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Full Year 2019 A. H. Belo Corp Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the A.H. Belo Corporation Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Chief Financial Officer of A.H. Belo Corporation, Katy Murray. Please go ahead.

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

Thank you, Carolyn, and good morning, everyone. Welcome to our first investor update call this year. I am joined by Robert Decherd, Chairman, President and Chief Executive Officer of A. H. Belo Corporation; and Grant Moise, Publisher and President of The Dallas Morning News, who are available for Q&A. We hope all of you and your families are well and safe.

Last week, we issued a press release announcing our full year 2019 results, and we filed the company's 2019 Form 10-K. We have posted these documents on our website under the Investor Relations section. Unless otherwise specified, comparisons used on today's call measures full year 2019 performance against full year 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. A reconciliation of GAAP to non-GAAP financial measures is included with our press release.

Before reviewing our financial results, I want to say how pleased we are to be back in a position to have discussions with our shareholders. It has been 9 months since our last investor call, and we have notable progress to share with you. I will provide a review of full year 2019 financials and a preview of first quarter 2020 results. However, the majority of today's call will be sharing strategic and operational progress made across the organization.

In July of last year, we announced that we were reorganizing into a single decision-making structure and would be combining the Publishing and Marketing Services segments. As a result of this reorganization, we no longer have 2 operating segments and are reporting as a single operating segment as reflected in the 2019 10-K.

In addition, we have added reporting on total print and digital revenue, which is generated as part of advertising and marketing services revenue and circulation revenue. We believe this provides visibility into our digital growth strategy and will be included in our investor calls going forward.

A. H. Belo reported 2019 net income of $9.3 million or $0.43 per fully diluted share compared to a net loss of $25.2 million or $1.17 per share in 2018. In 2019, the company sold its former headquarters at 508 Young Street, generating a tax-free operating gain of $25.9

million. For tax purposes, the operating gain will be offset with net operating losses.

For full year 2019, total GAAP revenue was $183.6 million, a decrease of $18.7 million or 9.3% when compared to the $202.3 million reported for 2018. Full year 2019 adjusted operating revenue, which adjusts for contra revenue, was $195 million, a decrease of $20 million or 9.3% when compared to the $215 million reported in 2018. Approximately $5.4 million of the adjusted operating revenue decline is attributable to the elimination of The News' brokered printing business in Q1 2019 and an estimated $2.5 million of revenue decline resulting from the termination of our affiliate relationship with Cars.com in September of 2019.

In 2019, we reported digital advertising and marketing services revenue of $33.6 million, a decrease of $2.6 million or 7.2% from the $36.2 million reported last year. In 2019, digital circulation revenue was $4.9 million, an increase of $1.1 million or 27.1% compared to 2018.

As previously stated, one of our highest priorities is to grow the number of The News' paid digital subscribers. We ended 2019 with 35,759 paid digital-only subscriptions, an increase of 8,034 or 29% when compared to 2018. We have posted a summary of digital subscriptions by quarter and by year on our website under our Investor Relations page.

Full year 2019 print advertising revenue was $62.3 million, a decrease of $7 million or 10.1% when compared to the $69.2 million reported for 2018. Print circulation revenue for 2019 was $63.3 million, a decrease of $4.7 million or 6.9% compared to the prior year. The decrease is the result of declines in subscriptions and single copy sales, offset by price increases.

Other revenue reported in 2019 was $19.4 million compared to the $24.9 million in 2018. The decline is due to a $5.4 million decrease in commercial printing revenue. As a reminder, in the first quarter of 2019, we made the decision to eliminate The News' brokered printing business and reduce the number of local and national commercial print customers from more than 30 to 5. This action increased operating income by over $2 million in 2019.

Full year 2019 total GAAP operating expense was $174 million, an improvement of $55.1 million or 24% compared to last year. Excluding the gain from the sale of the company's former headquarters and a noncash impairment charge in 2018, the expense improvement is primarily due to reductions of $9.2 million in employee compensation and benefit expense and $5.5 million in newsprint expense, partially offset by an increase of $1.9 million of expense related to a strategy review with an outside consulting firm.

