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AHC - Q2 2013 A. H. Belo Corporation Earnings Conference Call

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## CORPORATE PARTICIPANTS

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

**Robert Decherd** *A. H. Belo Corporation - Chairman, CEO and President*

**Jim Moroney** *A. H. Belo Corporation - EVP, Publisher and CEO - The Dallas Morning News*

## CONFERENCE CALL PARTICIPANTS

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

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

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

**Fred Nagle** *Trowbridge International - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by and welcome to the A. H. Belo Corporation second-quarter 2013 financial results conference call. For the conference, all the participants are in a listen-only mode, There will be an opportunity for your questions. Instructions will be given at that time. (Operator Instructions). As a reminder, today's call is being recorded.

I'll turn the conference now over to the Senior Vice President and Chief Financial Officer, Ms. Ali Engel. Please go ahead.

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### Ali Engel - A. H. Belo Corporation - SVP, CFO

Thank you. Good afternoon, everyone. Welcome to A. H. Belo Corporation's second-quarter 2013 conference call. I will lead today's call, and my comments will be concise, leaving plenty of time for Q&A. Robert Decherd, our Chief Executive Officer; and Jim Moroney, Executive Vice President are available for Q&A; along with myself, and Dan Blizzard, Senior Vice President.

This morning we issued a press release announcing second-quarter 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 2013 performance against second-quarter 2012 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. 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 in accordance with GAAP are provided in our press release, and on our website under the Investor Relations section.

A. H. Belo Corporation announced second-quarter net income of \$0.05 per share, a year-to-year improvement of \$0.04 per share. Earnings before interest, taxes, depreciation, and amortization, or EBITDA, was \$8.7 million in the second quarter. Total revenue in the second quarter of 2013 decreased 4%, an improvement of 1 percentage point in the rate of decline compared to the first quarter. Our revenue diversification initiatives are driving these improvements, and we plan to add more such initiatives in the second half of 2013, as well as into 2014.

Revenue from advertising and marketing services, including print and digital revenues, decreased 4% in the second quarter, the lowest year-over-year quarterly decline since the spinoff from Below Corp. in 2008. This improvement was driven by a 1% increase in advertising and marketing services



revenue at The Dallas Morning News. Improved advertising revenue performance in Dallas resulted from higher digital revenues, which includes continued growth in digital classified advertising revenues, most notably in the digital automotive category; and new marketing services revenues generated by 508 Digital and Speakeasy.

Circulation revenue decreased 2% in the second quarter, due primarily to the continued home delivery and single-copy sales declines at The Dallas Morning News. The Company expects this trend to stabilize through the remainder of 2013 as circulation pricing and marketing initiatives are implemented.

Printing and distribution revenue decreased 13% in the second quarter, primarily due to the cessation of unprofitable commercial printing products at The Press-Enterprise in Riverside, California.

Total consolidated operating expense decreased 5% in the second quarter to \$103.6 million, as headcount-related expenses, newsprint, and depreciation expenses all decreased. As of June 30, we had \$32.9 million of cash and cash equivalents, and no debt.

Returning cash to shareholders remains a top priority. A quarterly dividend of \$0.06 per share was paid on June 7 to shareholders of record as of May 17. The Board of Directors announced an increase in the quarterly dividend to \$0.08 per share, payable on September 6 to shareholders of record as of August 16.

On the real estate front, we continued our efforts in monetizing non-core real estate in Riverside and Providence. On July 17, the Company completed the sale of its five-story office building and certain related assets in Riverside, California, to the County of Riverside, for \$30 million. Proceeds to the Company were approximately \$28.6 million, after selling costs of approximately \$1.4 million.

In the third quarter of 2013, A. H. Belo will record a gain, for financial reporting purposes, of approximately \$4 million to \$5 million related to this transaction. However, this transaction will not result in a taxable gain to the Company.

The Press-Enterprise entered into a six-month leaseback with the County of Riverside until PE's new leased office space is ready for move-in, which is expected to take place by the end of this year. We anticipate expenses associated with the relocation of The Press-Enterprise to be approximately \$500,000, which will be incurred in the fourth quarter. As a result of the sale of the building and the move to leased space, The Press-Enterprise anticipates incurring incremental capital spending of \$1.6 million in 2013 to build a data center in its production facility; and ongoing expenses of approximately \$200,000 per year for incremental facilities costs.

We are also actively marketing ancillary real estate facilities formerly used by The Press-Enterprise for products and services that have been discontinued. This property is expected to generate proceeds in the \$1.4 million to \$1.6 million range.

