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AHC - Q4 2011 A. H. Belo Corporation Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Fourth Quarter and Full Year 2011 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 that time.

(Operator Instructions)

And also, a reminder, today's teleconference is being recorded. And at this time, I will turn the conference call over to your host, Vice President, Investor Relations and Strategic Analysis, Mr. David Gross. Please go ahead, sir.

David Gross - *A. H. Belo Corporation - VP, IR, Strategic Analysis*

Thank you, Tony. Good afternoon, everyone. Welcome to A. H. Belo Corporation's Fourth Quarter and Full Year 2011 Conference Call. Earlier today, we issued a press release announcing fourth quarter and full year 2011 financial results, and posted this release on our website. Robert Decherd, our Chief Executive Officer, will lead today's call. Ali Engel, our Chief Financial Officer, will provide a detailed look at fourth quarter and full year 2011 results. Jim Moroney, Executive Vice President of the Company, and Dan Blizzard, Senior Vice President of Operations, are both available for Q&A.

Let me also note that our discussion 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. Additional information about these factors is detailed in the Company's press releases and publicly available filings with the SEC.

In addition, we will discuss non-GAAP financial measures during this conference call. We believe that non-GAAP financial measures, including, but not limited to, adjusted EBITDA, 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 in our press release and on our website under the investor relations section.

Now, I will turn you over to Robert. Robert?

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

David, thank you, and good afternoon, everyone. Earlier today, A. H. Belo Corporation announced net income of $0.12 per share for the fourth quarter of 2011, compared to a net loss of $5.65 per share in the fourth quarter of 2010. As Ali will discuss in more detail, fourth quarter 2011 net income includes certain non-cash expenses totaling $10.5 million and $1 million of severance and related expenses. For the full year 2011, the Company had a net loss of $0.51 per share, compared to a net loss of $5.92 per share in 2010.

Adjusted EBITDA, or earnings before interest, taxes, depreciation, and amortization, with pension expense, impairment expense, and net investment related losses added back, was $22.3 million in the fourth quarter, a 42.9% increase compared to the prior year period. Adjusted EBITDA for the full year 2011 was $47.7 million, a decrease of 15.6% compared to the prior year, due primarily to the decrease in gains from real estate sales that Ali will detail.

As of December 31, 2011, we remained debt free, and cash and cash equivalents were $57.4 million. In 2012, we are going to use the flexibility provided by our debt free balance sheet to reinvest in our business and reduce our pension liability. We anticipate full year 2012 adjusted EBITDA in the range of $37 million to $41 million. This range assumes the rate of decline in advertising revenue improves modestly, and advertising revenue declines are partially offset by increases in circulation, printing and distribution revenues.

This range includes $7 million of investment in Dallas Morning News operating initiatives, a $3 million investment to support cost effective digital solutions for small and medium size businesses, or SMBs in the Dallas-Fort Worth market, and a $4 million investment in targeted marketing campaigns that will support our core brands and programs focused on consumer revenue. The 2012 adjusted EBITDA range of $37 million to $41 million assumes no gains from real estate dispositions.

Dan Blizzard continues to work on monetizing non-core real estate in Dallas, Providence, and Riverside throughout outright sales, subleasing, sale lease-backs, and/or development partnerships. As I've stated before, there will be no fire sales of our real estate.

In addition to these initiatives, capital expenditures will total $8 million to $10 million in 2012. Technology, including production related technology, is the driver of capital expenditures in 2012, just as it was in 2011.

Next month, the Board of Directors will consider a voluntary $10 million contribution to the Company's pension plans in 2012. Like other companies with pension obligations and strong cash positions, we anticipate that this voluntary contribution, if made, will generate a higher rate of return than holding cash in a stubborn low interest rate environment.

The efficient deployment of capital is a top priority for the Board and management committee. We also emphasize consistently returning cash to shareholders through the quarterly dividend of $0.06 per share, or $0.24 per share on an annualized basis. In addition to the previously announced dividend, payable on March 2, 2012, to shareholders of record at the close of business on February 10, we anticipate three additional quarterly dividends will be paid this year.

Ali will now provide more detail around fourth quarter and full year 2011 financial results, after which we're happy to take your questions. Ali?

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

Thank you, Robert. As Robert mentioned, A. H. Belo reported net income of $0.12 per share in the fourth quarter of 2011, and a net loss of $0.51 per share for the full year 2011, both significant improvements compared to prior year results. Fourth quarter net income includes certain non-cash expenses totaling $10.5 million, $6.5 million for the impairment of Southern California real estate, $2.6 million for net investment related losses, and $1.4 million for the write-down of spare parts inventory.

