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# EDITED TRANSCRIPT

AHC - Q1 2016 A. H. Belo Corp Earnings Call

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## CORPORATE PARTICIPANTS

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

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

**Nicki Purcell** *A. H. Belo Corporation - Chief Digital Officer and SVP, Consumer Sales*

**Mike Wilson** *The Dallas Morning News - Editor*

## CONFERENCE CALL PARTICIPANTS

**Barry Lucas** *Gabelli & Co. - Analyst*

**Chris Mooney** *Wedbush Securities - Analyst*

**John Cornrink** *J&P Media - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to the A. H. Belo Corporation Q1 2016 earnings call. (Operator Instructions) As a reminder, today's call is being recorded.

I'll turn the conference over to Ms. Katy Murray, Chief Financial Officer. Please go ahead.

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

Thank you, John. Good morning, everyone. This is Katy Murray, Chief Financial Officer of A. H. Belo Corporation. Welcome to our first-quarter 2016 conference call.

I am joined by Jim Moroney, our Chief Executive Officer, who will assist me in leading today's call, and 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 first-quarter 2016 results. We have posted this release on our website under the Investor Relations section. Unless otherwise specified, comparisons used on today's call measure first-quarter 2016 performance from continuing operations against first-quarter 2015 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.

I will now turn the call over to Jim Moroney.



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

Thank you, Katy and good morning, everyone. Before we talk about specific financial results, I want to say how pleased we were with our first-quarter results and the \$3.6 million improvement we delivered in our reported adjusted operating income from this time last year. This improvement is the direct result of expense reduction initiatives enacted in the second half of 2015 and our efforts to continue to diversify our sources of revenue so that we are less dependent on print advertising revenues.

Let me give you a few highlights from our first quarter. The growth in our digital advertising and marketing services revenue continues to accelerate, and for the first quarter of 2016, total digital advertising and marketing services revenue of \$11.5 million reflects an increase of \$2.2 million or 23.5% from the \$9.3 million reported in the first quarter of 2015.

In addition, this represents 18.5% of our total revenue compared to 14.3% for the same period in 2015, a 420 basis point improvement. For the month of March, on a standalone basis, total digital advertising and marketing services was 21.8% of total revenue compared to 14.5% for the month of March and 2015. On a year-over-year basis, this represents a 730 basis point improvement for just this one month.

This acceleration is a direct result of the organic growth of marketing services revenue from DMV and Speakeasy. DMV revenue grew \$1.2 million or 65.6% over the first quarter of 2015, and Speakeasy revenue grew \$900,000 or 102.1%. The Dallas Morning News sales team generated 112 sales to DMV and Speakeasy in the first quarter. These results are further evidence that our strategy of building a marketing solutions ecosystem is showing results for us and for our customers.

In the first quarter, we reported only a slight decline in circulation revenue when compared to the first quarter of 2015. Lower home delivery and single copy volumes were offset by an increase in home delivery subscription rates. Later this month we will be launching a meter, and we will be following the best practices of other newspapers who have had a meter installed on their sites and apps for several years.

We reported \$6.9 million in other revenue, which reflects a \$700,000 decline when compared to the first quarter of 2015. Approximately \$400,000 of this decline is related to timing.

CrowdSource, our event marketing business, hosts Savor, a four-day celebration of food, wine and spirits in Dallas. Last year this event was held in the first quarter. This year the event was held in April. This year's event generated over \$800,000 in revenue and was attended by approximately 5400 guests.

In addition to the Savor event hosted in April, we will be hosting our live music and craft beer festival called Untapped in Austin in May and in Fort Worth in June.

As I indicated in our last earnings call, 2016 would be a year when we would focus less on new product development and new business acquisitions in favor of focusing on improving how we can help our customers best utilize the suite of our marketing solutions we already own in order to sell more of their goods and services. Achieving this goal requires investment across our organization: investment in our sales effort, investment in our infrastructure, investment in our data analytics capabilities, and investment in our brand. We have been doing all these things thus far this year, and we will continue to do them as the year plays out.