Adjusted operating expense, which adjusts total operating expense for the revenue standard, severance expense, depreciation, gain or loss on the disposal of assets, amortization and asset impairments was $197.2 million for the full year 2019. This compares to adjusted operating expense in 2018 of $213.5 million, an improvement of $16.3 million or 7.6%. This significant year-over-year improvement in adjusted operating expense is a result of continued management of discretionary spending, newsprint savings and a decrease in head count.

Adjusted operating loss for the full year 2019 was $2.1 million, a decline of $3.7 million from our adjusted operating income of $1.6 million in 2018 primarily the result of a decrease in advertising and marketing services revenue.

As of December 31, 2019, head count was 830, a decrease of 152 or 15.5% from December 31, 2018. This decrease is primarily due to open position eliminations in 2019 and terminating The News' brokered printing business. As of December 31, 2019, the company had approximately $48.6 million of cash and cash equivalents and no debt.

With regard to the company's pension plans, we do not have a mandatory contribution in 2020. At this time, we do not expect to have any mandatory contributions in 2021. However, that could be impacted by market conditions.

The company reported tax expense of $4.4 million for 2019. As of December 31, 2019, the company had $17.2 million in federal net operating loss carryforwards.

For Q1 2020, we expect to report adjusted operating revenue of approximately $41 million to $42 million and an adjusted operating loss between $2.5 million to $2.8 million. Robert will provide additional insight into the 2020 trends. But based on current visibility and anticipated revenue declines, our best case scenario is for an adjusted operating loss for full year 2020 to be comparable to 2019.

In 2020, we expect cash taxes to be approximately $900,000 related to the Texas margin tax. Based on the CARES Act passed in Q1 of this year, we will be able to carry back 2018 losses to 2014 and expect to see a cash refund later this year or early next year of approximately $2.3 million that was not previously available to the company.

As of May 8, the company had approximately $43 million in cash and cash equivalents. We started the year with $48.6 million and expect to invest approximately $8 million of cash to maintain operations, continue paying a dividend and fund progress toward becoming sustainably profitable in a digital world.

Even with the recent challenges everyone is facing, we are committed to our strategy of providing quality journalism and to providing value to our subscribers and advertisers as we look forward to opportunities in 2020.

I will now turn the call over to Robert.

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

Katy, thank you, and welcome, everyone. Echoing Katy's sentiment, I am very pleased to resume regular discussions with our shareholders, and we appreciate your patience during the process of finalizing A. H. Belo's regulatory filings.

Given our inability to communicate over the last 9 months, let's begin with the strategy decisions our Board affirmed last September, which were planned to be the centerpiece of our third quarter 2019 investor call.

Since May 2018, the Board and management committee have been intensely focused on the idea of building a sustainably profitable, durable, local and regional digital newspaper company. Journalism founded on the principles of reliable news and information, balance, self-awareness and accountability is the defining element of this idea. A. H. Belo's strategy has reflected this idea for a very long period of time, and the importance of such journalism has seldom been more evident than in 2020.

Because the process of building a digital newspaper company will take time, likely several years, the Board's emphasis is on a combination of themes that we have described previously. These include the quality and breadth of content in The Dallas Morning News on dallasnews.com and across all of the company's print and digital platforms must be consistent, outstanding and not available elsewhere. The company must establish and support a strong presence for its brands in the North Texas market, which is one of the most vibrant economies in the United States. The Dallas Morning News must grow digital subscription revenue at a continuous, fast pace using intelligent pricing and volume tactics, together with an awareness of potential product innovations. The News should maintain a fulsome connection to its print audiences and advertisers, responding to their specific preferences while prolonging the revenue stream that is derived from a print on paper product.

Whether in the digital or print form, The News fulfills a vital role in the civic life of the region, which translates into business and competitive opportunities. The company's balance sheet is the primary factor in the success of building a digital newspaper company. A.H. Belo was spun off from Belo Corp without debt. And as a result, when combined with asset dispositions over the past 12 years, we have cash reserves and oversee 2 well-funded pension plans that do not require near-term cash contributions presently.

The Board's commitment to an above-average dividend payout, combined with special dividends in the past, is the equivalent of a steady capital distribution to our shareholders. We remain committed to this concept so long as general economic conditions permit.

