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Q1 2019 A. H. Belo Corp Earnings Call

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CORPORATE PARTICIPANTS

Mary Kathryn Murray *A.H. Belo Corporation - Senior VP, CFO, Treasurer & Assistant Secretary*
Robert W. Decherd *A.H. Belo Corporation - Chairman, President & CEO*

CONFERENCE CALL PARTICIPANTS

Boris Senderzon

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the first quarter 2019 financial results conference call. (Operator Instructions) And as a reminder, your conference is being recorded. I would now like to turn the conference over to your host, Katy Murray. Please go ahead.

Mary Kathryn Murray *A.H. Belo Corporation - Senior VP, CFO, Treasurer & Assistant Secretary*

Thank you, [Louis]. Good morning, everyone. This is Katy Murray, Chief Financial Officer of A. H. Belo Corporation. Welcome to our first quarter 2019 conference call. I am joined by Robert Decherd, Chairman, President and Chief Executive Officer of A. H. Belo; Grant Moise, Publisher and President of The Dallas Morning News; and Tim Storer, President of Belo + Company, who are all available for Q&A.

Yesterday afternoon, we issued a press release announcing first quarter 2019 results. We have posted this release on our website under the Investor Relations section. Unless otherwise specified, comparison views on today's call measure first quarter 2019 performance against first quarter 2018 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. Reconciliations to the most directly comparable financial measures based on our segment reporting presented in accordance with GAAP are provided on our website under the Investor Relations section.

Starting this year, the non-GAAP schedule does not include the noncash pension credit since that is accounted for below operating income or loss. In addition, it was determined one of our businesses previously reported in the publishing segment is providing services more in line with the marketing service segment and will be reported as such. 2018 financial information by segment was recast for comparative purposes.

A. H. Belo reported a first quarter 2019 net loss of \$3 million or \$0.14 per share, compared to a net loss of \$4 million or \$0.19 per share in the first quarter of 2018. For the first quarter of 2019, we reported adjusted operating loss of \$865,000, an improvement of \$2.6 million or 74.7% compared to the first quarter of last year.

I will review the first quarter financial performance of The Dallas Morning News and Belo + Company separately. Beginning with the Dallas Morning News, first quarter 2019 total revenue was \$40.7 million, a decrease of \$2.9 million or 6.7% compared to Q1 last year.

Print and digital advertising revenue of \$18.2 million for the first quarter of 2019 was down \$1.8 million or 8.8% compared to \$19.9 million reported in the first quarter of last year.

Circulation revenue of \$17.3 million in the first quarter of 2019 declined \$500,000 or 2.7% compared to Q1 of 2018.



Home delivery revenue declined by a net \$300,000 or 1.8%, and single-copy revenue declined by a net \$200,000 or 8.3% compared to last year. The declines are primarily due to lower home delivery and single copy volumes, partially offset by rate increases.

Digital-only subscription revenue was \$1.1 million for the quarter, an increase of \$300,000 or 33.6% over last year. We continue to be encouraged by the growth in digital subscription volume and pricing. Earlier this year, Eric Myers was named President of Belo Media group. Eric is an industry veteran with more than 20 years of experience and reports to Grant Moise and is working closely with the executive team to continue the company's transformation to a digital first company.

Other revenue at The Dallas Morning News decreased \$700,000 or 11.6% to \$5.3 million for the first quarter of 2019. The decline was primarily due to news eliminating its brokered printing business that provided print services direct to small business clients. We reduced the number of local and national commercial print customers we serve from more than 30 to 5. As of March 31, the implementation of these changes was complete and matched our expectations for margin improvement and resizing the business to focus on a few major customers.

Operating expense for The Dallas Morning News for the first quarter of 2019 was \$44.7 million, a reduction of \$5.2 million or 10.4% compared to Q1 of last year. Adjusted operating expense, which adjusts total operating expense for the new revenue standard, severance expense, depreciation and amortization was \$43.6 million for the first quarter, a decrease of \$5.6 million or 11.4% compared to Q1 of 2018. This significant improvement in adjusted operating expense is a result of continued management of discretionary spending and a decrease in headcount of 128. Adjusted operating loss for The Dallas Morning News was \$1.1 million in the first quarter of 2019, an improvement of \$2.6 million or 70% when compared to a loss of \$3.7 million in the first quarter of 2018.

Turning now to financial highlights for Belo + Company. For the first quarter, Belo + Company reported total revenue of \$5.9 million, an increase of \$62,000 or 1.1% when compared to the first quarter of last year. Operating expense at Belo + Company in the first quarter of last year was \$5.9 million, an increase of \$159,000 or 2.8% compared to 2018. Adjusted operating expense was \$6.6 million for the first quarter, a decrease of \$116,000 or 1.7% compared to last year. The decline is primarily due to a decrease in employee compensation and benefit expense.

Adjusted operating income for Belo + Company in the first quarter of 2019 was \$257,000, a decline of \$67,000 compared to last year. On April 1, Belo + Company completed the acquisition of certain assets of Cubic Inc., a small creative agency with 25 employees located in Tulsa, Oklahoma. And this will complement Belo + Company's suite of services and fill an existing gap.

Turning now to A. H. Belo financial metrics. As of March 31, headcount was 918, a decrease of 128 or 12.2% from March 31, 2018. This decrease is primarily a result of previously announced headcount elimination. As of March 31, 2019, the company had approximately \$50.3 million of cash and no debt. As of April 26th, the company had approximately \$50 million in cash and cash equivalent. We expect capital expenditures to be approximately \$1.8 million for the remainder of this year.

