, CrowdSource, our event marketing business, continues to grow and expand. For the full-year 2015, CrowdSource revenue grew 219% or $2.7 million from the $1.2 million reported in 2014. CrowdSource revenue growth is in large part attributable to the expansion of the Untapped craft beer festivals from three festivals in 2014 to five festivals in 2015, including the opening of the Austin and San Antonio markets. Total attendance of all Untapped festivals grew from 17,000 in 2014 to 33,000 in 2015.

In addition, this was our inaugural year to host The Reunion, an event which kicks off the great Texas-Oklahoma football rivalry weekend, now in its 116th year. We had over 7500 patrons enjoying food, music, and fireworks at this event, and those were all paid admissions.

Over the past several years, we have built and bought an impressive portfolio of marketing solutions companies and products. Like many companies who have built or bought companies over a short period of time, we have identified that our infrastructure needs to catch up with our expanding capabilities. So in this year, 2016, we will be putting less emphasis on growing our marketing solutions portfolio and investing instead more time improving how we can help our customers best utilize our marketing solutions to sell more of their goods and services.

We're going to improve how we go to market with this portfolio of marketing solutions we have built and bought in order to ensure that we could make it as effective as possible for our customers. We want to be certain that we understand their marketing objectives, what they are trying to achieve, and then as expertly as possible assemble the right combination of our marketing solutions that best solves for their needs.

In addition, we are putting a concerted effort into making sure our systems and processes that support this ecosystem of marketing solutions are streamlined to ensure the client experience with all of our companies is best-in-class.

At the same time, we will intensify this year our focus on the publishing segment of our business. We want to be sure we maximize the returns we get from our print franchises while we continue to invest in the building and the evolution of our digital publishing so that it meets the constantly changing needs of consumers who get their news and information through digital platforms. We want to improve on both the reach and engagement that our digital publishing presently achieves while simultaneously improving on the revenue yield.

However, as always, the goal remains the same. We need to build a business model that can be sustainably profitable. This means restarting consistent revenue growth, running the businesses as efficiently as is prudent, and along the way innovating to meet the needs of the news and information consumer and offering our business customers the marketing solutions that give them an excellent return on the marketing investment that they make with us. As we look forward, we're excited about our business and growth opportunities. Tony, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Richard Diamond, Strait Lane Capital.

Richard Diamond - *Strait Lane Capital - Analyst*

Good morning, everyone. Katy, I just had a quick question, and I was little bit late in arriving. Can you take us through the calculation of the Q4 tax rate?

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

Okay, that is not a short, simple answer. On the fourth quarter, as you know, coming through this year, there's a couple of things that, from a tax perspective, we have as we will talk through. When our 10-K is released, you will see we still do maintain a full valuation allowance on our deferred tax assets. When you look at this year and you look at the actual losses that we incurred, we had been basically booking a benefit for income tax provision.

So part of the cancellation this year is we also have a 2.1 benefit from the deferred tax liability acquired through DMV. We have taxes from a state perspective, about $0.5 million, which leads to the $1.5 million of the tax benefit that was booked for this -- for the year.

I know it's not the most straightforward given the valuation allowance. I think once the 10-K is filed, which will happen in the next several days, I think it will be easier to walk through the overall provision and reconciliation on the tax rate, and the effective tax rate, but those are the two most specific items of our deferred tax -- the deferred tax liability that was acquired through DMV and then the state taxes of $0.5 million.

Richard Diamond - *Strait Lane Capital - Analyst*

Thank you very much, I appreciate it.

Operator

(Operator Instructions). John Kornreich, [KKA Media].

John Kornreich - *KKA Media - Analyst*

A couple questions. What was the CapEx for the year? I missed that. And any projections for 2016?

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

The CapEx for 2015 was approximately at $6 million and I would say the CapEx for 2016 is going to be approximately $7.5 million to $8 million.

John Kornreich - *KKA Media - Analyst*

Is there an overhead number that we could identify in the Company? Do you have a line that says corporate overhead, back office, whatever you call it?

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

Is there something specifically on the overhead that you are looking for or are you talking about like an all-in -- overhead for many companies can be varied depending on what they allocate out, including IT. We obviously are self-insured, so we have a high medical cost that (inaudible) through. So kind of give me a little bit of help if you're trying to capture account-level expenses or a line that's not being allocated.

John Kornreich - *KKA Media - Analyst*

How could I differentiate between what we analysts call BCF and OCF?

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

So BCF being --?

John Kornreich - *KKA Media - Analyst*

Being the pure earnings of the media property before we get to more general functions.

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

Okay.

John Kornreich - *KKA Media - Analyst*

I know it's probably difficult because you are basically a one-property company.

