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Q4 2023 Dallasnews Corp Earnings Call

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CORPORATE PARTICIPANTS

Gary Cobleigh *DallasNews Corporation - VP & Controller*
Katy Murray *DallasNews Corporation - President, CFO, Treasurer & Secretary*
Grant Moise *DallasNews Corporation - CEO & Director*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the DallasNews corporation investor call. (Operator Instructions) As a reminder, this conference call is being recorded. And at this time I'd like to turn the conference call over to your host, Vice President and Controller, Mr. Gary Cobleigh. Please go ahead, sir.

Gary Cobleigh ***DallasNews Corporation - VP & Controller***

Good morning, everyone. This is Gary Cobleigh, Vice President, and Controller of DallasNews Corporation. Welcome to our fourth quarter and full year 2023 investor call. I'm joined by Katy Murray, President, and Chief Financial Officer, who will be reviewing financial results; and Grant Moise, Chief Executive Officer, who will provide brief business remarks.

Yesterday afternoon, we issued a press release announcing fourth quarter and full year 2023 results and filed our 2023 10-K. Both of these are posted on our website, dallasnewscorporation.com, under the Investor Relations section. Unless otherwise specified comparisons used on today's call measure fourth quarter and full year 2023 performance against fourth quarter and full year 2022 performance.

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.

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. A reconciliation of GAAP to non-GAAP financial measures is included with our press release.

I'll now turn the call over to Katy.

Katy Murray ***DallasNews Corporation - President, CFO, Treasurer & Secretary***

Good morning, everyone, and thank you for joining today's call. I'm going to begin by reviewing fourth quarter financial results and will then follow with the full year results.

On a GAAP basis for the quarter, DallasNews Corporation reported a net loss of $2.2 million or $0.41 per share and an operating loss of $2.5 million, which includes $2.7 million related to previously announced Voluntary Severance Program that closed in the fourth quarter. Excluding the severance impact, DallasNews would have reported $200,000 operating income in the quarter. In Q4 last year, we reported a net loss of $2.1 million and an operating loss of $1.9 million. On a non-GAAP basis for the quarter, we reported adjusted operating income of $600,000, an improvement of $1.6 million compared to an adjusted operating loss of $1 million reported for the same period last year. The improvement is primarily due to expense savings of $6.7 million with the greatest reductions in distribution and employee compensation and benefits. Partially offset by a total revenue decline of $5.1 million. We reported $34 million of total revenue for the quarter. This compares to $39.1 million last year. The year-over-year decline is primarily due to a $5.3 million or 45.6% reduction in print advertising revenue, primarily resulting from the decision to end our shared mail program to deliver weekly preprints and inserts on August 31. After accounting for this decline core print advertising was down 5.1% year-over-year. Circulation revenue increased $500,000 when compared to last year, which includes $230,000 from single-copy sales celebrating the Texas Rangers winning the World Series. Digital-only subscription revenue increased $1.2 million or 34.1%, partially offset by a print circulation decline of $600,000 or 4.8%. On a non-GAAP basis, total adjusted operating expense for the quarter was $33.4 million, an improvement of $6.7 million when compared to the same period last year, driven by expense savings of $3.1 million in distribution, $1.6 million in employee compensation and benefits, $1.1 million in newsprint and $600,000 in outside services. The expense reduction of primarily again, the result of the discontinuation of the shared mail program and print only editions of our niche publications, Al Dia and Briefing, at the end of August of last year.

Turning to full-year results, on a GAAP basis, we reported a net loss of $7.1 million or $1.33 per share and an operating loss of $8 million, which includes severance expense of $3.8 million. For 2022, we reported a GAAP net loss of $9.8 million and an operating loss of $9 million, which includes severance expense of $800,000.

On a non-GAAP basis, for the year, we reported an adjusted operating loss of $2.7 million, an improvement of $2.6 million when compared to an adjusted operating loss of $5.3 million for the year 2022. The improvement is primarily due to expense savings of $13.5 million with the greatest reductions in distribution costs outside services and newsprint, partially offset by a total revenue decline of $11 million.

The $7 million expense savings and distribution and total revenue decline of $11 million, again, are primarily the result of the discontinuation of the shared mail program and the print-only additions. We reported $139.7 million of total revenue for the year, and this compares to $150.7 million last year. The year-over-year decline is primarily due to a print advertising decline of $9.8 million, again driven by the discontinuation of the shared mail program and print only editions of our niche publications. Digital advertising and marketing services revenue declined $900,000 or 3.5%, primarily due to a decline in marketing services revenue, partially offset by an increase in digital advertising on dallasnews.com, and in our digital replica.