In regards to our investment in data analytics, we began development of an internal enterprise data warehouse 18 months ago. This enabled us to align several key consumer touch points with subscriber data, marketing campaign results and financial data so that we could make better informed business decisions about how we optimize our approach to subscriber acquisitions. This year we intend to infuse our data analytics capabilities across the entire A. H. Belo portfolio of companies by building a single data analytics team. This move will improve our own business effectiveness, and we will leverage our data analytics capabilities to increase our clients' marketing effectiveness.

In regards to investment in our brand, we have been evaluating how we communicate our suite of marketing services to our business clients. In 2011 we launched our suite of marketing services under the brand of DMNmedia. Since that time, through products we have built and acquisitions we've made, we have significantly expanded the marketing solutions that we offer. We will be rebranding the marketing services division of our company and significantly investing in our marketing communication to our business customers.

With this new B2B brand, we will clarify and firmly establish the value of the marketing solutions ecosystem we have built. We are targeting the launch of our new B2B brand for the third quarter of this year.

We are very pleased with how we are operationally and financially positioned as we approach the back half of the year, and we are very excited about our continued growth in delivering quality journalism to our audiences and digital and marketing services to our business customers.

I'll now turn the call over to Katy to discuss specific financial results.

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

Good morning, everyone. As Jim indicated, we are very pleased with our financial performance in the first quarter. This morning we reported total revenue of \$62.5 million, down \$3 million or 4.5% from the \$65.5 million recognized in the first quarter of 2015. Advertising and marketing services revenue of \$35.2 million was down \$1.6 million or 4.3% from the \$36.8 million recognized for the same period last year, primarily due to a decrease in print advertising revenue partially offset by an increase in digital and marketing services revenue.

Circulation revenue of \$20.4 million was down \$700,000 or 3.3% compared to this time last year due to lower home delivery and single copy volumes, partially offset by an increase in home delivery subscription rates.

And finally, printing distribution and other revenue reported was \$6.9 million, a decrease of \$700,000 or 8.9% from the same period in 2015.

Total consolidated operating expense in the first quarter was \$64.3 million, a decrease of \$6.3 million or 8.9% compared to the prior year. Excluding severance expense of \$700,000 and depreciation and amortization expense of \$2.9 million, adjusted operating expenses were \$60.7 million, a decrease of \$6.5 million or 9.7% compared to the \$67.2 million of adjusted operating expenses reported in the first quarter of last year.

The significant year-over-year reduction in operating expenses is a result of our successful cost reduction exercises initiated in the second half of 2015. For the first quarter, we reported a GAAP net loss attributable to A. H. Belo Corporation of \$600,000 or a loss of \$0.03 per share, a decrease of \$0.05 per share compared to the first quarter of last year. On an adjusted operating basis, operating income, including depreciation expense, amortization expense and severance expense, was \$1.8 million, an increase of \$3.6 million from the loss of \$1.7 million reported in the first quarter of last year.

Turning to the balance sheet, as of March 31, we had \$74.7 million of cash and cash equivalents and no debt. As of March 31, we had a headcount of 1134, which reflects a net reduction of 110 or 8.8% from the 1244 we had at March 31 of last year. Excluding the hiring and DMV in both quarters, headcount would have declined 135 or 11.2% from the 1201 reported at March 31, 2015, to 1066 as of March 31 of this year.

In closing, again we are very pleased with our performance this quarter and look forward to continuing to deliver value to our shareholders.

John, we are now ready for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Barry Lucas, Gabelli & Co.

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**Barry Lucas** - *Gabelli & Co. - Analyst*

Thank you and good morning, Jim, and everyone there. Can you just start on the expense side of the ledger here and how much more room do you think you have on the expense side or once we lap the big second-half 2015 reductions? We've kind of stabilized at that level.

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

Hi, Barry. This is Katy. So, as we indicated, we took out a significant amount of expense in the second half of the year, so we are going to start seeing the full-year results as you see in the first quarter.