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

We are a one property. What does the B stand for in BCF?

John Kornreich - *KKA Media - Analyst*

In the case of -- it's called broadcast cash flow.

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

Oh, okay. I'm sorry -- and then operating cash flow. Okay, I couldn't figure out what it would be.

John Kornreich - *KKA Media - Analyst*

Usually overhead runs 3% of the basic property.

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

If I had to do that on the publishing side, when you are looking, because we are -- we are a single property and if I'm excluding what I would call our marketing and our other services lines from a total overhead, we are probably running anywhere between mid and single digits. I would probably call it closer to -- probably to the 6% and part of that is it's not -- it's all --.

John Kornreich - *KKA Media - Analyst*

Oh, you're talking about percentage? I thought you meant like $5 million to $7 million.

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

Oh, no. No, as a percentage of revenue.

John Kornreich - *KKA Media - Analyst*

Okay, I got it.

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

You just got Jim very excited about the (multiple speakers).

John Kornreich - *KKA Media - Analyst*

Jim, how is a one-property-centric, I know there's more than purely one property, but a one-centric property media company maximizing its earnings potential in that form as opposed to long term being part of a much larger company? After all, if I look at your reported operating cash flow, the margin is 6%. If somebody were able to strip out that 6%, all of a sudden, you're doing $25 million of operating cash flow.

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

John, I would say that you've got to take where we started from and we had two other properties, which, on the one hand, you could say helped spread out overhead that you're talking about. On the flipside, we are in two very, very challenged markets -- Riverside being the epicenter of the subprime meltdown and was not looking like it was going to be recovering for a long time, and Providence, which has never been really a great growth market, and obviously suffering from the same problems that overhang a lot of markets coming out of the 2008-2009 period.

So it just didn't make sense for us because we didn't have the kinds of synergies that other newspaper companies can have by combining printing or delivery and so forth and they were really a drag on the Company's ability to sort of figure out this business model and try to get it healthily growing again.

So we did sacrifice, if you will, some ability to spread the overhead out in order to try to focus on where we had a great market, which Dallas-Fort Worth was and still is and I think will continue to be and allow us to focus on our absolutely most important property, Dallas, financially and otherwise.

Finally so that we could really focus on how do we turn this business model around and not have to be dealing with ancillary issues like Providence and Riverside contributed that really weren't helping us get this model figured out? I'm not saying we declared victory by a long shot, but I do think that we have done a very good job in diversifying our revenue and that report that we were able to put out today showing that we are basically flat if you compared it to at least the other publicly reporting peer companies is a pretty good job.

But I will acknowledge that we are, to some degree -- what's the right word -- the fact that we are public and we're small and we're a single company and not a multiple company property does cause our earnings to be less than they would have been if you could take all this overhead and spread it around the kinds of newspapers that are owned by big companies like McClatchy or Gannett and so forth.

At this point in time, we are very happy to be doing what we are doing honestly because we are able to I think be more nimble and make decisions more quickly about how we change our business model than if we were part of a much larger company that has to be dealing with a whole lot more issues. And I can speak to that directly because at one time I was running 21 television stations across the country and I know that there's challenges in trying to move that kind of group when you have to do a lot of innovation and change.

So I will acknowledge the point and the challenge financially that it puts us in, but I really think we are in a better place to try to solve the newspaper industry business model problem focusing on one market and having a very tight sort of center of control than if we were spread out across the country like some of our bigger colleagues are.

John Kornreich - *KKA Media - Analyst*

Thanks for the response.

Operator

(Operator Instructions). David Cohen, Minerva Advisors.

David Cohen - *Minerva Advisors - Analyst*

Good morning, guys. I had a couple of questions regarding the digital marketing piece of the business. First of all, you did make reference in the script to DMV exceeding your expectations. My memory when you made the acquisition last January is that you forecast quite a wide range of EBITDA, which was I think $800,000 to $1.3 million and I think also in the script, you said it generated about $900,000 in EBITDA. I'm trying to understand how that number related to the range constitutes exceeding expectations.

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

Well, David, what we are referring to is not only did we have I think a good financial result with DMV because integrating any company into another has its challenges, but the part that really encouraged us and where we exceeded our own internal estimates of what we're being able to do was all on what we call the channel sales side, the Dallas Morning News sales group of being able to learn to sell all three of the Distribion, Vertical Nerve and Marketing FX products and then being able to take our current customers and new customers and sell them into DMV, thereby accelerating the rate of their revenue growth from what it was when we purchased it.