Adjusted EBITDA, or earnings before interest, taxes, depreciation, and amortization, with pension expense, impairment expense, and net investment related losses added back, was $22.3 million in the fourth quarter of 2011 and, as Robert said, a 42.9% increase compared to the prior year. This increase arose from better than expected advertising revenues in Dallas and Riverside and expense containment throughout the Company.

Adjusted EBITDA for full year 2011 was $47.7 million, a decrease of 15.6% compared to the prior year, due primarily to the decrease in gains from real estate sales. 2011 adjusted EBITDA includes $100,000 of real estate gains, while 2010 adjusted EBITDA included $7.1 million of real estate gains. Total revenue decreased 4.6% in the fourth quarter to $124.9 million. For the full year 2011, total revenue decreased 5.3% to $461.5 million.

Advertising revenue, including print and digital revenue, decreased 8.2% in the fourth quarter and 8.9% for the full year 2011. Fourth quarter advertising revenue was strongest at The Press-Enterprise, with a decline of 6%, followed by The Dallas Morning News, and The Providence Journal.

For the full year 2011, advertising revenue performance was the strongest at The Dallas Morning News, followed by The Providence Journal, and The Press-Enterprise.

In the fourth quarter, display advertising revenue decreased 14.3% to $28.8 million. Preprint revenue decreased 3% to $26.6 million. Classified revenue decreased 1.5% to $15.1 million. For the full year, display advertising revenue decreased 15.1% to $101.6 million, and preprint revenue decreased 3.9% to $87.7 million. Classified revenue decreased 7.5% to $58.2 million.

In the fourth quarter, digital revenue was $9.1 million, a decrease of 12.4%, compared to the same period last year, as lower banner advertising revenue from the implementation of The Dallas Morning News' subscriber content strategy in the first quarter of 2011, and lower other advertising revenue was partially offset by 13% and 67% increases in the auto and real estate categories, respectively.

For the full year, digital revenue was $35.2 million, a decrease of 3.7%, compared to the same period last year. The Morning News' auto and real estate digital revenues increased 11.8% and 42.9%, respectively, in 2011.

Circulation revenue was $35.2 million in the fourth quarter, flat to the prior year period. For the full year, circulation revenue was $139.9 million, a decrease of 0.8% compared to 2010. Excluding $900,000 and $1.1 million of increased circulation revenue in the fourth quarter and the full year, resulting from The Providence Journal's transition from a carrier to a distributor circulation model at the end of 2011, total circulation revenue decreased 2.4% to $34.3 million in the fourth quarter and 1.6% to $138.8 million for the full year.

In the fourth quarter, printing and distribution revenue increased 12% to $10.1 million, due primarily to a new commercial printing contract that came on line in Providence during the third quarter. For the full year 2011, printing and distribution revenue increased 8.6% to $38.9 million, due primarily to several new commercial printing contracts in Providence. These increases in printing and distribution revenue reflect the Company's efforts to reduce its dependence upon advertising revenue by investing in and developing other revenue streams.

Total consolidated operating expense in the fourth quarter was $119.2 million. Excluding the effect of pension and impairment expenses in both periods, operating expense in the fourth quarter was $111.4 million, a 9.9% decrease compared to the prior year period, as salaries, wages and employee benefits, legal, temporary labor, consulting, and other expenses all decreased.

Total consolidated operating expense was $466.9 million in 2011. Excluding the effect of pension and impairment expenses in both periods, operating expense in 2011 was $452.3 million, a 5% decrease compared to the prior year. This decrease was primarily driven by lower salaries and wages, consulting, temporary labor, and communications expenses.

Newsprint expense decreased 6.4% to $10.8 million in the fourth quarter of 2011, but increased 8.7% to $42.8 million for the full year. Newsprint consumption decreased 7.4% to approximately 17,000 metric tons in the fourth quarter and decreased 2.3% to approximately 67,000 metric tons for the full year. Newsprint cost per metric ton increased 1% and 11.3% in the fourth quarter and full year, respectively. The average purchase price per metric ton of newsprint increased 2% and 10.3% for the fourth quarter and full year 2011, respectively.

