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AHC - Q2 2015 A. H. Belo Corp Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the second-quarter 2015 financial results conference call.

(Operator Instructions)

As a reminder, the conference is being recorded. I'd now like to turn the conference over to our host, Senior Vice President and CFO Ms. Katy Murray. Please go ahead.

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

Thank you, Lori. Good afternoon everyone. This is Katy Murray, Chief Financial Officer of A.H. Belo Corporation. Welcome to our second quarter 2015 conference call.

I am joined by Jim Moroney, our Chief Executive Officer, who will assist me in leading today's call. Grant Moise, Senior Vice President of Business Development and Niche Products is also available for Q&A.

Yesterday evening 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 2015 performance from continuing operations against second-quarter 2014 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.

A.H. Belo Corporation announced second-quarter net loss from continuing operations of $0.03 per share, a decrease of $0.88 per share compared to the second quarter of 2014. This decrease is primarily due to the prior-year gain of $18.5 million for the Company's share of sales proceeds of apartments.com through its previously held investment in Classified Ventures.

Total revenue was $66.7 million in the second quarter, a decrease of $2.6 million or 3.7% compared to prior-year period. Marketing services revenue more than doubled from the prior-year period as a result of the growth of Speakeasy and the acquisition of DMV earlier this year. Revenue from Crowdsource, our event marketing business, more than doubled in year over year.

Increases in marketing services revenue were offset by declines in display, classified and preprint advertising revenues which decreased 18.5%, 10.8% and 7.9% respectively. Circulation revenue was slightly down due to the declining volumes but substantially offset by higher rates. Printing, distribution and other revenue decreased slightly by 2.4% to $7.6 million primarily due to lower volumes associated with mailed advertisements and lower commercial printing volumes with various regional and community papers.

Total consolidated operating expense in the second quarter was $67.2 million, a 0.5% increase compared to the prior-year period. Excluding the operating expenses associated with DMV, operating expenses decreased a net $1.6 million including declines in employee compensation and benefits, production cost and newsprint expense which decreased $900,000, or 17.1% compared to the prior-year period as consumption dropped 8.5% to approximately 7,900 metric tons and an average purchase price per metric ton decrease 13.3%.

These declines were offset by higher costs related to the expansion of the Company's programmatic trading platforms supporting digital advertising in display, mobile, video and social categories, the expansion of the Untapped franchise, the growth in customers at Speakeasy and costs associated with higher cars.com wholesale fees.

Turning to the balance sheet, as of June 30 we had $84.1 million of cash and cash equivalents and no debt. In regards to real estate on June 19 the Company completed the sale of the land and buildings which served as the administrative headquarters of the Providence Journal in Providence, Rhode Island.

Net proceeds of $6.1 million were received in the second quarter of 2015. At this time we still own an undeveloped lot in Providence, Rhode Island which is for sale.

While we do not generally provide guidance we do feel that given the potential for volatility in our revenue line we should provide operating income guidance for this year. We expect that operating income excluding depreciation expense, amortization expense and severance expense to be in the range of $11 million to $13 million for fiscal 2015.

For the six months ended June 30, we reported approximately $1 million in operating income excluding depreciation, amortization and severance expense compared to $5.7 million for the same time period in 2014. Reconciliations of operating income or loss for 2014 and 2015 are available on the investor relations section of the Company's website.

I will now turn the call over to Jim Moroney.

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

Thank you, Katy, and good afternoon everyone. While the second-quarter financial results show that we continue to see pressure on our print advertising revenues there are many other positive financial trends that give us confidence in our operating and investment strategy that is focused on diversifying our sources of revenue.

First, we were very pleased to see that our digital advertising on dallasnews.com grew 18.3% compared to the same period last year. This growth in part is attributable to the continued investments that we have made in building out our programmatic trading platform and hiring the talent to execute it successfully.

Second, our marketing services businesses more than doubled from the prior-year first quarter with the January acquisition of DMV. Integration of DMV products into the Dallas Morning News sales portfolio is well underway. We are continuing to make strategic investments to increase the staff of DMV and the overall financial performance of DMV is very much in line with our expectations and we are excited about its growth potential.

In addition Speakeasy, our content marketing agency, also doubled revenues when compared to the prior-year quarter. We are very pleased with the reception our expanded product portfolio has received from our customer base and the Dallas Morning News sales staff is excited to have additional tools that help their customers more precisely target the consumers who buy their goods and services.

