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AHC - Q2 2012 A. H. Belo Corporation Earnings Conference Call

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## CORPORATE PARTICIPANTS

**David Gross** *A. H. Belo Corporation - VP - IR*

**Robert Decherd** *A. H. Belo Corporation - CEO*

**Jim Moroney** *A. H. Belo Corporation - EVP*

**Ali Engel** *A. H. Belo Corporation - CFO*

**Dan Blizzard** *A. H. Belo Corporation - SVP - Operations*

## CONFERENCE CALL PARTICIPANTS

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

**Richard Diamond** *Strait Lane Capital - Analyst*

**Chris Mooney** *Esposito - Analyst*

**Dennis Leibowitz** *Act II Partners - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by and welcome to the Second Quarter 2012 Financial Results 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 the time.

(Operator Instructions)

Also as a reminder, this teleconference is being recorded. At this time we will turn the conference call over to your host, Vice President of Investor Relations and Strategic Analysis, Mr. David Gross. Please go ahead sir.

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### David Gross - A. H. Belo Corporation - VP - IR

Thank you Tony. Good morning everyone. Welcome to A. H. Belo Corporation's second quarter 2012 conference call. Robert Decherd our Chief Executive Officer, who will lead today's call. Jim Moroney, Executive Vice President, is available for Q&A along with Ali Engel, our Chief Financial Officer and Dan Blizzard, Senior Vice President of Operations.

After the market closed yesterday we issued a press release announcing second 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 2012 performance against second-quarter 2011 performance.

Our discussion today will include forward-looking statements. Forward-looking statements are subject to risk and uncertainties and other factors that could cause actual results to differ materially from the statements. 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 resented in accordance with GAAP are provided in our press release and on our website under the investor relation section. Now, I will turn me over to Robert -- Robert.



**Robert Decherd** - A. H. Belo Corporation - CEO

Thank you David and good morning everyone. Before I review second quarter results I should note that David has dedicated a significant portion of his time to investor relations over the past three year. We have recently asked David to take on new financial planning responsibilities at the Dallas morning news in addition to his corporate financial planning role and shift his time to managing the Company's financial planning and treasury teams.

Between now and year end, Ali Engel will become more engaged in day-to-day discussions you been having with David and I encourage you to reach out directly to her at any time on IR matters. Allie's contact information as you know is on our website.

Now let's look at second-quarter highlights. My comments today will be brief with plenty of time for Q&A.

A. H. Belo Corporation announced second-quarter net income of \$0.01 per share yesterday a year-to-year improvement of \$0.33 per share. Adjusted EBITDA or earnings before interest taxes depreciation and amortization and pension expense was \$11.6 million, an increase of 14%.

In Dallas, Providence, and Riverside advertising performance was inconsistent during the quarter. While we think the volatility and advertising revenue performance seen in the second quarter may continue in the second half of the year prudent expense management should enable us to achieve our full year 2012 adjusted EBITDA target of \$37 million to \$41 million.

Total revenue in the second quarter of 2012 decreased 5%, a nearly 2 percentage point improvement in the rate of decline compared to first quarter. In Dallas and Riverside the rates at which advertising revenues declined also improved compared to the first quarter.

Improved advertising revenue performance in Dallas resulted from higher preprint revenues most notably in the food and beverage, furniture, and department store categories.

Digital revenue for Dallas only increased 5% on the strength of morning news' digital automotive revenue which increased 21%. The Dallas Morning News has planned investments in 508 Digital, the new division that produces a digital marketing solutions to underserved small and medium businesses and in targeted marketing initiatives are well underway.

We expect to invest up to \$4 million in 508 Digital this year. Despite this lower than anticipated ramp-up we anticipate revenues of as much as \$1.5 million in 2012. That difference in ramp-up speed does not affect the Company's long-term financial expectations for 508 Digital.

On the marketing front our plan to invest approximately \$4 million in brand advertising and targeted marketing campaigns in Dallas this year has also developed at a slower than expected pace. The Dallas Morning News now estimates spending between \$2 million and \$5 million on these marketing campaigns in calendar year 2012.

As of June 30, 2012 we had \$41.2 million of cash and cash equivalents and no borrowings under our credit facility. On May 2 to the Board of Directors declared the third quarter cash dividend of \$0.06 per share payable on September 7, 2012. The shareholders of record at the close of business on August 17. Returning cash to shareholders remains a top priority and is part of our 2013 planning process we are exploring ways to increase the pace.