We have continued the company's share repurchase program, and in the first quarter, we purchased approximately 84,000 shares for \$340,000. The company reported a tax benefit of \$143,000 in the first quarter of this year. And we expect that cash taxes paid will be approximately \$900,000 in 2019, primarily related to the Texas margin tax.

With regard to the company's pension plan, we do not have a mandatory contribution this year and do not expect to have any for several years. We are extremely pleased with the journalistic recognition that the Dallas Morning News continues to earn. The Dallas News series, Pain & Profit, recently won 2 more prestigious national awards: the Goldsmith Prize for Investigative Reporting awarded at the Harvard Shorenstein Center, and the work being in prize for investigative journalism. The series was praised for a significant impact, excellent writing and a sensitive approach to the vulnerable patient's profiled in the series.

Finally, this month, the news was honored with 9 National Headliner Awards in categories covering: Photojournalism, editorial writing, political coverage and international news week coverage. The National Headliner Award is one of the media industry's oldest and most prestigious honors originating in 1935.

Overall, we are pleased with the first quarter. The board and the management committee continue to be optimistic about the company's opportunities this year. And we remain well positioned with a very strong balance sheet.

Louis, before we turn to questions, Robert Decherd has some additional commentary.

Robert W. Decherd A.H. Belo Corporation - Chairman, President & CEO

Thank you, Katy, and good morning, everyone. Next month is upon us, and that marks 1 year with my being back in role, so I thought it might be helpful and timely to give you a preview of some of the remarks on our annual meeting next week.

Overall, as Katy's report indicated, I believe, we're making notable progress. We have a lot of challenges ahead of us as does every newspaper company in America. The quality of The Dallas Morning News has been sustained and, in many ways, improved. And that's resulted in improved performance on the business side of the newspaper.

As Katy noted and you're aware from previous releases we've made, important but difficult decisions were made at The Morning News during 2018, and resulted in the first quarter this year with reallocating resources, as Grant has described, to focus on circulation revenue and marketing both on the print and digital sides of the business and to resize the commercial printing business so that we are getting the highest possible return on our investment and efforts in that regard. Basically, we're focused on the activities that are fundamental to the newspaper's long-term success, and at the same time, we recognize that the industry is under significant operating pressures that will continue.

On the Belo + Company side of the business, we're finding our footing after 5 tough quarters. Tim has new leaders in key sales and marketing roles, and the acquisition of Cubic in Tulsa, Oklahoma completes the array of capabilities needed to build Belo + Company's marketing services business cost-effectively. Belo + Company's position in digital marketing services, as we have described before, complements the Dallas Morning News' strategy. And at the same time, we all recognize it needs to grow at a steady and predictable pace.

Our balance sheet continues to enable our long-term business building approach. This is one of the most important aspects of how our company is structured. It's something that I focused on immediately when back in role in May of 2018. We all know, all of us on this call, that the financial markets are not crediting the newspaper business with much franchise value presently. When and how that's going to occur, frankly, is beyond our capacity to change it, but when it does, we will be ready because our company will be stronger and be properly positioned as a digital-first entity. Needless to say, in this kind of upside down environment, the Board and I are very attentive to the factors that affect capital allocation. We discuss these dynamics regularly and rely on insights from expert advisors that have assisted A. H. Belo Corporation for many years. I know there's a lot of interest in the status of our former campus at 508 Young Street. That property is being actively marketed, but it's just not possible to estimate when a sale might be consummated. Our goal is to pull that off in 2019, but the commercial real estate market is strong as it is, is not, as I said, a very predictable part of our economy.

Let me pause there. And Katy, we'll go to Q& A, and happy to tackle these or any other questions that come along during the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Mary Kathryn Murray A.H. Belo Corporation - Senior VP, CFO, Treasurer & Assistant Secretary

Louis, do you see anybody dialing in for a question?

Operator

Sure. We do have one question in queue. And that's from Boris Senderzon from Hillberg Capital.



Boris Senderzon

The question is for Katy. I noticed that -- I wanted to ask you what are the causes for negative operating cash flow in Q1? And for all of 2019, will the cash flow be positive and enough to cover capital expenditure and dividend?

Mary Kathryn Murray A.H. Belo Corporation - Senior VP, CFO, Treasurer & Assistant Secretary

So thank you for your question. As you know, we don't provide guidance on cash flow or operating income for the year. However, as you have seen in past years, what I can say, we do everything we can to ensure that operating cash flow is enough not only to cover operations but our capital expenditures.

Our capital expenditures for the year are approximately \$2 million, and that would be from a free cash flow perspective. However, again, I cannot provide specific guidance on what our operating or free cash flow number would be for the year.

Boris Senderzon

What about the dividend, will it be covered?

Mary Kathryn Murray A.H. Belo Corporation - Senior VP, CFO, Treasurer & Assistant Secretary

Again, I can't provide guidance on the cash flow number.

Operator

(Operator Instructions) And Katy, at this time, there are no further questions in queue.

Mary Kathryn Murray A.H. Belo Corporation - Senior VP, CFO, Treasurer & Assistant Secretary

Well, if there are no further questions, everyone, thank you for dialing in. And we look forward to talking to you after our second quarter earnings call. Thank you.

Operator

Thank you. And ladies and gentlemen, this conference will be available for replay at 11:00 today through May 7 at midnight. You may access the AT&T replay system at anytime by dialing 1 (800) 475-6701 and entering the access code 466835. International participants can dial (320) 365-3844. Again, the number is 1 (800) 475-6701. And International is (320) 365-3844 with the access code 466835. That does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

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