In addition, as part of our planning exercise this year, we did take out an additional \$10 million. So when you think about what we did in the second half of last year of \$12 million and \$10 million coming out of just the whole operating plan for this year, at this time I think we have taken out all of the expenses for this year. Obviously we will continue to look at revenue-related expenses depending on how revenue is trending, but feel like we are in a good position for 2016 and really, again, I think the results of the first quarter indicate that with the significant swing in the adjusted operating income.

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**Barry Lucas** - *Gabelli & Co. - Analyst*

Great. Thanks. And just switching gears to the revenue side of the equation, I want to make sure I got this right. So the event that you held in April of this year versus March of last year, the revenues were double -- is that \$400,000 to \$800,000?

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

That is correct.

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**Barry Lucas** - *Gabelli & Co. - Analyst*

Any way to gauge kind of the advanced trend for the two craft beer festivals? Now those will be comparable this year in terms of number of events and timing?

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

They will be. They were both held in the second quarter of last year, and they will both be held this month in May and in June, as Jim indicated, and right now expect them to be comparable year over year.

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**Barry Lucas** - *Gabelli & Co. - Analyst*

Okay. But you don't have advanced ticket sales information or anything like that?

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

Nothing that we can share right now.

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**Barry Lucas** - *Gabelli & Co. - Analyst*

Okay. Thanks. Any update on the real estate?



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

At this time, there's no changes in our real estate portfolio. We still have the four parking lots in Dallas, and then also we still have the property in Rhode Island. And, at this time, the property in Rhode Island is the only property that's actively being looked for sale.

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**Barry Lucas** - Gabelli & Co. - Analyst

No change there. And then finally, I mean I'm looking at the math in the model, Jim, if you had to throw away a dart as you look at the ramp in digital revenues and traditional declines in traditional print, you would hopefully reach an inflection point at some time, and how soon do you think you can make that transition?

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

Well, Barry, I guess I'll separate this into a couple of three pieces. Our traditional -- maybe what we call traditional digital advertising on dallasnews.com and on our apps is coming in more in a sort of a low single-digit increase. The Connect platform that we built to do programmatic digital advertising -- so that's really divorced from our sites and our apps, as you understand it, it can be done without publishing, if you will, is more in the mid-single-digit growth area. So it's growing a little bit faster than the digital advertising on our sites and apps, and then you have the digital services part, which is, as you heard DMV and Speakeasy and they are growing at a very fast rate.

I think that DMV and Speakeasy look to me like they are going to have a very strong year. They will come up against some stronger comps in the particularly second half of the year, and so you will probably see that growth mitigate a little bit. But I still think it's going to be very, very healthy.

We have had very good growth in our digital audiences. We set a record for our digital audiences in the month of April -- an all-time record without any sort of viral story that we might have published that sort of drove a one-time spike.

So I would hope to see with that kind of growth in traffic that we would be able to also follow that with delivery of more advertising impressions and get that low single digit number up into the mid to upper single-digit range.

So I'm not seeing an inflection point quite yet for sure on the DMV and Speakeasy side, and I think our other more traditional ad revenues, I think we can continue to keep them in that sort of mid-single-digit range for at least the balance of the year and I'd hope into next year.

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**Barry Lucas** - Gabelli & Co. - Analyst

Great. Thanks, Jim.

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**Operator**

(Operator Instructions) Chris Mooney, Wedbush Securities.

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**Chris Mooney** - Wedbush Securities - Analyst

Good morning. The severance expense that shows up in the add back column, is that going to be an ongoing --

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

That is not. That was specific to the first quarter.



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**Chris Mooney** - *Wedbush Securities - Analyst*

Okay. Jim, could you give us a little more color on the metering effort that's going to begin?

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

Well, sure. I would be happy to do that, but since I have the expert here in the room with me, our Chief Digital Officer, Nicki Purcell, who has been in charge of this whole process, I'm going to let her describe it to everyone, and then if I feel the need, I'll jump in at the end.

Go ahead, Nicki.

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**Nicki Purcell** - *A. H. Belo Corporation - Chief Digital Officer and SVP, Consumer Sales*

Hi, everyone. I'm Nicki Purcell, and I will be implementing the meter, as Jim indicated, later this month. So we don't have it installed yet. We are in the process of deploying that across our browser-based sites and our digital products. This will be a new technology for us.