Third, our event business is growing significantly as well. As Katy mentioned, in the second quarter Crowdsource revenue more than doubled from 2014 and we have a strong venue of events coming up this fall and we expect to have even a more robust lineup of events owned or under production management in 2016.

Our Untapped craft beer series opened for the first time in Austin in the second quarter and the event was a sellout with almost 6,000 paid attendees. Another new market, San Antonio, is set to open in November.

Established markets Houston and Dallas will be holding Untapped events in September and November, respectively. We are very pleased with the expanded results this year and the Untapped Festival is one franchise we are looking to expand outside of Texas next year.

In addition to the Untapped events we recently signed a three-year partnership with Hunt Consolidated to produce a fall cultural festival in Dallas the night before the annual University of Texas versus University of Oklahoma football game which is held every year in early October in Dallas. The event venue and music lineup will be announced later this week and we expect our first-year attendance to be over 15,000 people.

We'll continue to explore additional investment and acquisition opportunities in more channels of marketing that further diversify our sources of revenue. Our primary focus is directed towards advertising and marketing services companies with established financial performance and strong management teams which display sophisticated uses of data to reach targeted audiences. These types of companies will best leverage our existing customer relationships.

In addition we have several new organic growth initiatives already underway this year. One specific initiative is a partnership we have with SprintShip, which is an innovative same-day delivery service.

They provide the missing link in the buy local, stay local business model chain. With them we are leveraging our extensive distribution knowledge and capital access to deliver more than the Dallas Morning News in the DFW Metroplex.

In summary we believe it will take both strategic acquisition of additional marketing, channels and services as well as organically growing new products and services to realize the consistent revenue growth that we are focused on achieving. And Lori, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Barry Lucas, Gabelli & Co.

Barry Lucas - *Gabelli & Co. - Analyst*

Thanks and good afternoon. Maybe start with Katy. With the proceeds from the sale of real estate in Providence can we get an idea of what the actual cash shortfall on an operating basis was in the second quarter?

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

So, Barry, that's a good question. We did have the net proceeds of $6 million; however, the way the quarter fell and the timing of payables and the like showed the lower cash balance, our cash balance mostly during on any given week depending on when payroll and AP is we're closer to $90 million.

And so that was really a timing of the payroll that went out and the accounts payable. So from an operating perspective I feel good about where we are from cash flow from operations.

Barry Lucas - *Gabelli & Co. - Analyst*

Thanks. And Jim, you segmented a number of contributions from the non-core business if you will or traditional advertising in the Dallas Morning News, but how do we look at that in terms of profitability, organic growth and path to I guess sustainability is the only way to put it?

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

So we've tried Barry and thanks for pointing it out that we put some new segment reporting in this quarter and what we've tried to do is segment those businesses or products that we have either built or bought that have a marketing services or digital advertising component to them along with Crowdsource which is another as you can tell from what we said sort of a high-growth opportunity we have in our Company. And in some ways, Barry, these are a lot of the growth engines today in our Company and where we are trying to put more investment both organically and through acquisition as we go forward.

So I think what you'll see is this particular segment continuing to grow in revenues. And on the profitability side we are very close to profitability on Crowdsource and I'm confident we will be there next year. And increasingly so if not by the end of the year we are profitable on the Speakeasy and we have been all of this year through the first half.

If I look at our Connect business which is the programmatic trading platform, the investment that we have made both in the software and in the personnel is actually positive in terms of the revenue over the expenses we put out against that business. DMV is profitable and was when we bought it and continues to be and I think I'll go to Grant here for a moment. We've given guidance, Grant, on DMV and can you update that?

Grant Moise - *A.H. Belo Corporation - SVP, Business Development and Niche Products*

Yes, the original guidance we gave at the acquisition, at the time of the acquisition was $9 million to $11 million in revenue and $800,000 to $1.3 million in EBITDA. And as Jim and Katy mentioned we are very pleased and on track with those ranges that we mentioned and the first set of acquisitions is off to a strong start.

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

So, Barry, we don't right now have an accumulated profit for that segment that we're reporting. But what I can tell you with confidence is on the trajectory that we are today that segment is going to really begin to make meaningful contribution on a profitability basis in 2016. And I'm confident we'll realize it.

