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AHC - Q3 2016 A. H. Belo Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 01, 2016 / 2:00PM GMT

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CORPORATE PARTICIPANTS

Katy Murray *A. H. Belo Corporation - SVP, CFO and IR*

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

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

CONFERENCE CALL PARTICIPANTS

Barry Lucas *Gabelli & Co. - Analyst*

Chris Mooney *Wedbush Securities - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, welcome to the third-quarter 2016 conference call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Katy Murray. Please go ahead.

Katy Murray - *A. H. Belo Corporation - SVP, CFO and IR*

Thank you, Karen. Good morning, everyone. This is Katy Murray, Chief Financial Officer of A. H. Belo Corporation. Welcome to our third-quarter 2016 conference call.

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

Before the market opened this morning, we issued a press release announcing our third-quarter 2016 results. We have posted this release on our website under the Investor Relations section. Unless otherwise specified, comparisons used on today's call measure third-quarter 2016 performance from continuing operations against third-quarter 2015 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.

I will now turn the call over to Jim Moroney.

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

Thank you, Katy, and good morning, everyone. This quarter we continue to see solid financial results, despite the declines our industry continues to experience in print advertising and other print-related revenues. On a year-to-date basis, we are reporting an adjusted operating income of $9.8 million, representing a $6 million or 159% improvement over the $3.8 million reported for the nine months ending September 30, 2015. These results reflect the success we are seeing in our revenue diversification strategy and our continued focus on expense management.

Now for some specific financial highlights from our third quarter. For this quarter, we reported a GAAP net loss attributable to A.H. Belo Corporation of $497,000 or $0.02 per share, an increase of $0.16 per share compared to the third quarter of 2015. Adjusted operating income, which excludes depreciation, amortization, and severance expense, was $2.3 million, a decrease of $562,000 compared to the $2.8 million reported in the third quarter of 2015.

Turning to some revenue highlights for the third quarter of this year, total net revenue was $64.8 million, a decrease of $2.1 million or 3.2% when compared to the $66.9 million reported in the third quarter of last year. When comparing to the prior-year third quarter and excluding the revenue relating to the business lines that were discontinued in January of this year, total net revenue of $64.8 million reported this quarter reflects a decline of $1.1 million or 1.7%.

Advertising and marketing services revenue of $38.3 million reported this quarter is down $900,000 or 2.2% when compared to the $39.2 million reported in the third quarter of 2015. When compared to the third quarter of last year, excluding the revenue relating to the business lines that were discontinued in January of this year, total advertising and marketing services revenue of $38.3 million reported this quarter reflects an increase of $121,000 or 0.3%. The growth in our digital advertising and marketing services revenue continues to accelerate, and for the third quarter of 2016, total digital advertising and marketing services revenue was $14 million, an increase of $1.9 million or 16% over the $12.1 million reported in the second quarter of 2016 and $2.2 million or 18.7% increase from the $11.8 million reported in the third quarter of last year.

In addition, the $14 million represents 36.6% of our total third-quarter advertising and marketing services revenue compared to 30.1% for the same period in 2015 or a 650 basis point improvement. Our digital, advertising and marketing services revenue results for this quarter continue to reflect the organic growth of marketing services revenue from DMV and Speakeasy. Against the third quarter of last year, DMV revenue grew $2.5 million or 106.5%, and Speakeasy revenue grew $685,000 or 36.5%.

The Dallas Morning News sales team generated 323 sales to DMV and Speakeasy in the third quarter of this year. This compares to 282 sales generated in the second quarter of this year and 250 generated in the third quarter of last year.

Turning to circulation revenue, in the third quarter, we reported $19.6 million in circulation revenue, representing a $646,000 or 3.2% decline when compared to the third quarter of 2015. Lower home delivery and single copy volumes were offset by an increase in home delivery subscription rates.

As you recall, we launched our meter on May 17 on dallasnews.com and sportsdayDFW.com. As of the end of this quarter -- at the end of the third quarter, we have approximately 13,000 digital users, an increase of 1825 or 16% over the second quarter of this year.

With regard to other revenue, we reported $6.8 million of other revenue this quarter, which reflects a $602,000 decrease or 8.1% compared to the $7.4 million reported in the third quarter of 2015. This revenue decrease is primarily related to declines in commercial printing and to a CrowdSource event that we hosted in the third quarter of last year that we did not host this year.

Total consolidated operating expense in the third quarter was $65.3 million, a decrease of $4.7 million or 6.8% compared to the prior year period. Excluding severance expense of $49,000 and depreciation and amortization expense of $2.7 million, adjusted operating expenses were $62.5 million, a decrease of $1.6 million or 2.4% compared to the $64.1 million of adjusted operating expenses reported in the third quarter of last year.