While the Board has reviewed with outside advisers the possibility of a large stock repurchase program or even a Dutch tender offer, such uses of capital are inconsistent with the requirements of building a digital newspaper company and are not likely in the foreseeable future.

The Board continues to believe that being public with a small company mindset regarding overhead and corporate activities is preferable to a go-private transaction that could result in undue leverage or confusion about The News' journalistic duties.

In summary, the company is on a clear course with performance metrics in place that will guide the Board's decision-making over the next several years. This course depends on an operating model that adapts to long-term strategy, long-term being the key phrase.

Now let's discuss operating achievements that have been realized since we last spoke. As noted, the company strategy is predicated on high-quality, local and regional news and information. In April, The Dallas Morning News received the most national headliner awards of any newspaper in America, 13 in all, including 6 first place awards. The National Headliner Awards is one of the country's oldest and most prestigious programs recognizing journalistic achievement.

And just last week, veteran news visual journalist Tom Fox was a finalist for the Pulitzer Prize for breaking news photography. Tom's chilling images of a gunman opening fire on a federal courthouse in downtown Dallas were dramatic to say the least. Tom stood in the gunman's plain view and line of fire to capture the photos submitted for the Pulitzer, and he was the only 1 of 3 finalists to take the submitted photos solo as opposed to being part of a team of photographers.

The most significant management action taken during 2019 was the establishment of a single decision-making structure for daily operations under Grant Moise. This results in better, more streamlined implementation of the company's strategy and enables Grant, Katy Murray and their teams to make the most of existing competitive advantages and create new ones across our digital and print platforms.

We combined sales and the marketing services organizations under Eric Myers and formalized our go-to-market brand Belo + Company. Belo + Company provides full-service agency capabilities, including strategy, creative and media management with a focus on strategic and digital marketing and data intelligence, all of this providing measurable returns on investment to clients. The successful acquisition and integration of Cubic Creative in April 2019 added a key capability in pursuit of this goal.

We made important investments during 2019 in technology and brand marketing to support the company's digital strategy. In September, a revamped dallasnews.com launched on the Arc content management platform. And we introduced The News' first branding campaign in 7 years. Our investment in Arc has resulted in significantly improved performance, speed and content organization.

In addition to Arc, we implemented adjacent technologies, providing enhanced customer relationship management tools and pricing protocols. These measures are supporting digital subscription growth in a meaningful way. As Katy mentioned, digital-only subscriptions for 2019 increased 29% year-over-year and helped drive 27% year-over-year growth in digital circulation revenue.

Events during the first 4 months of 2020 have stressed systems that undergird A. H. Belo's operations as it's true for all businesses in the country. Yet we have moved quickly and decisively to respond to these pressures at every level of the company.

As an employer, we recognize that this is a difficult time for families, and we are striving to keep our colleagues healthy and safe. As a critical infrastructure business, The News' role in the community is to report essential news and provide reliable information to its audiences in a timely manner. In such circumstances, our journalists are asked to do their best work under duress.

In the first quarter of this year, The News added 3,600 net new digital subscriptions, an increase of 86% when compared to the 1,939 net new digital subscriptions added in the first quarter of 2019. The pace of new digital subs since early March has been at record levels despite our decision to allow all public health announcements throughout North Texas to be accessed free of charge on dallasnews.com during the coronavirus crisis.

While digital subscriptions and circulation revenue grew in the first quarter, print and digital advertising revenue began to soften towards the end of March. We expect to see continued pressure on print advertising revenue and anticipated full year decline in 2020 in the range of 25% to 35%. With regard to digital advertising, we anticipate a year-over-year decline for 2020 in the range of 5% to 15%.

Overall, we are encouraged by the growth in digital subscriptions at The News and see opportunities for growth in digital and marketing services revenue under Belo + Company during the second half of the year.

Looking ahead, A. H. Belo will likely become smaller in size before the Company finds its footing as a sustainably profitable digital newspaper company. The strategic framework to achieve this result is available to only a few newspapers in America and will require resolve to implement successfully. We have the financial wherewithal to build a business based on high-quality products that are unduplicated in our market. And we benefit from The News' long-standing reputation for uplifting its audiences and business partners.