Barry Lucas - *Gabelli & Co. - Analyst*

Great. And one last housekeeping question, with the sale of that piece of property in Providence so that leaves you with the one undeveloped piece in Providence and the parking lot in Dallas and that's it, right?

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

It does. So we had the undeveloped properly, we actually have four parking lots in Dallas that we own. None of those are for sale.

And just a reminder we do own our office, our Denton Record-Chronicle property. We own that and obviously we own our headquarters but those are not for sale either, only the Providence undeveloped lot.

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

And just to reiterate again the net cost of the Company of these four parking lots, some are actually parks, some are actually commercial parking lots. Net-net-net we more than cover all the expenses, taxes and upkeep and utilities and so forth so that it's not a drag on earnings.

Barry Lucas - *Gabelli & Co. - Analyst*

Great, thank you.

Operator

(Operator Instructions) Lance Vitanza, CRT Capital Group.

Lance Vitanza - *CRT Capital Group - Analyst*

Hi, thanks. Just back on the cash flow for a second, taking Katy's answer to Barry's question into account, it looks like $2 million to $3 million of cash flow so to speak in the quarter and that's what I would expect just looking at the P&L and then thinking about what the below the line cash flow items would likely be.

So my questions are number one, were there any one-time or non-recurring items that we should consider that either helped or hurt cash flow in the quarter? And then number two, how much seasonality would you normally expect in the back half of the year? Should we be thinking about $5 million or so of cash flow in the back half or does that understate the typical Q4 uplift that you would get?

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

Good question. So from a one-time type item there is nothing that comes to mind, again, just depending on how a quarter may fall when a payroll comes in and out. Some months may have three but that would be the only thing and that would wash over the course of the year.

For the second half of the year I think that obviously anything that is contracted for earlier in the third and the fourth quarter, excuse me, like October, November we're going to see the potential for cash collection in December. But I don't think there's going to be anything that I would call out any different, any seasonality that would be unique to this year versus last year or the like. When you look at percentage of collections as I think your estimate of about $5 million in cash flow from operations second half is probably directionally correct.

The only thing that will impact that from a one-time perspective is any severance payments related to any of the individuals who elect the voluntary severance offer that has been offered to the editorial team. That would take place in the third quarter but we would highlight that and call that out. So outside of that operating cash flow would be directionally where you were talking about.

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

Let me just add, though, that one thing that as you're thinking about modeling what the second half looks like, we took a hard look at the first-half revenue trends in print advertising, digital advertising, circulation and so forth. And we modeled that into the second half of the year to come up with a second-half forecast.

And in order to ensure that we would get to the guidance that we gave you, and assurance by that I mean if at least things would be no different than they were in the first half in terms of being any worse, we've made significant expense adjustments to the second half in order to meet that guidance range that we gave you which would mean expenses short of the additional expenses from DMV significantly under where we were in 2014 if you consider an apples-to-apples expense base. So whether that adds in or not to your model on the cash flow I think it's important that you understand how we got to that guidance.

Lance Vitanza - *CRT Capital Group - Analyst*

No, that's helpful. And then I had just one sort of bigger picture question.

As I think about it Dallas Morning News is obviously a premier title. There's no doubt about that.

But excess capacity in terms of printing, distribution, sales, overhead and even editorial I would argue is fairly well understood. So the question is how wedded are you to remaining independent? And just conceptually would the Board be open to considering some sort of combination with a larger player that might help from a scale perspective?

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

Look, as fiduciaries for our shareholders we are always going to listen to any person or company or somebody that would come and talk to us about that kind of a transaction. But I will tell you at this point in time not only have we not had anyone approach us, we're certainly ourselves and this is the Board's position not going out and looking at those. We're very focused on owning and operating the Dallas Morning News and all of its subsidiary parts going forward.

Lance Vitanza - *CRT Capital Group - Analyst*

Thanks very much.

Operator

Fred Nagle, Trowbridge.

Fred Nagle - *Trowbridge International, Inc. - Analyst*

Okay, good afternoon. If you look at the performance chart of the stock, it peaked at 14 around the beginning of the year and it's been simply a steady decline to where it is today. Who do you think the sellers were and what did they know?