Total consolidated operating expenses for the nine months ended September 2016 was $193.5 million, a decrease of $14.3 million or 6.9% compared to the $207.8 million reported in the prior year nine months ended September 2015. Excluding severance expense of $1 million and depreciation and amortization expense of $8.4 million, adjusted operating expenses were $184 million, a decrease of $11.2 million or 5.7% compared to the $195.2 million of adjusted operating expenses reported for the nine months ended September 2015. The significant year-over-year reduction in operating expenses is a result of our cost reduction initiatives initiated in the second half of 2015 and at the beginning of this year.

As of September 30, we had headcount of 1189, which reflects an increase of 24 or 2.1% from the 1165 we had at September 30, 2015. If we exclude the hiring at DMV in both quarters, headcount would have essentially remained flat at 1113 when compared to the prior year period.

Earlier this year we announced we were considering moving our corporate headquarters if by doing so we could lower operating expenses. As we announced last month, we are very excited that we have signed a letter of intent to move our corporate headquarters to the Statler Library only formerly known as the Old Dallas Central Library in downtown Dallas. After 67 years at our current home, we are taking the next step in our transformation to a digitally focused media company. We are currently targeting a mid-2017 move.

In regards to our current building and property, we will not begin to look at any alternatives with these assets until we have an executed lease on our new space, hopefully later this quarter.

In closing, with the positive financial results we have seen so far this year, along with our healthy cash balance, we feel we are well-positioned operationally and financially. We look forward to delivering against our strategy for excellence in journalism, revenue diversification and profitability.

Operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Barry Lucas, Gabelli.

Barry Lucas - *Gabelli & Co. - Analyst*

Thank you. I have got several here if nobody -- I will throw out a couple and then jump into queue to see if anybody else is out there. But, Jim, could you provide a little color on where the print declines were the worst? Because I guess, Gannett and some others talked about national and preprint in particular, seeing some real erosion.

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

I will let Grant pick up. Certainly, we also saw the national advertising category take, I think, the largest year-over-year quarterly decline among the regular categories. Preprint was also under some pretty good pressure for the quarter, not as much as national. We actually had some good results in classified.

Grant, do you want to add any color to that at all?

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

Yes. No, I mean, I think, Barry, we had -- as Jim said, national was our largest drag as well, which you have heard from other publishers. I will tell you, though, our shift to Nucleus, the new national selling organization that the top 30 markets are unified behind, is really in ramp-up mode right now. So, as they have gotten to full staff, we are hoping to see that stabilize as a result of better national footprint with our sales force. We did see a good quarter on the print side, as well as digital and automotive. The automotive space was strong, but we actually consider that under the classified division of our advertising. But, overall, I would echo the national softness which, I think, maybe due to structure of sales or maybe due to outside factors. We don't know at this point.

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

Yes. Barry, to kind of pick up, the NNN dissolved kind of as the Nucleus thing was ramping up, and I am not sure that we kind of got the baton handed off exactly as well as we would have liked to. I think, maybe NNN wound down a little bit before Nucleus was completely ready to get going, and so we may have lost a little bit of sales pressure, which I think kind of crossed a lot of the larger market newspaper companies.

Barry Lucas - *Gabelli & Co. - Analyst*

Great. I just want to make sure I have this right, Grant. So good auto, does good mean up or down less?

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

Good means up. We were in the black in auto for the quarter.

Barry Lucas - *Gabelli & Co. - Analyst*

Okay. Terrific. So I guess all of these are real estate related questions, and just starting with a little item on the balance sheet, you put $2.6 million in asset held for sale, which wasn't there in the June quarter. So maybe you could just talk about what that is or a broader real estate update.

Katy Murray - *A. H. Belo Corporation - SVP, CFO and IR*

Sure, Barry. We did. We actually did announce probably about a few weeks ago, I guess, that we had signed a Letter of Intent for sale of one of our parking lots in downtown Dallas, 806 Jackson. We are currently in due diligence. We expect it to close before the end of the year. The $2.6 million is the book basis of that property, and it is actually the tax basis as well. We have not disclosed the purchase price at this time. Again, it is expected to close by the end of the year.

It was not for sale. We were approached on that property and were able to work with the buyer on that.