By eliminating every possible cost related to A. H. Belo's core mission and emphasizing the proprietary nature of the journalism and digital content our colleagues produce every day in every circumstance, we have our priorities right. The Board and I believe that over time, these distinctive characteristics of our Company will be recognized in the financial markets.

Carolyn, we are ready for questions at this time and welcome any and all.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jonathon Fite from KMF Investments.

Jonathon Troy Fite ***KMF Investment Management, LLC - Managing Partner***

I had a couple of just tactical questions on the financials that Katy went through and then a strategic question. So when we look at the roughly $8 million that you indicated you wanted to invest this year, it looks like about half of that is going to be related to the dividend and the other half is related to personnel and other investments. Is that fair?

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

It is, and included in that also is the capital expenditures. We're expecting capital expenditures this year to be less than $1 million, but there probably will be some that we'll need to spend at our printing facility in North Dallas.

Jonathon Troy Fite ***KMF Investment Management, LLC - Managing Partner***

So is that a holistic view of kind of reduction of cash balances, if you will, if we look at kind of a $48 million, $49 million cash balance at the end of '19? Or are we looking at something closer in the $40 million range at the close of 2020? Or how does the $8 million investment relate to kind of the cash burn rate overall and obviously offset by the tax rebate that you're expecting to receive?

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

So Jonathon, you're thinking about that correctly. It really is an $8 million reduction in 2020 for a proposed ending balance of roughly $40 million. However, the refund from 2014 was not included in that. We were not aware of our ability to do that at the time that we did the forecast for that. So that $2.3 million will either come in later this year and would be incremental to that or will come in early next year.

Jonathon Troy Fite ***KMF Investment Management, LLC - Managing Partner***

Great. And then more strategically, with the company's stock price trading at roughly half of your pro forma cash, there's been a lot of discussion around the public good, the impressive quality news that The Dallas Morning News provides to the region and the service it provides as a public good. And you talked about making investments to create a sustainable, profitable enterprise. I'm just wondering how the Board and management looks at those investments and kind of the return on those investments versus just the sale of the company and a return of that cash to shareholders, right? So if we just returned all the cash, that's a 100% return. Pretty -- in a pretty near-term environment, how does a public company that's making investment that's supposed to be profitable at some point in the future, how does that compare to that 100% ROI, if you will, of a liquidation of the company?

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

Well, we don't run that analysis in that context. But I think the themes that I outlined, Jonathon, are very consistent with what we've said literally since we became public. So this is a well-defined and oft-repeated theme. And as your question suggests, there's always a different perspective and has been throughout the time we've been publicly held. This is new territory for newspapers. As I noted in my comments, the strategy we're pursuing is only available to a very few newspapers because many, if not most, of the peer companies that were public were essentially crushed by debt, took so much quality out of their products to try to keep up with their balance sheet that they lost the opportunity that I believe that we have. Our Board has a very a strong conviction about staying the course. We don't know what a sustainably profitable digital business looks like because one hasn't been invented yet, other than possibly The New York Times, depending on how you view the relationship between their print advertising and their digital -- highly successful digital subscription and advertising environment.

So from the standpoint of liquidation, we've said historically, the company is not for sale. We've looked at the question many times. As I said in my comments, we've looked at various forms of returning capital to investors. And we settled on the idea a number of years ago that by continuing to pay a higher-than-normal -- substantially higher-than-normal dividend for periods of time and occasionally making cash distributions when circumstances permit, we're able to return capital to shareholders as we navigate through the transition on the back side. Intuitively, if the world is becoming as digital as all of the prognosticators want us to believe and no one ever goes back to an office, a digital newspaper company that's successful, one would think would have a market value greater than, as you pointed out, less than its cash. The market is ultimately rational. We think it will be. Being on the sidelines and communications for 9 months has not helped. And that's why we're back very eager to keep up this conversation.

Jonathon Troy Fite ***KMF Investment Management, LLC - Managing Partner***

I appreciate those comments. Just one other clarifying question. So if we're looking at a little over $4 million in dividends, about $1 million of CapEx, that implies kind of a $3 million operating cash flow burn this year. Do you have a road map for that at least getting to breakeven? I guess the goal would be positive over time. But is that a 5-year trajectory? Is it a 3-year trajectory? Might shareholders hope that the operating cash flow burn is -- we see a cease to that in 2020?