Like pension plans sponsors across the country and we are reviewing the moving ahead for progress in the 21st Century act and evaluating scenarios related to it. We do not anticipate reducing our final 2012 contribution, but we will finalize our analyses of 2013 and later years after the Internal Revenue Service provides interest rate guidance. We will update you about pension funding at our investor day here in Dallas on October 4.

Tony, we are ready to take questions. Thank you.

## QUESTIONS AND ANSWERS

### Operator

Thank you very much. (Operator Instructions). Our first question will come from Barry Lucas with Gabelli & Company. Please go ahead.

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

Thanks very much and good morning. As long as Jim is available, Jim may be can give us an update on the paid content in the digital area?

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### Jim Moroney - A. H. Belo Corporation - EVP

Sure. We basically kept the same policy in place, Barry, that we really put in place in March of 2011. We have a price elasticity study that we've hired a firm out of Cambridge called MAPS; a nationally known firm to do price elasticity studies on consumer goods and we get that information back this week or next week and it's going to help inform us about the elasticities of both our print products in terms of price for home delivery as well as pricing opportunities in the digital space as well as the cross elasticities between the two so that if we were to decide to say lower the digital price that we charge today to try to bring more consumers in on a digital only subscription, what would that do to our print subscribers who are paying us a price of \$36.95 a month presently.

So when we get that information back, we are going to not only take a look at the pricing, we are going to be looking at the whole spectrum of how we have set up our access to our content that is digitally distributed and decide if we stay with the current practice that we have which we have spelled out at the last meeting or whether we consider going to the metered model which is slightly different than what we are doing or even something else.

So I think by the time we talked to you at the next earnings call we will have had that, those decisions made and either implemented or they will be implemented on January 1, 2013.

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

Could you provide some metrics there in terms of digital-only subs or conversion rates or take-up rates because if you are doing this kind of thing sounds like maybe it's not meeting the plan.

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### Jim Moroney - A. H. Belo Corporation - EVP

We will be obviously talking about it at the investor day on October 4 but I can basically say to you that what we talked about last earnings call it that we have continued to see roughly 70% of our people who were subscribing to the newspaper that are being offered a chance to subscribe digitally to all of our products for \$1.85 a month or 5% of the Monday through Sunday home delivery print price that roughly 70% of those new subscribers are opting in to pay the \$1.85 a month to get all digital access and that our digital-only subscriber number is just slightly ahead of where it was when we talked at the last earnings call. So those things are pretty much consistent with what we talked about last time.

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

Okay. Thanks Jim.

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### Jim Moroney - A. H. Belo Corporation - EVP

You bet.

**Operator**

Thank you very much. And once again, if you would like to queue up for a question you may press star one at this time. Next in queue is the line of Richard Diamond with Strait Lane Capital. Please go ahead.

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**Richard Diamond - Strait Lane Capital - Analyst**

Good morning. Robert, is there any reason you can't say we are doing significantly better (technical difficulty) traded competitors and 99% of the newspapers in the US and we have been delivering consistent shareholder value and I would note it's not bragging if it's true. I think a lot of your competitors would be jumping for joy if they had 50% of your results. Please correct me if I am misinterpreting what you've accomplished.

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**Robert Decherd - A. H. Belo Corporation - CEO**

Richard, first of all, thank you for the compliments. I think our team has done a very good job in the last four and a half years and continues to do so.

What frustrates us is that the rate of decline in poor revenue out of our three newspapers has been inconsistent as I said in my remarks and we are into very challenging markets in Providence and Riverside.

Riverside seems to be stabilizing albeit a much lower level of revenue and EBITDA van prior to the downdraft that began in 2008 and Providence has held its own made very difficult local and state economy that is not improving. The local economic conditions there are not good and they are not improving.

So that would be the caveat. Is that if you look at the individual newspaper and related activities that comprise our P&L, we are doing very well under the circumstances. We are proud of how well we are doing, but I'm sure that we have peer companies who would be able to look probably produce a slightly better metrics if we had access to those simply because they aren't dealing with the market circumstances that we are.

Now as for the balance sheets I think you are exactly right. We are very deliberately focused on strengthening the balance sheet. We took aggressive depths to do that two and a half years ago that are proving up and I think on the pension front that we have done the smart thing and getting ahead of that and now as I noted we are not going to be looking at additional voluntary contributions this year or next so that gives us a little had room to think about how we do smart things for our shareholders as operations hopefully continue to stabilize.

