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AHC - Q1 2014 A. H. Belo Corporation Earnings Conference Call

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CORPORATE PARTICIPANTS

Ali Engel *A. H. Belo Corporation - Senior VP and CFO*

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

CONFERENCE CALL PARTICIPANTS

Barry Lucas *Gabelli & Company - Analyst*

Richard Diamond *Straight Lane Capital - Analysts*

PRESENTATION

Operator

Thank you for standing by and welcome to the First Quarter 2014 Financial Results Conference Call. (Operator Instructions) Also as a reminder, today's conference is being recorded. And at this time I will turn the conference call over to your host, Senior Vice President and Chief Financial Officer, Ms. Ali Engel.

Ali Engel - A. H. Belo Corporation - Senior VP and CFO

Thank you Tony. Good afternoon everyone. Welcome to A.H. Belo Corporation's First Quarter 2014 Conference Call. I will lead today's call and my comments will be concise leaving plenty of time for Q&A. Jim Moroney, our Chief Executive Officer, Dan Blizzard, Senior Vice President, and [Grant Moeez], Senior Vice President Business Development and [Mitch] Products are also available for Q&A.

This morning we issued a press release announcing first quarter 2014 results. We have posted this release on our website under the investor relations section. Unless otherwise specified, comparisons used on today's call measure First Quarter 2014 performance from continuing operations against First Quarter 2013 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.

Additional information about these factors is detailed in the company's press releases and publicly available filings with the FCC. 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 in our press release and on our website under investor relations section. A.H. Belo Corporation announced a first quarter net loss of 18 cents per share, an improvement on 9 cents per share compared to the first quarter of 2013 due to strong expense management and growth in circulation, printing and distribution, and marketing services revenue.

The first quarter 2014 net loss includes a \$900,000 net investment-related loss for the partial impairment of the company's investment in Wonderful Media. Adjusted EBITDA or earnings before interest, taxes, depreciation and amortization from continuing operations with net investment-related losses added back was \$3.2 million in the first quarter, an increase of \$2.3 million or 256% compared to the prior year period due primarily to continued expense containment.

A.H. Belo anticipates full-year 2014 EBITDA from continuing operations in the range of \$28 million to \$32 million exclusive of gains or losses from asset dispositions. Total revenue in the first quarter of 2014 decreased 1%, the lowest year-over-year first quarter decline since our spinoff in 2008.

This rate of decline reflects our continued focus on diversifying revenue streams and was driven by continued growth in marketing services revenue and increased printing and distribution revenues in Dallas and Providence.

Revenue from advertising and marketing services including print and digital revenues, decreased 5%. Digital revenue increased 18% over the prior year quarter primarily due to continued growth in automotive digital revenue at the Dallas Morning News and marketing services revenue associated with 508 digital and Speakeasy.

Circulation revenue increased 1% in the first quarter due to increased rates for home delivery at the Providence Journal. Printing and distribution revenue increased 9% in the first quarter due primarily to the impact of the previously announced contract to print the Fort Worth Star-Telegram, additional printing of local community newspapers in Dallas and the continued expansion of the distribution of third-party newspaper at the Providence Journal.

These increases were partially offset by lower printing revenue from National Publications due to declines in volume. Total consolidated operating expense decreased 4% in the first quarter, to \$88.3 million as employee compensation and benefits, newsprints, distribution and depreciation expenses all declined.

On the investment front, in the second quarter of 2014 the company received distribution proceeds of \$18.9 million following the sale of Apartments.com by Classified Ventures and recorded a gain of approximately \$18.5 million.

The company expects related federal income tax on such gain to be minimal as a result of the previously incurred net operating losses and its finalizing estimate of state taxes. The company continues to explore a potential sale of the Providence Journal with the assistance of its investment bank, Stephens Inc. Tony that concludes our remarks and we are ready for questions.

QUESTIONS AND ANSWERS

Operator

Thank you very much. (Operator instructions) We will take our first question from Barry Lucas with the Gabelli & Company. Please go ahead.

Barry Lucas - Gabelli & Company - Analyst

Thanks, I have a couple Ali and maybe on even starting with the pro-jo issue. Is there a timetable at which point you would say you're going to abandon the effort, and if so, how long might this effort take?