In the third quarter of 2013, the Company is expected to close on the sale of a public parking lot in downtown Providence, Rhode Island, generating estimated net proceeds of \$400,000 and a gain of \$200,000. On the July 8, The Press-Enterprise sold certain equipment which was idled in 2012 when the newspaper ceased printing certain unprofitable commercial products. This transaction generated net proceeds of \$500,000, and a gain of \$300,000.

That concludes our remarks. And, Operator, we are ready for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Richard Diamond, Strait Lane Capital.

Richard Diamond, your line is open. Possibly take yourself off mute.



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

Yes, hi. This is Richard Diamond. Good afternoon. Just out of curiosity, now that you have \$60 million, or will have \$60 million in cash sitting on the balance sheet, how should we think about how those proceeds will be put to use? And, by the way, I also want to thank Mr. Decherd for his wonderful service on behalf of all of the shareholders. You've done a great job.

But, anyway. You've got a high-class problem. How do you want us to ask questions about it or think about it? Thank you.

**Robert Decherd** - *A. H. Belo Corporation - Chairman, CEO and President*

Richard, first of all, thanks for your comments, and for the email you sent some time ago; not quite gotten to responses yet, but I will.

On the cash front, we actually are north of \$60 million after the closing of the office building in Riverside, and the other transactions that Ali mentioned. The way to think about the Board's perspective is very consistent with what we discussed before.

We are not going to be aggregators in the newspaper business, so we're not going to change tunes and go into the acquisition business; meaning, newspapers outside of our market, and try to build a larger newspaper company. We will consider, and have been very successful under Jim's leadership, in investing in businesses that either are aligned with or easily adjacent to The Dallas Morning News. We might do some of that in other markets, but you should certainly think first and primarily about building businesses in the Dallas/Fort Worth market like 508 Digital and Speakeasy.

Certainly, in terms of investing in our product, we are going to continue to do that, but we're going to do that out of income. So that's not a balance sheet item. And that brings us back to the same uses we've discussed in investor day presentations and generally in these calls. First, we can and will be a dividend paying Company, and are very attentive to the yield that we are delivering to our shareholders based on assumed investment levels or investment prices.

We're not going to be doing any special dividends, at least not in the foreseeable future. Because of circumstances last year, as we said at the time, were quite unusual, and there were motivations for us and other companies to pay special dividends that do not exist in the current environment, and we don't think are likely to exist in the near-term.

So that gets you to share repurchase, which we have begun in a modest way. We are going to continue to think about that as an efficient way of returning capital to shareholders. And there's the pension plan, which we believe now is really become a fairly routine matter for the Company, thankfully. As a result of the voluntary contributions we made in 2010, 2011, 2012, in that period, and the performance of the market, the pension plan's assets are substantially above where they were when we and other plan sponsors were facing a very different environment in 2009, 2010.

And as the discount rate has started back up, that is helping us and all plan sponsors in terms of reducing our obligation -- our funding obligation going forward. All of that is to say, Richard, I think you're down to dividends and share repurchase, and being very opportunistic, but disciplined about investing in businesses that will create, as Jim has often said, new revenue streams that are not dependent upon the same dynamics as our core advertising.

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

Thank you very much. I appreciate it.

**Operator**

Barry Lucas, Gabelli & Company.



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

Good. My brother. Good afternoon, Robert. How are you today?

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**Robert Decherd** - *A. H. Belo Corporation - Chairman, CEO and President*

Good, Barry.

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

Couple of quick items. One, no tax bite on the real estate sale in Riverside? Any tax liability on those smaller sales?

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**Robert Decherd** - *A. H. Belo Corporation - Chairman, CEO and President*

No.

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

Okay. And maybe you could update us on the progress of some of the other real estate parcels, to the extent that there has been any?

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**Robert Decherd** - *A. H. Belo Corporation - Chairman, CEO and President*

Well, Dan has done great work in Riverside. And in his spare time -- which is a joke, he hasn't had any -- has been also making progress in Providence. As you know, we are hopeful that we can enter into some sort of a sale-leaseback arrangement with the headquarters building there. There are number of leads that he is pursuing that could result in that outcome in the next 12 months, plus or minus. But there is no certainty around that, Barry. So it would be premature to start factoring that into any model.

The simple way of thinking of that, as we've described in the past, is we have raised some cash in a sale-leaseback to consolidate the operations of The Providence Journal. And in all probability, see some reduction in our operating expenses, to be determined based on what the actual transaction would be.