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

I don't think we'll see a ceasing of it in 2020 and without getting into a projection that we wouldn't disclose otherwise and it's like the whole idea of guidance. In fact, we probably gave more guidance on this call than we've given in 10 years. As for this year, of course, the strategy is multiyear. It does result in breakeven and breakeven cash flows. Even before the coronavirus experience, we wouldn't have been in a position to disclose that. But what I can say is the Board made these decisions and affirmed the strategy in the context of a multiyear transition that results in a profitable company.

Jonathon Troy Fite ***KMF Investment Management, LLC - Managing Partner***

I appreciate that. And maybe if I can squeeze one final one in. I know that McClatchy is in the process of their bankruptcy and perhaps emerging from that with a clean balance sheet. Obviously, the Star-Telegram is in the region. Are there no strategic rationale for merger synergies there?

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

Well, let me recite some of the reasoning that goes back a long time. We have been asked this question appropriately for many years. Up until recently, the Justice Department would have pretty well blocked -- or the presence of the Justice Department Antitrust Division would eliminate the possibility. I suppose there is a scenario where that might be permitted today. But to do that, you are going to be paying for assets some undetermined amount that's going to come off of our balance sheet. You're going to be in some form of negotiation with the federal government, which is going to be lengthy and costly. And then you have to ask yourself what's on the other side that's so beneficial to our shareholders.

We think, particularly with our digital strategy, that we can continue to penetrate the entire region more effectively as The Dallas Morning News brand, the dallasnews.com digital brand. That's why we are investing in the marketing program we launched last September, again, something we had hoped to describe in detail in our Q3 earnings call. You can't win without a brand presence. And some of the investment off the balance sheet that you properly identified earlier has to do with establishing and maintaining the brand as we see competitive opportunities.

The Star-Telegram is under a lot of pressure as are all the McClatchy papers. They don't publish a Saturday edition print on paper any longer. Their advertising is in real trouble. And we're not looking at it opportunistically from a competitive standpoint because the market has been bifurcated for many, many years. The -- what's west of a certain north-south line has tended to be the Star-Telegram's territory and what's east has been The Dallas Morning News, but digital platforms blurred that. So it would seem to us with the quality of content we have, the brand we have, the reputation we have, as people really thirst for reliable news and information, this, however many year or multiyear, journey is going to afford plenty of opportunity without expending capital that is very precious to you and us.

Operator

(Operator Instructions) We do have a question from the line of [Barry Blank with Gabelli & Company.]

Unidentified Analyst

I have a couple of questions. How much does it cost to be a reporting company in accounting fees, filing fees and legal fees?

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

Well, I mean Barry, I would tell you that it's not that black and white. I mean accounting fees are one of those things that even private companies have. From a good governance perspective, but you can see that in our proxy. Our audit fees are approximately somewhere between $500,000 and $600,000 a year. We dramatically reduced that when we switched from KPMG to Grant Thorton a couple of years ago.

And then on the legal fees and the other items, I mean from a public company perspective, they're really -- they're not that much. I wouldn't say that there is an overabundance of expenses that we have in the company. I mean I think people could make the argument that they may view certain expenses in different ways. That could be public or private. But again, the infrastructure on the accounting side, audits, legal fees, any kind of legal expenses, private companies are going to have those as well.

Unidentified Analyst

What I'm saying -- what I was trying to get at would be would it pay to become a nonreporting company if you have 500 or less shareholders and that money savings would be beneficial to the existing shareholders.

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

So from a nonreporting perspective, you are correct. There are things that we are looking at that. Obviously, there are different -- from an SEC perspective, there are different opportunities depending on whether you are a small reporting company or the traditional small reporting company. And Barry, I will tell you that every time we have an opportunity to do something along that line, we take those opportunities. You see that in our proxy disclosure. You see that in our 10-K disclosures. And you are correct, as we continue to see opportunities around that, to reduce the reporting requirements or the amount of dollars having to be spent on that, we are going to do that.

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

I was going to add. This is -- your point is very important. This is top of mind with the Board of Directors. This whole notion of thinking as a small company and behaving as a small company is central to our success. This is why we reduced the size of the Board. It's why we reduced director fees. It's why almost all of our legal work with respect to public company matters is done internally by Chris Larkin, our General Counsel. This is -- it reminds me of the 1980s, when everyone declared war on bureaucracy. We've declared war on needless expense at the corporate level.