Excluding the effect of pension and impairment expenses in both periods, fourth quarter corporate and non-operating unit expenses were $6.6 million, a 12% decrease, as salaries and wages, computer and communications expenses all decreased. Excluding the effect of pension and impairment expenses in both periods, full year corporate and non-operating unit expenses were $26.3 million, a 4% decrease, as salaries and wages, computer and communication expenses all decreased.

Severance and related expenses totaled $1 million in the fourth quarter and $3.1 million for the full year and included expense related to the departure of several senior executives, due to further flattening of the Company's operating structure.

As for the pension plans, the Company made cash contributions totaling $55 million in 2011, $25 million in required contributions, and additional contribution -- and an additional contribution of $30 million.

On December 31, 2011, the Company recorded a $65 million charge to other comprehensive loss account on the balance sheet, due primarily to a further decline in the aggregate discount rate of the Company's defined benefit pension plans. On December 31, 2011, the aggregate discount rate for these plans was 4.19%, a 114 basis point decrease from December 31, 2010.

We anticipate that required cash pension contributions will total $24 million to $27 million in 2012. We made the first -- we made the $5.4 million first quarter contribution in January and expect a quarterly cash contribution of approximately $5 million in the second quarter and expect to the -- make the remaining contributions in the second half of 2012.

On the investment front, A. H. Belo and its former parent company, Belo Corp., divided the assets of Belo Investment, LLC, a real estate investment company in which A. H. Belo and Belo Corp. each previously held a 50% interest, effective December 31, 2011. As a result, the Company recorded a loss of $5 million in the fourth quarter of 2011.

In December, 2011, we also sold a real estate property in Southern California, generating a gain of $100,000 and pretax net proceeds of approximately $1 million. We invested $2.5 million during the fourth quarter in a new joint venture formed by leading media companies. The JV's turnkey digital shopping platform for local media affiliates, Find n Save, provides national advertisers with the ability to easily engage local audiences with digital coupons, digital daily deals, digital circulars, and other products.

The Company received a $2.2 million dividend in December from its equity interest in Classified Ventures, the owner of Cars.com. This was the second dividend paid by Classified Ventures in the past 12 months. Our Form 10-K for the yearend, ended December 31, 2011, will include Classified Ventures' consolidated financial statement.

Turning to the balance sheet, total assets were approximately $345 million as of December 31, 2011, and included $57.4 million of cash and cash equivalents. Capital expenditures were approximately $2.6 million in the fourth quarter and $8.7 million for the full year 2011. On December 31, 2011, the Company had approximately 2,100 full-time equivalent employees, a decrease of approximately 13% compared to the prior year.

Now I'll turn it back over to Robert.

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

Ali, thank you. Before we begin Q&A, I want to reemphasize the strength of our fourth quarter 2011 performance and touch on January. Fourth quarter 2011 adjusted EBITDA exceeded $22 million, an increase of nearly 43%, on lower revenue and against a strong performance in the fourth quarter of 2010. We carried this momentum into January, when adjusted EBITDA was $500,000 above our financial plan.

We are confident about our core business prospects and our deliberate reinvestments into the business, operating, and otherwise. And, we are hopeful that our progress towards intermediate and long-term goals will be accelerated by meaningful real estate transactions over the next 12 to 24 months. It is also important to note that with the dissolution of Belo Investment, LLC, at yearend, the Company's spin-off from Belo Corp. is essentially complete.

Tony, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

Thank you, very much.

(Operator Instructions)

And we'll take our first question from Barry Lucas with Gabelli & Company. Please, go ahead.

Barry Lucas - *Gabelli & Company - Analyst*

Thanks so much, and good afternoon. Couple of items, Robert. Maybe you could talk a little bit about strength and weakness in categories, particularly within the classified verticals. And also, maybe, what was driving the -- I don't want to say recovery, but the comparatively better results at Riverside?

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

Barry, let me let Jim start on both fronts, and we'll amplify from there.

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

On the classified front, Barry, we had particular strength in the year in employment, followed by real estate and automotive. All of it was particularly -- I mean, fairly similar. There wasn't any one category that would stand out, though, I think employment for the year, was the best. We've seen the same kind of trends start off in the first quarter, with automotive lagging a little bit.

In Riverside, we had a lot of general national advertising that came in. That's not a big category for them, but any increase can make sizeable differences in the performance for the quarter, and that's really what the driver was. So, it was majors' national retail.

Barry Lucas - *Gabelli & Company - Analyst*

Okay. Thanks. And if we could just jump to the cash needs -- not that I want to go through another extended pension discussion, but the -- you're talking about the $24 million - odd to $27 million for the pension contribution this year. That's the mandatory piece, and the -- whatever the Board will consider next month is on top of?