The other property that we own in Providence is a combination of commercial parking lots adjacent to the headquarters building, and then a parcel on the other side of the interstate from downtown; which, once the market begins to recover, could be worth several million dollars. But we need for a lot of things to happen in the Providence and Rhode Island market for that piece of property to be something we could monetize.

In Dallas, we are sitting on the downtown Dallas property. The market is firm. We've had some offers; we don't think they're sufficient. But the offers we are getting are higher than the last offers we got, so we think it's going in the right direction there. And then the South Plant, which is another large parcel -- the former South Plant -- is in a very desirable industrial location.

But we built a specialized facility; and, therefore, the potential buyers for the facility itself remains somewhat limited. We're hopeful that something will break free there in the next 12 to 18 months. And that, together with the prospects in Providence, are all -- all paint a promising picture.

We will be basically out of the real estate business in Riverside if we're able to sell the SoCal printing property, which we talked about in the press release. And would then have our lease hold for the office and production facilities. We'd be down to those two assets.



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

Okay, great. Just a couple of others, if I may. Robert, you said you're not an aggregator of newspapers. You have -- I wouldn't say it's a transitional event -- but with the separation of the Tribune newspapers, does that potentially put the ball into motion for consolidation of some sort in that Southern California market, in your mind?

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**Robert Dechard** - *A. H. Belo Corporation - Chairman, CEO and President*

Well, Barry, as you know, we've said for a long time that it's clear to us that market will consolidate. I wouldn't over-interpret the Tribune move. There's a lot to happen there before those newspapers are spun out. And even when that occurs -- to me, at least, it would be unclear what their own agenda would be in that particular market.

But there are other owners in Southern California who are certainly there for the long term, as we have been, and are presently, who are ambitious about having a larger footprint. We're just keeping our heads down, running The Press-Enterprise as aggressively as we can, and observing what's going on.

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

Last item for me. What has been good in Dallas? You had mentioned digital audio, or digital auto on the classified side. Other categories or sectors of strength or particular weaknesses, either in Providence or Riverside?

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**Jim Moroney** - *A. H. Belo Corporation - EVP, Publisher and CEO - The Dallas Morning News*

Barry, I'll tackle Dallas for you just quickly. We had actually a good experience in the quarter with national general advertising. It was actually up year-over-year, which is certainly not something that we can count on, and have been able to count on, but we have good quarter. Telecom was one of the big drivers, which as you probably recall, was pretty much out of -- at least our newspapers -- I think, most of them last year. And so we got a little bit of that back.

Auto was a big driver, as been mentioned. Real estate was actually also up. Preprints were flat, so that's not bad either. And we had a digital number that was greater than 30% increase year-over-year. That includes some of the digital marketing services things, like 508 Digital and Speakeasy, which contribute to that, on top of our regular digital advertising. So those were the real big drivers.

I don't think there was anything that was particularly down in such a way that's worth calling it out. But those were the increases.

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**Robert Dechard** - *A. H. Belo Corporation - Chairman, CEO and President*

Then in Riverside and Providence, Barry, local is actually stable. Feels pretty good in Riverside. National is down; a lot of pressure on markets like Riverside in terms of national advertising. Classified has been under pressure there. We are getting some new locals business from various municipalities that were previously relying on The Californian, which was shut down by the UT owners, and to some degree by the North County Times consolidation into the San Diego product.

Our TMC is okay there. Actually, our Spanish language publication, La Prensa, is doing quite well in terms of ad revenue. In Providence, downward pressure on all categories, with the bright spot being our larger local advertisers are signing contracts with noticeable increases for 2014 versus 2013. But some of that has to do with consolidation, meaning smaller players in those various sectors have gone out of business or merged into the larger players, so you have to net those two things out.

But, overall, it's a positive direction for local advertising. Everything else, though, all other categories really feeling the downdraft that Rhode Island is experiencing.



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

Thanks to Jim and Robert. Thank you very much for everything over the years.

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**Robert Decherd** - *A. H. Belo Corporation - Chairman, CEO and President*

Well, thank you, Barry. We're not going away. At least Jim isn't.

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**Jim Moroney** - *A. H. Belo Corporation - EVP, Publisher and CEO - The Dallas Morning News*

Not planning on it. Thanks, Barry.

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**Operator**

(Operator Instructions). Dennis Leibowitz, Act II Partners.

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

Hi. I had a couple of questions. One, I didn't see a reaffirmation of the EBITDA guidance for the year, which I think was \$37 million to \$41 million, and wondered if you could comment on that.

Second of all, I wondered if you could talk about the progression of advertising during the quarter, and anything you could say about July, since it's over. And finally on circulation, you intimated there were price increases coming. I wondered if you could talk about that.