In the past, we've done a different approach to digital subscriptions, which is more akin to what's considered a paywall. The meter enables us to set a limited number of stories or articles that a consumer can read before they are asked to actually take action, whether that's to log into our site or whether that's to go ahead and subscribe for a subscription to the Dallas morning news if they are not a subscriber already.

But what we're most excited about is the opportunity to gain additional data and insight into our audience and what they are reading, as well as the opportunity to generate additional revenue from the meter. So ultimately that's what we are looking at implementing later this month.

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

And Chris, as you know, we were sort of early and now late to this game. We put a hard meter -- a hard paywall in back in February of 2011. We then took it down and we put another one up -- I think in about 2013, Nicki? And then we took it down feeling like both had not achieved the goals that we wanted them to achieve.

So we waited. We've watched what the best practices have been in markets like Boston and Minneapolis and others. We've hired people who were involved in helping to get meters installed back from the Press Plus days so they could give us best practices. We've been able to talk to other newspaper colleagues about what they've learned what to do and not do. So we think we could have a smooth and successful implementation of this meter with the short-term goal other than all the data that Nicki talked about is to start building a subscriber base for what we've published digitally. Our price ultimately will be, Nicki?

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**Nicki Purcell** - *A. H. Belo Corporation - Chief Digital Officer and SVP, Consumer Sales*

It will be [\$9.95 a month] (corrected by company after the call).

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

[\$9.95 a month] (corrected by company after the call), which is I think what you get as a standard price around the industry, and obviously every subscriber that we get is a very profitable revenue because it doesn't cost us much of anything to have that meter in and sign somebody up for paying to access what we publish digitally.



We don't -- also, by the way, the, again, best practices say that probably you have a little bit of dip in your audience for 90 days, and it then kind of comes back to where it was. Since we had record traffic in April and have been building traffic all through the year on a very substantial basis year over year, I don't think this is really going to hurt our opportunity to sell digital advertising.

The dip is usually about 10% to 15% and then finds its way back to previous levels. So, again, I think we're in good shape there. I don't think it's going to hurt our ad sales.

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**Chris Mooney** - *Wedbush Securities - Analyst*

Great. I found myself I guess multitasking in my office, and I heard something about a brand or a go-to-market brand?

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

Yes, we are going to rebrand our -- we are going to take our B2B brand and rebrand it and really get out to our business customers and talk to them about this marketing solutions ecosystem that we have built through things that we have built internally or things that we have acquired, and we're having really good success, as I mentioned not just a number of accounts that our salespeople have been able to sell into this ecosystem, but also the results, which is really the important part that we've been getting for our advertisers by putting together different combinations of these marketing services based on what their particular target audience is and what they are trying to accomplish. And when, Chris, when we can move this conversation from -- well, here is what I'm spending as an expense with your company to we start talking about ROI, here's the number of goods I sold, here's the number of patients that I signed up, here are the number of people that walked into my door. Based on doing marketing services through your company, that's a very powerful place to be, and we're finding that that's where we are trying to drive the conversation of what we want to talk about as the value proposition for this ecosystem that we're building.

So you will see that brand relaunched probably in the third quarter of this year, and it will sort of be a comprehensive approach to this whole marketing solutions ecosystem that we've been building.

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**Chris Mooney** - *Wedbush Securities - Analyst*

Okay. Sounds very interesting. When I was last in your offices there, you were -- just before you were being interviewed on Channel 8 or 5 -- I forget which one -- but the article of the potential sale of the headquarters and movement within Dallas of The Dallas Morning News, is there any update on that?

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

We are still evaluating it, Chris. You know we have looked at this building built, I believe, in 1949 and trying to sort of update it or retrofit it so that it has a different sort of feel to it. The initial work that we did, it looked like that was going to be pretty hard to do. So Katy has taken on the project of going out into the market and seeing where it is that we could move if we decided to move, and she's been working hard on that. I think she's visited 14 different places, and I think certainly by this call next quarter, if not sooner, we will have made a decision to whether we are going to stay or whether we are going to leave this building.