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Katy Murray - *A.H. Belo Corporation - SVP & CFO*

So I'll take the question and then I'll let Jim talked to it. We've been asked the question is there something going on? There is nothing that I can put to specifically about any company performance, anything about the company has any intention of what we're doing, anything like that that has anything to do with where the company's stock performance is.

Obviously when you start the year the stock price today in some part does reflect the dividends that were paid out to the investors. It was a $2.25 dividend that was paid in the first quarter. I think from that perspective and to where we are today I can't tell you specifically why the stock is trading where we were.

We did have the Russell rebalancing that was in June. I think everybody knows that, that last Friday kind of witching day. While we were taken out of all the Russell indexes and we did have some participants in our stock who had to sell we did have buyers at that time and we actually held around $8.

So the stock performance from then I think we have had some impact as a result of some others who have reported. I think we've felt some pressure for that and outside of that there's not anything I can put to specifically about Company performance or any rumors or anything like that.

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

Fred, it's been a puzzle to us. We announced what was at least in the sector the best first quarter of revenue performance among all of the publicly traded newspaper stocks or companies that breakout their newspaper segment as a part of their larger company. And from that announcement until today there's been no other news about our Company that would explain the precipitous drop in the price of the stock as it relates directly to our Company.

So we've also noticed it honestly most of our larger shareholders are still shareholders. At least at the last report we got we didn't find some one or two or three big shareholders in the top 10 that had gotten out of the stock except for any of those that were part of the Russell index that had to sell out. So I can't find an explanation on that side of the ledger either.

So we really ourselves are a little bit of a quandary about exactly why this stock is down to where it's basically trading almost at the cash value of the Company. When you consider the real estate we have for sale, the lack of any debt and the up to $90 million we have on the balance sheet it's almost the cash value of the Company.

We still have a very valuable franchise in the Dallas Morning News that we believe in that has been consistently profitable every year that it's operated with margins in if not very high-single digit, low double-digit range. And we're still expecting something similar this year as we said in the guidance.

So I wish I had a better, fuller answer for you than that but it's where we are. We're just going to continue to operate the strategy in terms of acquisition of channels of marketing that will make add to our portfolio, continue to build internally products or companies that will also add to that portfolio. And we will continue as I mentioned a moment ago that we'll align our expenses to what the core business realities are as those revenues continue to come down which is something that we continue to build into our strategy.

We would love them to turn around or attenuate but we've never taken that position in the last I'd say six years. And so we're just continuing to work the strategy and I think that our total revenue results while not where we want them yet relative a lot to the industry would demonstrate that we're having some relative success with it.

Fred Nagle - *Trowbridge International, Inc. - Analyst*

Okay, thank you.

Operator

Chris Mooney, Esposito.

Chris Mooney - *Esposito Securities, LLC - Analyst*

Good afternoon, folks. The format of the quarterly announcement seems to have changed a bit in that I don't see in there and maybe I'm missing it there has historically been an EBITDA calculation.

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

There has been an EBITDA calculation historically. It was taken out of the press release. It also will be taken out of the 10-Q.

What we are going to be supplementing that with, though, is you'll see it on our investor relations website, it should be there now, is an analysis and a walk to operating income and loss adjusted for amortization, depreciation and severance. They're actually very close.

The only difference between the two are items that were below the line related to various gains and losses on equity and cost investment, partnership things along that line. So not really I think the best reflection of the operating side of the business.

So we're moving to an operating income loss adjusted as I mentioned for depreciation and amortization and severance. What we will also be adding is a walk to EBITDA that's been reported in 2014 by quarter and for the year so that you can see specifically what lines that were below operations affected EBITDA in the prior period.

Chris Mooney - *Esposito Securities, LLC - Analyst*

Okay. But in that reconciliation you said it's on your website now?

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

It is. It's on the investor relations section of the website.

Chris Mooney - *Esposito Securities, LLC - Analyst*

I will go look. So I did a punt at it and came up at about $2.8 million, $2.9 million of EBITDA and with the dividend payment and some assumptions for CapEx, that's kind of a breakeven I guess for the quarter-ish. And I guess where I'm going is on thinking about capital allocation and announcement of an expanded share repurchase program that it doesn't look like much was done with that during the quarter.

I assume they'll be something about that in the Q. What's your thinking about the dividend and the share repurchase program?

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

So I can take the first. The first was an authorization for additional shares. We are in a share repurchase.