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**Robert Decherd** - *A. H. Belo Corporation - Chairman, CEO and President*

Dennis, let me take the first one, and Jim can address the second two. We're not changing our guidance; but as you would expect with the pressures in Riverside and Providence, we are working very assiduously to figure out whether we can confirm that at the end of the third quarter. Dallas is doing really well and we've been banking on that. But we have a lot of drag from the other two markets at the moment. And we are in the process of sorting that out as part of our 2014 financial planning process, which has just kicked off. So we'll have more on that, certainly in October, if not before.

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**Jim Moroney** - *A. H. Belo Corporation - EVP, Publisher and CEO - The Dallas Morning News*

Yes, on The Dallas Morning News front, July is looking pretty much like things have looked on the first and second quarter. We've been pretty close to flat. Up a little, maybe down a little on another month. That's really what July is looking like, so it's been very consistent this year. Which in and of itself is unusual, but consistently slightly flat to slightly up is good. So we feel pretty comfortable about that.

The circulation pricing, we've been rolling out an increase to our home delivery subscriber base on a segmented basis. And we got that probably really ramped up in the April-May time period, such that we'll see the benefits of that really accrue more to the third and fourth quarters, and then sometime into next year that we saw in the second.

We got some lift in the second because it's been going very well in terms of the number of subscribers who have accepted the increase against any that have decided not to continue to subscribe. So, we'll see a little bit of uptick that way in the third quarter.

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

Okay, thanks.

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**Operator**

Fred Nagle, Trowbridge International.

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**Fred Nagle** - *Trowbridge International - Analyst*

Good afternoon. And certainly off the bottom for both stocks, thank you very much. No hedge fund could ever do as well. What is your guess --?

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**Robert Decherd** - *A. H. Belo Corporation - Chairman, CEO and President*

Thank you, Fred. It's good to hear from you.

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**Fred Nagle** - *Trowbridge International - Analyst*

(Laughter). What is your guess, of the current market value of Providence, number one? And number two, what is your perception -- and I think I got some inkling of this -- of what the Rhode Island economy looks like?

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**Robert Decherd** - *A. H. Belo Corporation - Chairman, CEO and President*

Fred, the economy is challenged, as you know. There's really not much good news in the Rhode Island economy right now from our chair. You have a very stressed governmental environment. You know, of course, about the pension problems that the state and municipalities have been facing. They have a very punishing tax structure and way more municipalities than a geography of that size could support. So they need to deal with the fundamental reforms and structure of government, which is not an easy process, and certainly isn't going to happen anytime soon.

So, in that unwelcoming environment, businesses are carrying on. But a lot of wealth is leaving the state, or at least from a taxation standpoint. And the in-migration is not sufficient, at least from our perspective, to get that economy back in balance anytime soon. So as we think about it, it's easily three years from now; it might be a little longer before you could paint a picture of comparative stability there.

As to the value of the Journal or any of our other operating assets, as you would expect, we don't comment on that, and haven't historically. But what I would say is that Howard Sutton and his team have done a really impressive job of continuing to manage a good, strong, and very high-quality newspaper in what are certainly among the most challenging operating conditions for any newspaper in the country.

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**Fred Nagle** - *Trowbridge International - Analyst*

Okay, thank you. And then finally, Jim, if you were to look out two years, what is The Dallas Morning News going to look like?

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**Jim Moroney** - *A. H. Belo Corporation - EVP, Publisher and CEO - The Dallas Morning News*

Fred, I think that we're going to continue to build revenues that are going to come in a category that, say, won't be the same as our print ad revenue. So you'll see a contribution of that revenue not only declining on a percent business -- because it's likely to continue to decline, in and of itself -- but we're going to be building revenues, as we have this year, through other diverse sources. And we're going to find those either businesses that we can acquire, or new products that we can start up, based on our ability to provide competitive advantages in the marketplace through our brand and through our infrastructure and our sales and news resources.





So I think that is what you will see, is a continuing shift of the balance of revenues away from print, display ad revenue, and towards these other sources of marketing services and marketing revenues.

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**Fred Nagle** - *Trowbridge International - Analyst*

Okay, thank you so much.

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**Operator**

And to the presenters, we have no additional questions in queue.

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**Robert Decherd** - *A. H. Belo Corporation - Chairman, CEO and President*

Okay. Well, thank you very much to one and all. We feel like we've had a good quarter. Net income feels good, and certainly The Morning News is leading the charge. We look forward to visiting with you again in October. Thank you, Operator.

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**Operator**

You're welcome. And, ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.

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