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AHC - Q1 2017 A. H. Belo Corp Earnings Call

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CORPORATE PARTICIPANTS

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

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for your patience and standing by, and welcome to the First Quarter 2017 Earnings Conference Call. (Operator Instructions) Just a brief reminder, today's conference is being recorded. And I now would like to turn the conference over to Chief Financial Officer, Katy Murray.

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

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

Before the market opened this morning, we issued a press release announcing our first quarter 2017 results. We have posted this release on our website under the Investor Relations section.

Unless otherwise specified, comparisons used on today's call measure first quarter 2017 performance from continuing operations against first quarter 2016 performance from continuing operations.

Our discussion today will include forward-looking statements. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those statements.

The company assumes no obligation to update the information in this communication, except as otherwise required by law. Additional information about these factors is detailed in the company's press releases and publicly available filings with the SEC.

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

Earlier this morning, we reported first quarter total revenue of \$60.9 million, a decrease of \$1.6 million or 2.5%, when compared to the \$62.5 million reported in the first quarter of 2016. Advertising and marketing services revenue of \$35.2 million reported this quarter was flat when compared to the first quarter of last year. Circulation revenue for the first quarter was \$19.2 million, representing a \$1.2 million or 5.8% decline when compared to the first quarter of 2016. The decline was primarily due to a decrease in home delivery volume. Single copy revenue remained relatively flat year-over-year, driven by a decrease in single copy volume that was offset by the increase in daily single copy rate we put in place in November of 2016. Printing, distribution and other revenue reported was \$6.5 million, which reflects a \$400,000 decrease or 5.3% when compared to \$6.9 million reported in the first quarter of last year. This revenue decrease is primarily related to a decrease in the volumes of printed and distributed publications that are priced on a per-copy basis.

Total consolidated operating expense in the first quarter was \$65 million an increase of \$800,000 or 1.2% compared to the prior year. Excluding severance expense of \$367,000, depreciation and amortization expense of \$2.7 million and a goodwill impairment of \$228,000 related to the publishing segment, adjusted operating expense was \$61.7 million, an increase of \$1.1 million or 1.8% compared to \$60.7 million of adjusted operating expense reported in the first quarter of 2016. The increase is primarily due to increased headcount within DMV and higher DMV revenue-related expenses driven by their revenue growth of \$2.1 million or 66.8% this quarter.



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For the first quarter, we reported a GAAP net loss attributable to A. H. Belo Corporation of \$4.4 million or a loss of \$0.21 per share, a decrease of \$0.18 per share compared to the first quarter of last year. Adjusted operating loss, which excludes depreciation, amortization, severance expense and goodwill impairment, was \$800,000, a decrease of \$2.7 million compared to the \$1.8 million of adjusted operating income reported in the first quarter of 2016. The decrease year-over-year is primarily the result of the \$1.6 million decrease in revenue and the increase in expenses relating to higher headcount at DMV and higher revenue-related expenses for DMV on a year-over-year basis.

Turning to the balance sheet. As of March 31, we had approximately \$69 million of cash and cash equivalents and no debt.

For 2017, we are planning for approximately \$13 million of capital expenditures, which includes the capital for the move to our new headquarters later this year. As of March 31, we had headcount of 1,250, which reflects an increase of 116 or 10.2% from the 1,134 we had at March 31, 2016. The primary headcount driver was the conversion of 130 production headcount from temporary to full-time employees and growth in personnel at DMV. As a reminder, our conversion of temporary to full-time employees has lowered our labor costs in our production facility. Excluding the hiring at DMV in both quarters and the production conversion, headcount decreased by 32 or 2.8% when compared to the prior year. I will now turn the call over to Jim Moroney.

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

Thank you, Katy, and good morning, everyone. We continued to execute on our strategy to diversify our sources of revenue and to become less dependent on revenues related to the print product. The investment in our marketing services capabilities started in 2013 when we founded Speakeasy, which is our content marketing agency, and CrowdSource, which is our event marketing company. In 2014, we then added programmatic advertising capability and we accelerated our investments when we acquired DMV in January of 2015. In the first quarter of this year, we purchased the remaining interest in both DMV and Speakeasy. The growth of these companies and their ability to provide ROI-based marketing solutions to our customers has been exceptional. With the remaining acquisition of these companies now complete, we can resume looking for investments, which complement our current suite of marketing services and improves our ability to earn our customers a return on their marketing investment with our company.

As Katy mentioned, our total advertising and marketing services revenue of \$35.2 million was flat to the first quarter of last year. While we did see year-over-year declines within many print advertising categories, general print advertising was up 13% when compared to the first quarter of last year and total print classified advertising was up 0.2% over the prior year. Having one category of print up year-over-year is unusual, having two up year-over-year is a celebration. Yet we are -- while we are pleased with these results, we recognize that we'll continue to face ongoing pressures on print-related advertising and that's why our focus continues to be on diversifying our sources of revenue and particularly in driving growth through our marketing services segment.

Our digital and advertising marketing revenue results this quarter continue to reflect the strong growth of marketing services revenue, especially that coming from DMV. Against the first quarter of 2016 when revenue was up 65.6% over 2015, DMV revenue grew \$2.1 million or 66.8% this quarter over last quarter. That's a 66.8% improvement on top of the 65.6% improvement last year.

Additionally, the Dallas Morning News sales team generated 325 sales to DMV and Speakeasy in the first quarter of this year, which compares to 112 sales generated in the first quarter of last year or an increase of 190%.

We continue to focus on growing our paid digital subscriptions. As at the end of this quarter, we had 18,170 digital subscriptions, an increase of 1,169 or 6.9% when compared to the digital subscriber base at the end of last year. We are encouraged by the growth in digital subscriptions we have had thus far, and we continue to experiment with the best practices that we've learned from the major metropolitan papers that have shown the most success in showing continued growth in paid digital subscriptions.

Overall, the growth in our digital and marketing services advertising revenue continues to be a more and more meaningful part of our revenue. For the first quarter of this year, total digital advertising and marketing services revenue was \$13 million, an increase of \$1.5 million or 12.4% over the \$11.5 million reported in the first quarter of last year. That \$13 million represents 36.8% of our total first quarter advertising and marketing



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services revenue compared to 32.7% for the same period in 2016, which is a 410 basis point improvement. In addition, the same \$13 million represents 21.3% of our first quarter total revenue compared to 18.5% for the same period last year, a 280 basis point improvement.

In closing. With our healthy cash balance and the purchase of the remaining interests in DMV and Speakeasy, we continue to be well positioned operationally and financially to transform our business from one that had been mostly dependent on print-related revenues to one which is increasingly driven by digital-related revenues. And as always, we will continue to publish outstanding journalism that our consumers value and our communities need. Justin, we're now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And here, at this point, we actually do not have anyone queuing up for question.

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

Okay, Justin. Well, if there aren't any questions, then we want to thank everyone that has been on the call, and we look forward to a great second quarter and a great rest of the year.

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

Thank you, Justin.

Operator

Thank you. Ladies and gentlemen, today's conference is available for digitized replay, that's today at 11 a.m. through the 10th of May 2017. You may access that replay at any moment by dialing (800) 475-6701 and using an access code of 421913. International dialers can access the same replay at (320) 365-3844 using the exact same access code of 421913. Ladies and gentlemen, this does conclude the conference for today. We thank you very much for your participation and using our executive teleconference service. You may now disconnect.

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