On the other property in Rhode Island, we are actively looking to sell those properties. We have sort of seen some interest. Nothing specific yet, but we are starting to get questions in about that property, which is great. And, at this time, no other notes on property. None of the other parking lots in downtown are for sale. Obviously, as Jim mentioned in the script, this building, we are not making any decisions about this building or the 8 acres it sits on -- or the two buildings and the 8 acres until we actually have a definitive lease to move into our new space. Again, hoping that this new lease will be in place before the end of the year.

Barry Lucas - *Gabelli & Co. - Analyst*

Okay. Great. I have some other others, but I really want to let some people have a crack.

Katy Murray - *A. H. Belo Corporation - SVP, CFO and IR*

Okay.

Operator

(Operator Instructions) Chris Mooney, Wedbush.

Chris Mooney - *Wedbush Securities - Analyst*

Good morning all. The way I was looking at it, Q2 to Q3, the print side went from $8.8 million to $6.8 million. Can you give us some color or thinking on that? Is that $6.8 million more of a going forward run rate?

Katy Murray - *A. H. Belo Corporation - SVP, CFO and IR*

So, Chris, you're right. And, you know, a couple of things that we saw. Q2 was a really strong quarter. I think everybody knows our first-half performance this year really strong coming out compared to year-over-year numbers. I think the third quarter as we have seen historically -- and I am going to let Jim and Grant talk to this -- third quarter does tend to seasonally cycle down across many industries and even this industry as well when you start thinking about kind of vacations and the like. We saw something similar last year, but I am going to turn it back over to Jim and Grant. I think really what you are seeing is the softness in the national and the print side, and I can let them talk kind of more about what, Grant, your thinking about going forward.

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

Yes. No, I think that, especially in the national space, Chris, one thing that we see there, what we call the national or general category, is that it is more insertion order based business. Meaning that it is nonrecurring, and we kind of see it swing in or swing out based on things that may be happening across the market versus our retail business, which is done much better than the national space. And that is really our pre-printers and folks who are with us on a week in, week out basis and are really placing for us -- with us annually. And we are not concerned about that right now in that space, but more on the insertion order based business, which that is natural. We see that across many newspapers where that can swing up or down. But as Katy mentioned, the third quarter is traditionally softer, especially in Texas with many of our subscribers who get out of the heat for the summer.

Chris Mooney - *Wedbush Securities - Analyst*

Okay. On circulation, there was a bit of a drop off against sequentially. How many subscribers are you down? Is that the right way to think about it?

Katy Murray - *A. H. Belo Corporation - SVP, CFO and IR*

Well, I think, when you are looking from Q2 to Q3, we did see some -- I guess what I would say softness in the home delivery side offset by increases in prices. Nothing different than what I would say we have seen historically from a total home delivery subscriber still right around, what, 100 and --

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

Really, the run rate on decline in the home delivery for the year has been pretty consistent, Chris, and the difference is just the ability to raise the price on the home delivery to offset the volume declines. So I don't think we have seen a material increase in the decreases of year-over-year volumes in home delivery. It is just how effectively we can continue to move the rate up that kind of fluctuates from quarter to quarter.

Chris Mooney - *Wedbush Securities - Analyst*

And have you put into place some additional price increases that you were anticipating?

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

Yes. We put in price increases across the board on home delivery as we really have done for the last several years. We continue to see that there is some price in elasticity in home delivery, and we continue to take it in segmented ways in some parts of the market where there is an opportunity to grow the price greater with lesser volume declines. Due to any price increases, we would take a little more, in some places a little bit less. And it is a practice that we have been doing now for probably four to five years.

Chris Mooney - *Wedbush Securities - Analyst*

Okay. And I guess I came into the report thinking cash would actually be growing again in third quarter, and it shrunk by $4 million. Can you help me get there?

Katy Murray - *A. H. Belo Corporation - SVP, CFO and IR*

Sure. Well, actually, cash, if you -- our cash balance today is over $83 million. So, really, the $78 million that was reported, we have biweekly payroll. So a lot of it is impacted by payroll or account payable cycles and the like. But cash, right now, did grow, and we are staying somewhere between $83 million and $84 million, depending on, again, timing of AP and payroll.

Chris Mooney - *Wedbush Securities - Analyst*

And have you closed -- does that mean you closed on the sale of the lot to the (inaudible) family or -- ?

Katy Murray - *A. H. Belo Corporation - SVP, CFO and IR*

We have not. That is expected to close by the end of the quarter.

Chris Mooney - *Wedbush Securities - Analyst*

Great. I will get back in queue. Thank you.

Operator

(Operator Instructions) Barry Lucas, Gabelli.

Barry Lucas - *Gabelli & Co. - Analyst*

Great, thanks. Katy, just to clear up that cash number, what was CapEx in the quarter?