Unidentified Analyst

No. I am a director of a public company myself. And we have become nonreporting, and it's been a big difference in our expenses. I mean it just -- we were able to do it because we didn't have that many shareholders, but it's really worked out very well.

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

It's a point well taken, and we will plug that into our thought process. Thank you.

Operator

Our next question comes from the line of Chris Mooney from Wedbush Securities.

Chris Mooney

Can you give a little more granularity to the pension plan? It looked to me like you had a pretty decent year in the plan last year.

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

We did, Chris. I think to Robert's point and the point I made about the -- any mandatory cash contributions. Based on all of the de-risking that we've been doing over multiple, multiple years and before I got here, we've been in a position to where our pension plan has been funded, talking about last year, as high as around 90%. Obviously, the first part of this year, we all saw that, I think, across the -- all companies saw challenges around return. Right now, we are approximately still, I would say, somewhere between 82% to 85% funded. So again, those projections for us are leading to what we were forecasting that we don't have a mandatory contribution this year. And if we had one, maybe at the end of '21. But maybe beginning of '22, it would be small. It would be a couple of million dollars. So again, we have been very pleased with the performance.

The other thing that we made a decision to do 2 years ago is that we move from a 50% asset liability funding from an investment scenario to 45% asset returning, 55% hedging, which I think we've been able to see the benefit of as well. So as you can imagine, as we talk about the pension as top of mind for us and we are actively working with our advisers on that to understand any opportunities that we have.

Chris Mooney

Well, it's dramatically improved from a few years ago. The note that you have on the old headquarters, would you walk me through what happened with the interest payment and the status of that note?

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

Chris, let me kick off on that. The purchaser, as you may know, is in, among other businesses, the retail and hospitality businesses, including restaurants, like everyone in that industry is cash flow stopped on a dime and -- from those businesses in March. He approached us and asked if he could defer the interest payment. And as we thought through it and trying to project forward, we concluded, including our Board's involvement, that it made a lot of sense to work with the purchaser, who's a very substantial investor, and in effect, help him succeed in that project.

He has continued to work on the site. He spent at least $1 million, probably closer to $2 million, cleaning out the building. I mean literally demolishing the entire interior for redevelopment. And by all accounts that we can determine, he's very committed to the project.

So it was really a recognition of the sudden and dramatic effect on his businesses, not unlike so many others in the country, and the notion that we could defer that and have a higher probability of the note being paid, which we are, at this point, confident will occur in 2021.

Chris Mooney

And I've heard an interview with the buyer back in September. Can you give us an update on what his plan is for the building from your perspective or from your knowledge?

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

The plan for the campus -- and here, we're really speaking slightly out of turn. And as you can imagine, that plan is changing with circumstances in the economy, but it's a combination of office, hotel and retail.

You're familiar with the campus. Most people would not be who are on the call. There is, going way back, a street that went through the middle of the campus and raised idea as to restore it a street even though it would be a private roadway and build the facilities along that street and at the back of the campus, with the hotel component combining with the Dallas Convention Center, which as you know, is close by. And the omnihotel, which is the convention center hotel owned by the city that has been extremely successful but is in normal times -- doesn't have adequate capacity for the amount of business that the city would run through the convention center.

So it's a multiuse approach. The buyer is well connected with people in the hospitality industry and certainly in the entertainment and restaurant businesses. So the open question is the modest amount of office space. But the premise is that all of those things combined would be attractive to tenants.

Chris Mooney

Okay. And so the interest payment is the only benefit -- or I guess the -- adding that on to the note was just the simple structure? There was no sweetener fruit for A. H. Belo?

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

No.

Chris Mooney

Okay. You mentioned Belo + Company briefly. Can you kind of give us an update on what's left of Belo + Company and what its future looks like?

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

It's actually central to the strategy. So thank you. Let's let Grant talk about this in more detail.