Ali Engel - A. H. Belo Corporation - Senior VP and CFO

Oh, thanks for that question Barry. We're nowhere near abandoning the effort. We're really in the middle of the process right now. If you, I'm sure know, these processes just can take a long period of time. Getting information to people, letting them digest that, having various meetings and other things, so I'd say we're midway through the process right now and I think it's going very well.

Barry Lucas - Gabelli & Company - Analyst

Right, and speaking of processes of this sort, you received the proceeds on Apartments.com, anything you can share on the bigger pictures with Classified Ventures and Cars.com?

Ali Engel - A. H. Belo Corporation - Senior VP and CFO

There is no changes or updates on the Car side.



Barry Lucas - *Gabelli & Company - Analyst*

OK. Let me expand that a little bit. How does your effort in Dallas on digital classified with the morning news differ from what was done previously with Cars.com?

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

Barry this is Jim. Could you clarify a little bit, I'm not sure exactly...

Ali Engel - *A. H. Belo Corporation - Senior VP and CFO*

Yes.

Barry Lucas - *Gabelli & Company - Analyst*

Well you highlighted in the press release that there's been strength in automotive digital at the Dallas Morning News, and I'm just wondering, does that relate to the current business with Cars.com or is this a different initiative that supplements it? I'm just trying to understand it all a little better.

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

Ok, I got it. It's mostly due to Cars.com, our cars, automotive classified digital business is predominantly Cars.com. We do have traditional digital advertising associated with our automotive customers, but the driver is Cars.com and the reference in the press release really is referring to our Cars business.

Barry Lucas - *Gabelli & Company - Analyst*

Great, OK. Two more quickies. One would be you had an announcement the other day from Toyota that it was moving its North American Headquarters to Plano with a couple of thousand jobs, so maybe to give you a chance, Jim, to expound upon that and talk about what that might mean and how that could benefit the morning news?

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

Well I don't know if there is any direct correlation to be honest with you, Barry, but it just points out that the Dallas-Fort Worth Market continues to be a very attractive place for companies to do business in the state of Texas and particularly North Texas, Dallas-Forth Worth area. And if you make a trip to Dallas today, you'll see cranes, you know, all over the city and all over the different incorporated municipalities of North Texas. There is just a lot of building going on. There is actually a housing shortage, frankly, they can't build them right now fast enough to keep up with the demand.

And, you know, these kinds of announcements only just add more sort of fuel to that whole environment in our city and it's good. We've got a very, very healthy business and economic climate going forth. And so certainly for that the Dallas Morning News has to benefit because it gives us opportunities to work with these companies on their marketing plans and find ways to help them sell more goods and services.



Barry Lucas - *Gabelli & Company - Analyst*

Great, OK. Last one for me again as long as I've got you again, Jim. We're up to, by my count, we're a little bit north of \$100 million in cash so I mean that's where the proceeds went from Apartments.com, almost \$5 a share. I don't think you need that much cash on the balance sheets, so any thoughts in terms of using that for other productive purposes?

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

Well you know, like we talked about last time Barry, we're continuing to look at the typical options that we have, but I want to say again and emphasize that as most anyone on this call is aware, the traditional newspaper print advertising business is still under pressure. It's been seven consecutive years of quarterly year-over-year declines.

I don't think you're seeing anything different in what's coming out from the publicly traded newspaper companies about what happened in the first quarter with print advertising revenue, and I believe it's imperative that companies like ours find ways to diversify their sources of revenue. You can basically do it two ways. You can do it organically, and we did a lot of that in 2012 with Speakeasy and 508 Digital and crowd source and so forth.

But when you're in a favorable position like we are with no debt and cash on the balance sheet, making some acquisitions that leverage into our core strengths and let us tap into this great Dallas-Fort Worth Market is something that we have a tremendous focus on and so we're looking at and we have some things on the radar, nothing that we're going to be able to announce just in the next week or two.

But some of that cash, if we can find the right company, which we think we've identified some, and then of course buy it at a fair price, then that's really our first and most important thing to do in order to stabilize the financial condition of the company. As you saw, we got to a total revenue decline of just 1% year-over-year.