All in all I think we would be hard-pressed to find a peer company that is doing better. I'm not sure that I would say we are clearly exceeding the performance of our peers in every respect, but we are sure competitive and we expect to remain to be so.

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**Richard Diamond - Strait Lane Capital - Analyst**

Thank you very much.

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**Operator**

Thank you. Once again, if you would like to queue up for a question you may press star one at this time. Our next question will come from Chris Mooney with Esposito. Please go ahead.

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**Chris Mooney** - *Esposito - Analyst*

Good morning folks. Very nice quarter. Thank you much as a shareholder. Can you reflect on the acquisition of Pegasus and the interest and intent there?

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**Robert Dechard** - *A. H. Belo Corporation - CEO*

Chris, let me defer to Jim on that. That's really more a Dallas morning news initiative, but sure.

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**Jim Moroney** - *A. H. Belo Corporation - EVP*

Chris, the acquisition of Pegasus was a move to help us be even more competitive in the entertainment space online. The number one place that people in Dallas Fort Worth go today to get their results, get information on entertainment to kind of go into things is yelped.

The second place they go now if you combine what we do on dallasnews.com with guidelive.com with Pegasus is now us and we are going to look at how we are going to integrate the Pegasus software which has a geo-targeting capability that we did not have and is going to we believe make us much more competitive in the mobile space for the people that are looking for go and do information in Dallas-Fort Worth much more competitive than we were with our platform that we were using before which was driving mostly guidelive.com.

So we are right now keeping Pegasus going just as it was and benefiting from the traffic in customers and consumers that it attracts and we are looking at how we bring that in together and integrate it with our go and do information that principally resides on guidelive.com.

So again I think when we get to October 4 or certainly to the next earnings call we can give you even a better description of how we have or plan to integrate that and what the date will be. As you know, we just brought it under house here in the last couple weeks.

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**Chris Mooney** - *Esposito - Analyst*

Thank you. Can you reflect on 508 Digital? You say the ramp-up doesn't affect the company's long-term financial expectations. What are those and are we materially behind?

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**Robert Dechard** - *A. H. Belo Corporation - CEO*

No, we are not materially behind at all. What happened really was that we as you know, Chris, the 508 Digital model called the just put 40 people on the street selling the 508 Digital product which is an amalgamation of different digital and social media services into a single self-serve interface that's backed up by over 200 people on a support basis with the Hearst Corporation and that ramp-up of bringing the 40 people and getting up to full speed we thought we could get it done faster than we did.

We did not anticipate how difficult it would be to hire not only the right people but even in our early hirings we experienced more churn of our early hires than what we had expected so we probably were two months behind in getting the full strength. We are now at full strength, in fact, slightly above it so that we could account a little better for the churn and try to keep 40 people strong on the streets.

So I would say we moved out a couple of months on our timeline and what Robert said in his comments is that our expectations for the financial performance of this and really haven't changed. It's only a timing event.

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**Chris Mooney** - *Esposito - Analyst*

And what were those expectations? If you've publicly disclose them.



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**Robert Dechard** - *A. H. Belo Corporation - CEO*

I think we disclosed them but I am looking to David and Allie to make sure that I don't get out ahead of myself.

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**Chris Mooney** - *Esposito - Analyst*

Understood.

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**Robert Dechard** - *A. H. Belo Corporation - CEO*

Chris, we talked about the amount of time it would take to turn to be cash flow positive and so forth, but David, do you want to play that back.

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**David Gross** - *A. H. Belo Corporation - VP - IR*

We are pulling that up right now.

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**Chris Mooney** - *Esposito - Analyst*

While you are doing that, you made one real estate sale. Are you going to update us on the real estate for sale?

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**Ali Engel** - *A. H. Belo Corporation - CFO*

At the investor day we will do another deep dive into real estate.

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**Chris Mooney** - *Esposito - Analyst*

Okay.

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**Robert Dechard** - *A. H. Belo Corporation - CEO*

Chris, we are actively working on two or three scenes. The market is slightly improved, the commercial real estate market, but it is market-specific and that is what we will get into on October 4.

I think we will be able to give you and all of our investors a pretty good sense of what that is looking like and what realistic timetables might be for some transactions that would be noteworthy.

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**Ali Engel** - *A. H. Belo Corporation - CFO*

I believe what we had said about 508 Digital was long-term we expect to generate revenue of about \$18 million to \$20 million a year and that we would turn cash flow positive somewhere in 2013. That may be pushed out a little bit with the slower ramp up. And it would pay for itself within around a three-year period.