I think there's a lot of people reading things into moving out of this building because a lot of newspaper companies have done that prior to perhaps starting to look at strategic alternatives. That has really zero to do -- as you know, we're in a very good position from a cash and no debt standpoint. We don't need to be raising cash, but frankly we do need to create a culture here that is attractive to people who are literally growing up in a digital world who are excited about working for a company with a forward-looking vision about media, and that is a little hard to convince them if you walk through this building that we are that company. Even if we are doing it, it doesn't look so much like that here.





So one way or the other, either we will find that we can't get what we want from somewhere else, and we can do it here or vice versa, and we'll come to that conclusion in the next 90 days.

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**Chris Mooney** - *Wedbush Securities - Analyst*

Okay. And since you mentioned cash, is there any update on your thinking on acquisitions or whatever you'd like to think about for the use of the cash?

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

Well, as I'm saying and I really have meant it, we've made a very strategic decision this year to sort of back off of a lot of investment in organic new product development and looking out to see if we could add to our suite of marketing solutions companies and really focusing on how do we knit together this marketing solutions ecosystem and how do we, just back to the point, market it to our business customers?

So I don't anticipate that we're going to see any acquisitions at least not in 2016. If we did, Chris, it would be because something came across our radar that was just a perfect fit to our ecosystem filling in a gap or adding to the edges of it that would improve its overall effectiveness for our business customers and something we just couldn't not go take a look at. We're just not spending the time doing it, but this doesn't mean that we are at the end of that sort of building out of this ecosystem. We are just, I would say, pushing the pause button for 2016.

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**Chris Mooney** - *Wedbush Securities - Analyst*

Okay. And just a compliment -- as you know, I'm a subscriber and have been for many years. The work that your team has been doing on the assassination of the lawyer in Southlake and the CPS, etc. -- unrelated, obviously -- have been excellent and I think worth anybody's reading.

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

Well, thank you, Chris, and our editor, Mike Wilson, happens to be here, so he got to hear that nice complement. I don't know, Mike, if you want to just say anything quickly?

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**Mike Wilson** - *The Dallas Morning News - Editor*

Thank you very much, and I'd like to stay on the line with you for quite a while if you are willing.

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

Thank you, Chris.

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**Chris Mooney** - *Wedbush Securities - Analyst*

Well, it's excellent work.

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**Mike Wilson** - *The Dallas Morning News - Editor*

Thank you.

**Operator**

[John Cornrink], J&P Media.

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**John Cornrink** - *J&P Media - Analyst*

Jim, you started off the presentation by talking about the investments you are going to be making in branding and data analytics and marketing and so on and so forth. Is that signaling to us that beyond this first-quarter EBITDA positive swing, we should be looking for some margin pressure the rest of the year?

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

You know, John, I don't really think so. As Katy mentioned, not only did we take out roughly \$10 million or \$12 million last year in the second half of the year, but going into this year in our planning process, we took another \$10 million out, so a total of \$22 million of expenses out of the operations of the Company sort of across-the-board. So we did that in anticipation of building in some of these investments that we've talked about.

I guess you could say that the first half of the year because it's been benefiting from both the cuts that were made in the second half of last year and the total planned expense reductions that went into the full year, that, yes, maybe this first and second quarter are going to benefit to a greater degree from those expense cuts. But, as you know, the fourth quarter is typically our highest margin quarter just from a seasonality standpoint. So I think when you balance those two things out, I would expect that we could have a similar kind of margin in the first half and the second half of the year.

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**John Cornrink** - *J&P Media - Analyst*

Okay. Thanks. That's it.

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**Operator**

And, at this point, no further questions in queue.

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

Okay, John. Thank you very much, and thank you, everyone. We appreciate you being on a call on a Monday morning, and we look forward to talking to you after we have a very good second quarter.

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**Operator**

Thank you. Ladies and gentlemen, that does conclude your conference. Thank you for your participation. You may now disconnect.

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