Grant S. Moise ***A.H. Belo Corporation - President & Publisher of The Dallas Morning News***

Yes, Chris. Belo + Company is doing actually quite well, I would say, especially during the recent pandemic. I think what we're seeing up there is that with the suite of digital marketing services, we have a lot of clients there who see it as lead generation rather than a traditional advertising expense. I'll give a lot of credit to Eric Myers and his team. I think they've been thinking very proactively as to how to approach each of these clients. And it was really something that began to be central as Eric started running these organizations where previously, I would say, Chris, we were a paid media first-type agency, which meant if we could help people with paying for their Google search terms or their paid social media, we were kind of taking that paid media and then trying to add strategy.

What has really changed, I would say, most centrally over the past 6 months is that we are now getting clients with us on a retainer first. So that we're a strategy, a consulting company that is helping them with all the previous services we had before, integrating Cubic and the Creative into that and then getting them on as a retainer, and then we start to implement paid media.

And the reason why I even walk you through that is it's very important because that's how you can get profitable revenue into Belo + Company. If you're a paid media first marketing services agency, the margins are very, very thin. And even though you may be growing that top line, the bottom line is going to be tough to realize.

So I've been extremely proud of that team. I think that even though the coronavirus pandemic has created a little bit of a pause button, I'd say, on some of the spending from those clients, as Robert said, we are looking at the back half of the year and feel -- even in the midst of difficult economic times, we just think there is a nice opportunity to see that media rebound because I feel very confident about the strategy.

Chris Mooney

Okay. And has there been any -- I'm sure advertising fell off fairly materially. Has there been any change in that tone over the last month or so?

Grant S. Moise ***A.H. Belo Corporation - President & Publisher of The Dallas Morning News***

I would say what we've seen in advertising, Chris, is that in the month of April, especially in print, we saw March start to get tough. April was very tough. And then we have seen advertisers begin to come back especially as retail has opened earlier than in most parts of the country. We've seen some of that traditional brick-and-mortar retail advertising come back to us.

Also, grocery advertising is a very large category for us that obviously went on to almost a full pause during a time when grocers could barely keep their shelves replenished. But we're starting to see the grocers come back as well, which is -- I think I would say, I'd categorize it as on the upswing from an advertising standpoint from the challenges in April most acutely.

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

Grant, you might talk about the institutional advertising we've seen come as a result of pandemic.

Grant S. Moise ***A.H. Belo Corporation - President & Publisher of The Dallas Morning News***

With Forward DFW? Yes.

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

Yes. And then just general messages.

Grant S. Moise ***A.H. Belo Corporation - President & Publisher of The Dallas Morning News***

Yes. I think we have seen a bit of -- more of advertising coming from the large corporations and from groups who are just trying to keep the -- whether they're thanking employees in the essential business sectors or whether they are, like some of our largest health care providers, trying to provide a little bit more of stability and security for their either current patients or families of patients. But we've been very pleased with a lot of, I'd say, some of the large corporate support, I think, that has helped us maybe get through this time a little bit better than some other publishing and especially print advertising companies because I think we've -- we're very fortunate to have the support of some of the largest companies in North Texas.

Operator

(Operator Instructions) We do have a question from the line of Arvind Mallik from KMF Investments.

Arvind Mallik

Yes. I had a couple of questions. The first was regarding the discussion that happened on the promissory note. Is the intent for the proceeds on that receivable to be distributed as a special dividend? Or do you expect that to just become part of the cash of the company that's paid out and one would be regular $0.04 quarterly payout, for example?

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

Arvind, right now, I mean the intent is that, that cash would just come back into the operating cash of the company. As Robert talked about in his remarks, moving to a sustainably digital profitable business is not going to be something that happens overnight. As he laid out, our dividends to date, even at the reduced amount of ongoing of $0.04 per quarter, are above average and are viewed as capital distribution. So there is no intent at this time that the money that would come in from the promissory note would be distributed as a special dividend.

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

Arvind, at the same time, we have consciously not planned a use for those funds because until the funds are in our account, it would be speculative. But the Board's view of the balance sheet is very consistent with what Katy described and I talked about in historical terms, recent terms.

Arvind Mallik

I just have a question with regard to kind of -- we're fairly long-term-oriented investors and have been shareholders for quite a while. A few years ago, there was some very positive development in terms of the marketing services businesses that you're developing. They were growing very, very rapidly and seemingly quite profitably, and you were sharing EBITDA by those segments and just operating profit that they created, and they were on a huge growth upswing.