We do talk to that. We repurchase shares, maybe 1,000 or so a day and we do disclose that. At this point there is no other information related to any other type of significant repurchase, anything different than what we've been doing on a consistent basis to date.

From a dividend perspective no change to our dividend policy. Obviously the special dividends, that would take special Board approval and our quarterly dividend that we announce $0.08, no changes to that that are underway.

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

Right. The Board -- they're very comfortable with where we are.

Obviously we'd rather not have the stock price where it is but it certainly makes the yield look better. But we don't have any plans at this time. We're very comfortable with where the quarterly dividend payment is and I think we'll likely remain there for some time.

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

And then on the capital side, as far as any kind of capital expenditures outside of obviously the large type of machinery that we run for the presses and things like that, not a terribly capital-intensive Company. And our capital allocation for capital expenditures for the year is in the mid single digits.

Chris Mooney - *Esposito Securities, LLC - Analyst*

Okay. And Katy, you said that the closing for the sale of the real estate in Providence occurred in the June quarter --

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Katy Murray - *A.H. Belo Corporation - SVP & CFO*

In mid-June. June 15.

Chris Mooney - *Esposito Securities, LLC - Analyst*

And where would I see some recognition of that in the earnings announcement?

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

So the actual financial statement impact on that was a slight loss of $200,000 from the actual sale of the property. From a cash perspective as I mentioned on an earlier question our cash balance actually is really roughly around $89 million to $90 million right now.

The timing of the quarter with payroll and accounts payable took it down to the $84 million. So what you're going to see his you're going to see a cash side with the cash piece of it and then a small financial loss on the sale.

Chris Mooney - *Esposito Securities, LLC - Analyst*

Okay. And I think at McClatchy noted that they had received an additional distribution for the sale of Classified Ventures. Did you all receive any portion of it?

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

We did, we did earlier in the quarter and that would be below the line. That's one of those items I was saying earlier really are outside of operating but you will see that in the 10-Q. It will be called out and we did receive that in the early part of this quarter.

Chris Mooney - *Esposito Securities, LLC - Analyst*

Okay. And looking at what's left in real estate how does all what you received and what's left compared to what you had been projecting for Providence real estate

Katy Murray - *A.H. Belo Corporation - SVP & CFO*

We're pretty much where we had expected to be. The property in the undeveloped lot that we have up in Rhode Island again is for sale. From a gross real estate perspective I would say the range on that property is probably anywhere between call it $3 million to $6 million.

We knew that was going to be a lot that we would have for sale for a while but outside of that that is the only one. The sale price for the existing, the administrative building and the land was exactly where we thought it would be.

Chris Mooney - *Esposito Securities, LLC - Analyst*

Very good. Thank you very much.

Operator

David Cohen, Minerva Advisors.

David Cohen - *Minerva Advisors - Analyst*

Good afternoon guys. Let's start fairly small and work up.

The Dallas parking lot, obviously we don't need to be in the parking lot business in the long term. Should we view those as future optionality in terms of redeveloping downtown Dallas? How should we think about them?

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

Well as you might know the area that we are in in downtown has for a very long, long time been a very sleepy part of downtown Dallas. With the opening of the Convention Center Hotel literally almost next door to us, it has spurred more interest in this end of downtown by the development community. There are all kinds of discussions going on around high-speed rail that might come within yards of our main office building here and therefore not very far from these parks and parking lots that we own.

Also they've talked about moving one of the sports stadiums, the baseball stadium down here. There's three or four new restaurants opening up around the Convention Center Hotel based on the success of that project.

And so our parking lots are doing nothing but becoming or park space becoming more valuable, David, as time goes on and since right now having cash on our balance sheet isn't one of the things we're too concerned about since we have $90 million and no debt we feel like those of most prudent thing for us to do is to continue to hold those properties again since they're not putting any drag on earnings, they are net-net-net paying for all of their cost through the income generated on the one main parking lot of the four parcels. So I think right now we're just content to hold those as we see value continuing to increase.

David Cohen - *Minerva Advisors - Analyst*

Got it. So now if I could just move to the guidance that you don't usually give but gave this time. Thank you for that. (multiple speakers)

So obviously that implies a much stronger second half than first half and we understand there's seasonality that comes into play there. Is there and you mentioned there will be a lower expense structure in the second half as well.