We've got to get that to where it's 1% up and 4% up and we can begin to have EBITDA growth and we're only going to be able to do that in the near term, in my opinion, because of the pressure on print advertising, the downward pressure. We're only going to be able to do that if we can in the short term acquire companies that can add EBITDA, revenue growth and EBITDA to our income statement.

Barry Lucas - *Gabelli & Company - Analyst*

Great, thanks very much Jim.

Operator: Thank you. (Operator instructions) Next in queue is Richard Diamond with Straight Lane Capital. Please go ahead.

Richard Diamond - *Straight Lane Capital - Analysts*

Yes, good afternoon everyone. I have two questions. The first for Ali, if classified [time shares] were to be solved, how should I think about it from a tax perspective? And then I have a second question?

Ali Engel - *A. H. Belo Corporation - Senior VP and CFO*

I really can't answer that right now because that's not an analysis we've undertaken. I'm not sure what the treatment would be, if it would be ordinary income or capital gain. I mean, it would definitely be a gain. And so we'd have to work through what the treatment would be and then what of our previous [innawells] or capital loss carry forward and we could utilize against it, I just don't have that information right now.



Richard Diamond - *Straight Lane Capital - Analysts*

Ok, for a second question, just looking at the cash on hand I know you can't comment, but the potential to vestitures of Classified Ventures, the Providence Journal, real estate disposal, I come up with an approximate value per share of [AHB allow] excluding the Dallas Morning News, which is less than the cost of an individual copy of the newspaper and under two times [EBIDTA], which is a significant discount to publicly traded and less quality comparables. Can you address your shareholder outreach efforts to sort of get the word out there about all the strengths that are not included today in the price of a share of [AH Safe]?

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

Richard, this is Jim. First of all I appreciate the question. We have not been doing as much outreach as maybe we even have some time in the past and, Richard, one of the issues is that just as you point out in your analysis, it appears to us that the cash that we have or the potential cash that we might have seems to get valued in the price of our stock and basically the operations get discounted to virtually nothing.

And it's been my opinion that when we can demonstrate that we can turn around the revenue growth for the company and one would hope then the EBIDTA growth to follow, then we have a story to tell that we can back up. You know, when you've gone through seven years of declining topline revenue, I think people may get a little bit wary of you saying, you know, it's just around the corner, or boy we know we can do this.

So Ali and I have talked about it and we've said, look, everybody can make their judgment about the cash on the balance sheet, they can make judgments about the value of Providence or other assets that we own, but are on the balance sheet. At this time the real story we've got to tell has got to be an operating story and we're in the middle of transforming, if you will, how we drive revenue in EBIDTA in our company as the dependency on print continues to decline.

I would hope that if we can demonstrate topline revenue growth even this year, if we don't end up with greater headwinds with print advertising than we anticipate, and we anticipated them being pretty strong, that then we've got a story to tell and then I want to get out and tell it, but I've kind of been a little reluctant to get out and talk about it without being able to demonstrate it.

Richard Diamond - *Straight Lane Capital - Analysts*

Well, Jim, I think it will be overly modest and I think you and your management team have accomplished must at second to no one in no industries. You've created enormous optionality for your investors, and with your operations basically priced in for free at very little risk and given the growth of Dallas-Fort Worth, I just think it's a wonderful upside and not a lot of downside, so I appreciate everyone's great efforts, thank you.

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

Thank you, Richard. Ali and I continue to talk about it and we take what you say to heart. We'll think it though.

Operator: Thank you. (Operator instructions) I show no additional questions in queue, please continue.

Ali Engel - *A. H. Belo Corporation - Senior VP and CFO*

OK. I think we thank everyone for their time this afternoon and look forward to speaking with everyone next quarter.

Operator

Thank you very much. Ladies and gentleman this conference will be available for replay after 3 pm central time today running through May 6 at midnight. You may access the AT&T executive playback service at any time by dialing 800-475-6701 and entering the access code of 324154.

International participants may dial 320-365-3844. That does conclude your conference call for today. We do thank you for your participation and for using AT&T's Executive Teleconference. You may now disconnect.

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