But for reasons that I don't think we fully understand, so those eventually started disappointing and growth stopped. But I don't know it may have coincided with -- around when the kind of news outflow was stopped because of the regulatory aspects. But are you able to share some lessons learned from that experience in terms of how rapidly those grew but then also then seem to have retreated?

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

So that's a good question. And I think this goes back to what we talked about the decision last July to move to a single operating decision company. I think for a company our size, one of the lessons learned that I think we would all go back to is trying to run 2 businesses that were fairly independent. Where were the efficiencies and the synergies of that from a product perspective, a go-to-market perspective, a sale perspective, and overall, a decision-making perspective? And I think you're right. They did grow very quickly in the beginning. But we also realized that many of the services and products that we had with those businesses, they also had some extremely high cost of goods sold that went with those.

And I think that, again, when you put that with an operating structure that we had, that was running really independently, the overall costs were not sustainable. And as Grant just laid out from a Belo + Company perspective and when Chris Mooney just asked, Belo + Company is obviously the go-to-market. But the assets that we had under there from a product, a service, a capability -- the capability of delivering those services, we still have those. And now that they're operating really, again, just in a single organization, much simpler, much more cost effective. And we are still delivering those services, with the addition of the Cubic acquisition last April, which really rounded out that portfolio.

I don't know, Grant, if you have anything you would like to say.

Grant S. Moise ***A.H. Belo Corporation - President & Publisher of The Dallas Morning News***

The only thing I would probably add on to that is that was part of -- a little bit of the point I was making from Chris' question, which is when -- if you -- what you're really doing is implementing paid media, paid social media and paid search for clients. It's a commodity service.

And so what we did find, even when we had that type of growth, the kind of strategy that we were providing to clients, whether that was either in creative or in data, was not sophisticated or not as resourced as we needed it to be. And so what happens is you see a lot of companies grow with you. But then because you're a commodity, they just want to go to the next person who's going to provide a smaller management fee.

That's why this time, the focus for us really is about putting that strategy at the front end, putting the data at the front end on longer-term retainer-like engagements and then adding the paid media on top of it. It's not only more profitable, but we believe and we're going to have to prove that we think it will help us retain those clients longer. Because we were stacking them up very quickly, but because they were leaving us for smaller management fees on paid media, it was a tough trajectory to sustain.

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

And the last piece of the lessons learned is when you have a company of our size and you have 2 businesses lined up, they naturally compete for resources off the balance sheet. And I think if we look back, the misjudgment we made was that Belo + Company stand-alone could grow with its own capital and that The Dallas Morning News somehow would benefit from that. Combining the 2 businesses, there are a lot of benefits. But there's also only one strategy and capital allocation requirement in terms of implementing the strategy. That's a big coefficient in this as we looked at it over the last couple of years.

Arvind Mallik

That's really helpful in our understanding. Do you anticipate, given the nature of the way you're now implementing it, that this business will be -- not be very capital intensive given that it's strategic and services oriented? Do you anticipate that it will not require a lot of cash inflow to achieve return?

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

You are correct. This is not a capital-intensive business. The capital really is the human portion of it and the people who are delivering the services in that. Any applications or technology we use is a software as a service. So again, this is not capital intensive for us and/or for our customers.

Operator

There are no further questions in the question queue.

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

All right. Well, Carolyn, thank you for organizing the call. Thanks to all of you for joining us. As Katy and I both said at the outset, and I'm speaking for Grant and our entire management team, we look forward to continuing this conversation. We hope by the next time we connect with you that there'll be more clarity about how COVID-19 plays out for our country and for all of you and all of us. But I think we've got -- we're in fighting trim. We got the resources to make some intelligent decisions along the way, and we're eager to prove up the business model.

So thanks to all of you. And Carolyn, we're squared away. We're done.

Operator

Thank you. And ladies and gentlemen, this conference will be available for replay afternoon today through Tuesday, May 19 at midnight. You may access the AT&T executive replay system at any time by dialing 1 (866) 207-1041 and entering the access code 1218784. International participants dial (402) 970-0847.

That does conclude our conference for today. Thank you for your participation and for using AT&T conferencing services. You may now disconnect.