Is there anything else built into that guidance in terms of any changed assumptions about the macro environment, any uplift in the marketing business? It would be helpful for us if there are assumptions for us to be able to --

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Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

There really isn't anything along those lines. Honestly what we did and I'll be very specific about it, we took the run rates of the revenues from the first half of the year and we mapped those onto the second half of the year which those first-half run rates were lower than what we had built into our plan for the second half.

So that required us to bring down our revenue forecast fairly significantly. And we then matched that the decrease in run rate of revenues with dollar-for-dollar expense reductions for the second half of the year. And those, by doing those two things together we then looked at where we believed our operating income as Katy has described it would come out and that's where our guidance came from.

So if we can at least perform as well in the second half or let's say no worse in the second half then some of the categories, particularly print ad revenues were in the first half, and keeping all the other things at similar sort of first-half run rate then we're confident we can meet that range. It think the only thing that could hurt us at all from reaching that range and even the higher end of that range is if print ad revenues take a decline that's even greater than they did in the first half, particularly in the second quarter and even in particularly more so in June.

I can't predict that. I think we've done a good job of reserving for those kind of outcomes in the second half and then building this financial model that will get us to that range that we've given you. And I'm confident we can make it unless we have something that is just really out of the ordinary that we couldn't anticipate.

David Cohen - *Minerva Advisors - Analyst*

I understand. So now to the bigger sort of it is to some degree a capital allocation question and to some degree a strategic focus question.

The way we calculated it and I think the way anybody who knows simple arithmetic calculates it, there's really very little effective enterprise value being ascribed by the market to the Dallas Morning News which is an entity which as you pointed out in addition to being a very good newspaper has a history of generating meaningful cash flows. And so the way we calculate that multiple, that's about zero. The way we calculate the multiple on the DMV acquisition is significantly higher than zero but just leave it at that.

And so from our perspective we would much rather see capital allocated to investments in the DMN, which given the environment I think means buy back rather than buying new printing presses, rather than more bolt-on in DMV. And we understand that you're looking for growth engines in what is a very tough growth environment for your core business.

But I've got to be honest, my view is that as important as anything in terms of strategic challenges is for you to highlight the value of DMN as a franchise, particularly in a world where all of a sudden there's a lot more potential buyers. And I don't see that making additional acquisitions and allocating more capital to marketing businesses will really help you highlight what you have with the DMN.

So is that a question? Not really, but if you have an answer I'd be happy to listen to the answer.

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

So first your statement that we're getting almost zero value for the operating income of the DMN is correct in just doing the math on the share price plus, minus the cash on the balance sheet, minus the value of the properties we own. So I'll buy that.

You know, it's a difficult for me to and I'll give it some thought but we've consistently run the Dallas Morning News as a profitable, and as I said plus or minus a point or two, 10% margin newspaper company. And as the guidance would suggest if we did let's say the middle of the range even at a low multiple that would be four times that would be $48 million. Almost $50 million of value that the Company's not getting if you will based on the other calculations you provided.

I don't know, David, that investing more in the DMN per se is going to dramatically -- or not dramatically, significantly change that value proposition. The things that we can do and you could call them investments in DMN, we took our traditional digital advertising business and said we have to get into the programmatic buying and selling business and we have to do it with a private marketplace that we can sell our own impressions directly through the programmatic platform as opposed to have to rely on other exchanges where we pay higher fees and oftentimes have to utilize other people's inventory to fill orders so that we could maximize not only the sales that we get through the programmatic channel but we could improve the margin on those sales by selling more of our own inventory first before we have to go out and find additional inventory.

So if you want to call that an investment in the Dallas Morning News insofar as a lot of that's coming from DallasNews.com then yes that's an investment we made that actually has a payoff. We also can make improvements as we have in our sections in the newspaper to try to maintain more of the inelasticity in the home delivery price so that as we make increases to our home delivery customers and what they pay to have the paper delivered we see less volume fall off. And so we have redesigned the Metro section and added pages to it a few years ago, then after that we redesigned the business section and got a lot of positive subscriber feedback and we're looking at doing a redesign of our Arts & Life section later this year.

So we don't overinvest in the physical property, physical paper but we are continuing to make improvements along the way, particularly when we believe they can as I said sort of increase the inelasticity of the home delivery price so that we can keep that total revenue as constant as we can even as we face some declines in total volumes. We also with this voluntary severance offer are going to be able to add more digitally skilled journalists to our newsroom.