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

That's correct. So, if we did the voluntary contribution -- Barry, this is Ali -- it would be between $34 million and $37 million total.

Barry Lucas - *Gabelli & Company - Analyst*

Okay.

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

As a reminder, we look to fund that required contribution out of cash flow from operations. We want -- or expect our operating units to generate enough EBITDA in cash flow to cover that required contribution -- or that -- yes, that required contribution.

Barry Lucas - *Gabelli & Company - Analyst*

Okay. And does -- the balance sheet item that I think you alluded to that was up $65 million at yearend is the pension liability. Now, that's not the same as the unfunded. This is your pension, OPEB, the whole enchilada.

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

Right. That's the -- it's the pension -- when you revalue the liability at the new discount rate, that results in a change in the net of -- or, that results in a change of the net unfunded. That's got to run through equity. I think the net unfunded, at the end of the year, is $145 million.

Barry Lucas - *Gabelli & Company - Analyst*

And can you --

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

So, the unfunded amount increased from last year about $12 million, but let me just verify that. Yes, the funded status at the end of the year, negative $145,980.

Barry Lucas - *Gabelli & Company - Analyst*

Okay. And then, maybe Robert could just comment. When you're looking at the contributions to the pension plan, CapEx, investments in marketing and other in Dallas, my numbers show that you'll be negative cash flow.

So, how do you gauge -- or, how do you place a commitment on the dividend, Robert, when now, you're running negative cash from operations after the pension contributions? How comfortable are you with that?

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

Barry, we're comfortable with it, because we are throwing off a lot of cash. Obviously, you netted out the way you did, and it looks to be a little more challenging. The pension contribution is voluntary. I believe the Board will elect to go ahead with that. I am also sure it would be the only voluntary contribution in 2012.

And as the formula that -- formulae that drive our pension liability improve over the next few years, the attraction -- or, attractiveness of making a voluntary contribution declines. So, this is not something that we think is going to be a part of every year's cash uses for the next five or six or seven years. The point in time where we think it makes a lot of sense.

Similarly, the investments in Dallas are different -- while being closely aligned, they're different in an important respect. The investment in the small/medium business initiative will return cash to us. That's a operating investment that has a very attractive return, which we hope to be talking more about on the next call.

And from the standpoint of the marketing expense -- you've heard me discuss this before, most of our peer companies and, certainly, we took out most of our cash marketing investments over the last five years. It's just critical to put that back in place.

And because our balance sheet and cash position is strong, we feel we can do that and still have a lot of control over whether we are net cash positive in the future periods, meaning 2013 and beyond. And if we have a better than expected year in 2012, we may not be in negative territory.

So, it's just evaluating choices at this particular juncture, knowing that we have a very strong foundation, which has, as I've said so many times, been the real difference for us for the last three years, while others have had to struggle with upside down balance sheets.

Barry Lucas - *Gabelli & Company - Analyst*

Great. Thank you, Robert. I'll jump back in queue.

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

Sure.

Operator

Thank you.

(Operator Instructions)

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

Yes. I just wanted to add, Barry -- and if you want to -- have another question, feel free to jump in. But I want to make clear that $7 million additional investment in the Dallas market is already included in that $37 million to $41 million EBITDA range. In other words, that's an expense that is running through the P&L that is already netted out of the $37 million to $41 million. So, if we weren't clear about that, we want to make sure we are. It's not incremental or on top of that, so, just to be clear.

Operator

Thank you.

(Operator Instructions)

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

Okay, Tony. Let me just wrap up then. We -- we're off to a good start. As I've said many times, we like the position we're in. Things seem to be improving, and we look forward to reporting on the first quarter in not too many weeks.

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

With a robust update on our subscriber content strategy and, really, all of our digital initiatives around that -- iPad, iPhone, Android. And Jim is going to give a mini presentation on where we are with those initiatives at the -- on the first quarter call.

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

Terrific. Tony, thank you.

Operator

Thank you. And, ladies and gentlemen, this conference will be available for replay after 3 p.m. Central today, running through February 28 at midnight. You may access the AT&T executive playback service at anytime by dialing 1-800-475-6701 and entering the access code of 233469.

International participants may dial 800 -- excuse me -- 320-365-3844. Once again, those telephone numbers are 800-475-6701 and 320-365-3844, using the access code of 233469.

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.