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**Chris Mooney** - *Esposito - Analyst*

Okay, great.



**Ali Engel** - A. H. Belo Corporation - CFO

Is that right, David?

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**David Gross** - A. H. Belo Corporation - VP - IR

Yes, that's right.

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**Chris Mooney** - Esposito - Analyst

Looking at the EBITDA which was pretty strong in the quarter and the fact that you were more seasonally positive in the first quarter and and your expectations, you are going to be ball parking from my and sitting with \$50 million to \$60 million in cash at the end of December? Do you have plans for the cash?

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**Robert Dechard** - A. H. Belo Corporation - CEO

Let me first defer to Allie. I don't think any of our forecasts show that much cash.

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**Ali Engel** - A. H. Belo Corporation - CFO

Yes, I think that is a little aggressive in terms of cash because we do have one more pension payments and finishing up our year of CapEx and a couple other things and then I will let Robert talk about what we are looking at for the cash in the future.

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**Robert Dechard** - A. H. Belo Corporation - CEO

Chris, philosophically our approach is the same which is the dividends are a very efficient way in the current tax environment at least of moving cash back to shareholders. We have no plans to be an acquirer of large entity so something like Pegasus is an operating expense.

Therefore we are expecting to have ample cash on the balance sheet, less pressure from our standpoint on voluntary pension payments so the first area of focus or attention will be dividends whether they are regular or special and beyond that the board has not thus far been terribly interested in share repurchase for a variety of reasons we have discussed. That is a possibility, but I think I'd focus on dividends first.

And then, from the standpoint of other uses of cash, we are looking constantly for opportunities like 508 Digital to invest modest amounts of cash that have significant upside. If we can reach this target of \$18 million to \$20 million of sustainable revenues from 508 Digital, that's a significant accomplishment for us in an environment where our core revenue continues to be under pressure.

So it's not that we're going to have five investments a year like 500 Digital, but we are going to be looking for those kinds of opportunities and balance those investments with the smartest and most efficient way to push cash out to shareholders. We are not going to sit on it, that's for sure.

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**Chris Mooney** - Esposito - Analyst

Thank you.

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**Operator**

Thank you very much. Our next question in queue will come from Dennis Leibowitz with Act II Partners. Please go ahead.

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**Dennis Leibowitz** - *Act II Partners - Analyst*

I wondered if you could say, even though you are waiting for the IRS ruling, what the unfunded pension liabilities are if you look at this new 25 year average in terms of calculating the rates.

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**Ali Engel** - *A. H. Belo Corporation - CFO*

We don't have the estimates yet that we are ready to talk about publicly, but we feel certain we will have those by yesterday so we are still studying it and exploring it and we will definitely update that in October.

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**Dennis Leibowitz** - *Act II Partners - Analyst*

Second question I had; if the Tribune Company comes out of, do you see the possibility of some kind of activity in Riverside in respect to merging interests with them?

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**Robert Dechard** - *A. H. Belo Corporation - CEO*

You know Dennis, we've had for a long time that Southern California is going to consolidate. We are not a first mover is the way we look at it. We like the position we are in. We feel as I said earlier that the press enterprise is stable compared to a couple of years ago and really we just want to observe how all of this plays out.

There's new owners in San Diego. There's new owners in Orange County. There may or may not be new owners at the LA Times. Do we have a great franchise and a good brand and we want to make the most of it. So we are not eager about it, I'll put it that way, but we are certainly attentive to the likely reality that Southern California will continue to consolidate as a newspaper market.

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**Dennis Leibowitz** - *Act II Partners - Analyst*

Good. Thank you.

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**Operator**

Thank you very much. At this time we have no additional questions in queue. Please continue.

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**Robert Dechard** - *A. H. Belo Corporation - CEO*

Tony, thank you and thanks to all of you for joining us. As you've heard us mention numerous times, we have an investor day planned in Dallas for October 4. We'd like to see as many of you in person as possible but we will also have an electronic participation choice and one way or another, we look forward to updating you then. Thank you.

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**Operator**

Thank you and ladies and gentlemen, this conference will be available for replay after 11 AM central time today running through August 8 at midnight. You may access the ATT Executive playback service at any time by dialing 800-475-6701 and entering the access code of 253983. International participants may dial 320-365-3844.

Once again, those phone numbers are 800-475-6701 and 320-365-3844 using the access code of 253983.

That does conclude your conference for today. We do thank you for your participation and for using ATT's Executive Teleconference. You may now disconnect.

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