I hope that that will also then help increase the amount of engagement we get on dallasnews.com whether that's on the desktop or on mobile devices. And any additional engagement we get usually can translate to additional advertising impressions served and so that can help build things and we're doing that.

But what you have is against you is a constant decline in print ad revenues. For instance if you took just the retail grocery and national categories in the second quarter of this year, and just to give you some names like Fry's or Best Buy or Microsoft or Pfizer or P&G those are not accounts that we can have a lot of influence on.

They are doing national buys, top 10 markets, top 30 markets and so forth. And we happened to be able to be fortunate to be in those. But just those two categories in the second quarter, their top five accounts in each of those three categories, retail, grocery and national accounted for $2 million in lost business on a year-over-year quarterly basis.

We are able to replace about $1 million of that with new business from a different accounts in those categories but it just shows you the kind of pressure there is on print advertising, particularly the print advertising over which we have very little influence. Fry's doesn't just stop buying Dallas or buying less of Dallas. It doesn't -- Best Buy, Microsoft, Pfizer, they're making strategic decisions for the country and we either benefit or don't from those and that trend has been going against us for quite some time.

So it's been our position and will continue to be our position that as well as we can do in holding or maintaining home delivery circulation revenue we have loaded every, virtually everything we can on our presses in terms of commercial printing as we've been trying to get all the commercial distribution we can and we've mentioned even a bit of non-newspaper commercial distribution operation we entered into. And all those things that we've added including even working as hard as we can on digital advertising we just don't think they're going to outrun, we're going to be able to outrun that unless we bring aboard some bought and some built businesses that complement what we've traditionally have done for decades which is help companies who are trying to sell their goods and services put messages in front of their customers in the hopes that they'll buy that good or service.

Doing that through the advertising pages of a newspaper was what we traditionally do it. We then began to do it through the websites and apps that we've built and served content to digitally. So it's not a very far step for us to say well let's add a search engine marketing company like Vertical Nerve or let's add a marketing automation platform that can do email marketing like Distribion or let's build a content marketing agency like Speakeasy.

These are just extensions of the B2B segment of our business that has always been a part of the newspaper company. In fact at one time as you know would have been 85% or 90% of any newspaper company's business. It was mostly advertising and very little home delivery and single copy revenue on a relative basis.

So I appreciate your admonition and we'll take it to heart. But I don't want to give you the impression that we're not going to continue to look for these acquisitions or investments in other channels of marketing that we've been building or buying for the last three years. That's going to be a part of our strategy going forward.

David Cohen - *Minerva Advisors - Analyst*

Jim, I appreciate everything you said, I just want to clarify. My comment was I think making whatever sort of internal incremental investments you can in the quality of the print and digital print product is great. That's not the kind of investment I'm talking about in the DMN.

I'm talking about getting much, much more serious about a share buyback which allows us to buy both businesses at an effective multiple that we think is unreasonably low and leaves shareholders and the Board with a very large margin of safety in case the economy is worse than we expect. And we don't believe that making incremental, significant incremental investments in the digital marketing business offers nearly the same potential upside nor the same potential protection of our downside.

And I've heard everything you've said, I really appreciate the thought that's gone into crafting the strategic plan. But I do want to be clear that to us it is a no-brainer that incremental capital should go to buy back first and foremost.

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

Okay, David, I am sorry I misunderstood, when you said invest in DMN I went straight to the sort of newspaper part of the Company. Normally someone might say invest in A.H. Belo when I think about the stock but I understand what you're saying and I take it to heart and I appreciate the comment. I'm sorry I misunderstood it.

David Cohen - *Minerva Advisors - Analyst*

Okay, thank you, Jim.

Operator

I'll turn it back to our presenters for closing remarks.

Jim Moroney - *A.H. Belo Corporation - Chairman, President & CEO*

I know, Lori, think that's it. I appreciate everybody being on the call. I appreciate all the good questions and we'll look forward to having a good third quarter and a good report when we talk to you after the third-quarter earnings are released.

Operator

Thank you. Ladies and gentlemen, this conference call will be made available for replay. That begins today at 3 PM Central and the replay runs through August 4 at midnight Central.

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