Circulation revenue increased $200,000. This is the third consecutive year of year-over-year growth, again helped by Rangers single-copy sales. As of December 31, the News had 63,000 digital only subscribers, a decrease of 5,010 or 7.4% compared to last year. The decline in digital subscribers is the result of the company's specific focus on balancing volume and price. Total subscribers, including both home delivery and digital subscribers, was 132,694 as of December 31. And this compares to 146,583 as of December 31 of 2022. A quarterly summary of historical print and digital subscriptions, also known as memberships, is saved on our website under the Investor Relations section.

Other revenue decreased $500,000 or 3.1% compared to last year and these are primarily due to reductions in revenue from commercial printing and distribution. On a non-GAAP basis, total adjusted operating expense for the year was $142.4 million, an improvement of $13.5 million or 8.7% when compared to $155.9 million of adjusted operating expense last year. The improvement is primarily due to expense savings of $7 million in distribution, again resulting from the changes in our shared mail program, $2.2 million in outside services, $2.2 million in newsprint, $600,000 in employee compensation and $800,000 in property rental.

Newsprint expenses favorable year over year, as a result of lower circulation and discontinuing print only editions of Al Dia and Briefing. The newsprint purchase price has continued to trend favorably as of the end of the year, average newsprint inventory cost per metric ton was $687, and this compares to $829 per metric ton in 2022, a decrease of $142 or 17.1%. And I'm pleased to say we are continuing to see favorable pricing so far in 2024.

As of December 31, headcount was 601, down 62 compared to last year. As of the end of February, we had 546 employees, which reflects the departure of most of the 58 employees who elected to participate in the Voluntary Severance Program offered last fall and left the company on January 1. Cash along with short-term investments was $22.5 million as of December 31, and as of March 1, cash was $19 million.

For the year, the company recorded $464,000 of tax expense. We expect cash taxes to be approximately $580,000 in 2024, primarily related to the Texas franchise tax. As of December 31, 2023, the company had $54.2 million in federal net operating loss carryforwards; $17.5 million expires in 2037 and $36.7 million does not have any expiration.

In regard to our pension plan, we do not expect to have any mandatory contributions, in 2024 or in 2025. We are pleased with the progress the company made this year toward our long-term strategy, and we were right in line with how we expected to end the year. We remain in a good position on our balance sheet and are encouraged by what we are seeing so far in 2024.

I will now turn the call over to Grant.

Grant Moise ***DallasNews Corporation - CEO & Director***

Thank you, Katy. Reflecting on 2023, I was pleased with our progress and improving our adjusted operating income. The year was highlighted by exceptional journalism, a strong year of digital subscription revenue growth and a disciplined approach to managing the decline of the print business.

Starting with our journalism, our year was highlighted by two strong series that framed important issues facing North Texans. First, our newsroom created a 30 day series in September entitled Deadly Fake, which highlighted the threat of fentanyl in our community and helped inform North Texans about the threat of this deadly drug.

Second our editorial board focused on a six part series throughout the year that was called the unraveling of Latin America, where we helped North Texans understand the root causes of the immigration problems on our southern border. This outstanding journalism largely contributed to what Katy referred to as our third consecutive year of membership revenue growth because we remain committed to pricing our digital membership at a premium rate.

Last, I'm proud of our Medium Giant team's discipline when we chose to exit the shared mail business In August of last year. Medium Giant continues to offer advertisers the products and services they value most, and it was clear from the rapid decline in our shared mail revenue that advertisers no longer saw value in this product offering.

Looking ahead to 2024, we've recently added Chris Patheiger to our team as the company's Chief Product and Innovation Officer. We brought Chris on board to enhance our digital product offering and build new digital products to reach new audiences. We are in the early stages of Chris's work, but our goal is to expand our product portfolio to reach new audiences and provide new sources of revenue growth for the company.

John, we will now open it up questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have no callers queuing up with questions.

Katy Murray ***DallasNews Corporation - President, CFO, Treasurer & Secretary***

All right, John, thank you very much for your assistance this morning. Everyone who has joined, thank you again for listening to our fourth quarter and full year 2023 results and we look forward to updating everyone with our progress on our first quarter of 2024 earnings call, which will be handled sometime in the second quarter. Thank you.

Operator

Ladies and gentlemen, that does conclude your conference call for today. We do thank you for your participation and for using AT&T event conferencing, you may now disconnect.