And I think that's the most important outcome of this acquisition because if we are going to make this marketing solutions ecosystem that we've been building work for us, we have got to be able to take our Dallas Morning News sales force and be able to sell across the entire portfolio, not just one or two or three parts of that portfolio. And this, of course, was the first company that we really bought as opposed to ones that we built internally.

So how that integration is going to work with a company that already had its own culture and its own sales force we thought was going to be challenging and it was to a degree, but we think we have demonstrated that we can continue to build out this marketing solutions ecosystem in the future and do what we have done with DMV and continue to do, by the way, this year with DMV more of what we did in 2015.

As I pointed out though, we're taking a little pause here on being aggressive about trying to acquire and build something else in 2016 and making sure that we've really got our salespeople trained as well as we need them to be to be able and go to make the value proposition for this ecosystem to our current customers and other customers in the marketplace.

So when we are really pleased about what happened with DMV, it's financial in part, but it also is operational even to a greater degree.

David Cohen - *Minerva Advisors - Analyst*

Okay, you definitely anticipated one of my next questions, which was I wanted to understand better the comment about less emphasis this year on growing the marketing portfolio and I think you've now sort of answered that question. Namely you'll just organically try and evolve the portfolio and optimize what you have this year.

To that end, I'm trying to understand a little bit, and I realize that talking about DMV as a standalone business becomes less and less meaningful as time passes, but I'm trying to understand what the sort of underlying organic growth rate might be. And it seems to me that you cited this 34% year-over-year growth for DMV revenues, but obviously that includes the incremental contribution from the DMN cross-sell, which I'm assuming isn't necessarily sustainable at that rate of increase. So is this a business that's growing sort of 20% on an underlying apples-to-apples basis or how should we think about that?

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

David, I think it's a fair question. I would tell you that, from an organic perspective, 20% to 25% is a fair way to think about DMV, kind of what's a starting point of where they are from you would call it $10 million. I do think, though, that on the DMN sales side, if you think about our capacity -- we acquired them. It takes time to integrate, so think about six months of real activity this past year. I think that the DMN sales activity will continue to increase and I actually think we have an opportunity, as we even mentioned on this call. We expect it to actually be between $2 million and $3 million this year, which is a substantial increase over what happened this past year.

So I think, on an ongoing basis, if you think about the two of them blended, I would actually think that the 30% is a fair assessment. Now, obviously, as you continue to get larger and larger numbers, you are going to see that taper a bit, but I think the other thing you have to member is this is a recurring revenue business, which, again, from a bookings perspective, being able to have the repeat clients, the stickiness of the clients, I think that you are not only going to see the new customers coming in, but you are going to be seeing the repeat business coming in, which is going to help to sustain the growth rate.

Grant Moise - *A.H. Belo Corporation - SVP, Business Development & Niche Products*

David, it's Grant Moise from the business development side as well. What we have found that's very -- great synergy with this business, but also a bit different, as Katy mentioned, is the organic kind of long-term growth of this. These are much -- we're looking at 12 to and sometimes 36-month contracts that we are signing with some of these clients on these businesses, which, as you know, is quite different from a usual kind of newspaper business that's kind of insertion order to insertion order or month-to-month, if you will.

Some of this as well is we like the foundation that we are building of the revenue on the DMV side of the business because maybe longer to close these sales, but at the same time they are much longer and kind of business that we can stack on top of itself.

David Cohen - *Minerva Advisors - Analyst*

That's helpful, Grant. Thanks. The final observation I would make, and it sort of dovetails with John's line of questioning, is I think we and some other investors feel like the underlying pieces of the business have some value that's not really showing through. And the more you guys can do to sort of highlight the segment profitability and dynamics I think the better for everyone. So we would encourage you guys to think about that as we move forward. Thanks a lot.

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

David, on that point, just to follow up on that, we started segment reporting this year in the second quarter of 2015. Again, our 10-K will be filed call it within the next several days. I think that the segment reporting, as we've talked about in the past, continues to evolve as we continue to think about the business and as we're thinking about how to show the profitability and these businesses from a segment perspective and so what I would say with that -- obviously segment reporting is a fundamental piece of the 10-K and once that is filed, I think it will be an opportunity to talk more about the segments.

David Cohen - *Minerva Advisors - Analyst*

Great, thank you very much.

Operator

Thank you. At this time, there are no additional questions in queue. Please continue.

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

I think then, Tony, unless anything has come up just now then we are good.

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

Thank you, everyone.

Operator

Thank you very much. Ladies and gentlemen, this conference will be available for replay after 11:00 AM Central Time today running through March 11 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 386261. International participants may dial 320-365-3844. (Operator Instructions). That does conclude your conference call for today. We do thank you for your participation and for using AT&T executive teleconference. You may now disconnect.