Katy Murray - *A. H. Belo Corporation - SVP, CFO and IR*

CapEx in the quarter was right around -- under $3 million. And I think, for the year, we are going to stay somewhere in the total range of, call it, $7 million or so. We are on target for where we planned on being.

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Barry Lucas - *Gabelli & Co. - Analyst*

Okay. And, Jim, I was hoping to get a little bit more color on the metered service beyond the number of -- those are registered users, I guess, you have or in terms of traffic and how you feel that is going in terms of this iteration of the paywall.

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

Yes. We have had our meter in for just a little bit of time as I said in the script, and we have seen a 16% increase, which we are glad to see. I think we would like to see a little bit more, honestly, acceleration, but we are still in the early innings of the meter. So I think we are just continuing to fine-tune it and look to other best practices of the companies that have been at this game longer than we have to kind of see if we can incorporate some of their best practices. So I think we feel pretty good about it.

Interestingly, we have not seen much at all in the way of decline in page view volumes. That has really stayed pretty consistent. So it hasn't had -- at least, if you would take a decline in page views to suggest a decline in digital advertising, that factor has not really weighed in. We have been able to maintain the page views even after putting in the meter.

So I think all-in-all we feel pretty good, but we would like to see some pickup on the, if you will, quarter-over-quarter increases, at least in the absolute number of digital only subscribers, and we are working on that.

Barry Lucas - *Gabelli & Co. - Analyst*

Okay. Thanks for that. Last area for me would be the expense management, which has been pretty good, but where do we go from here? How much headroom do you think, whether it is employees or other buckets of opportunity, to take, say, meaningful costs out that would at least be visible?

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

You know, Barry, I think if we -- you have been with us on this journey for a decade or more. And every time we think we sort of have done all we could, we have had to find ways to do more because we have continued to take the practice that, if our revenues are declining, we have to try to find ways to align the expenses along with those revenue decline. We are not trying to get ahead of them, but we are not trying to let ourselves fall behind them.

Certainly, every time that we have to take another turn, makes it more difficult. They are harder to come by. But I am confident that our team here, which has responded when it is needed to with expense cuts that have not been easy to make, but they have also allowed us to continue to operate, I think, in a very strong manner so that we can continue to really go forward with a lot of the things that we are doing and not just sort of stall out all of the organic increases like the Speakeasys and CrowdSources and the acquisitions like DMV we continue to fund those. We have redesigned all of our websites -- dallasnews.com, sportsdayDFW.com, guidelive.com, all of that requiring investment of expenses and capital.

So I don't know where that wall is. If there is one, there must to be at some point, but we have continued to be able to find ways to manage through it. The real issue is how quickly can we get our other revenues to offset the decline in the print revenues on a quarter by quarter or annual basis so that we are not fighting a declining total revenue curve as we have been doing year after year. And that is why we continue to emphasize trying to create revenues that are not directly tied to the print product so that we can get through a total revenue growth area. And I feel like we are making progress. You saw the good results today or heard them from DMV, particularly, and Speakeasy as well. We could have added Connect in there, which is our programmatic arm. It also had a good quarter. And so I feel like we are getting that kind of momentum and enough revenue in this digital advertising and marketing services category that it can become a counterweight to the print advertising declines, which continue to contribute most of our revenue decline on a quarter by quarter basis.

So I am hoping that we won't have to be facing the expense management challenges we have had in the past as we continue to grow in these other particularly digital advertising and marketing services areas.

Barry Lucas - *Gabelli & Co. - Analyst*

Great. Thanks. I misspoke. I have one more area, and it is consists of two items. One, you have got a lot of cash on the balance sheet, well, coming in hopefully quite soon. So what do you do with the cash, and I know you are looking or thinking about other digital-oriented businesses, marketing services businesses? So maybe you could talk a little bit about returning cash to shareholders and/or what the M&A pipeline would look like and what would really fit the bill for you in terms of what you would like to add on or bolt on.

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

Well, I think that -- I know that I would and I believe my management committee and our board would always agree that if we can find the right kind of acquisition that is accretive and that helps in our case to build out our marketing solutions ecosystem that we have been building, that is the best use of the cash on our balance sheet because it will help to grow the Company.

As you know, we took sort of a pause -- a hiatus this year trying to really work on integration of our marketing solutions ecosystem, which, I think, has proven to be the right thing to do. You heard about the number of sales that the Dallas Morning News team made into both DMV and Speakeasy. A very impressive number. And that comes from refining and doing a better job of aligning our businesses.

I think that in 2017 that you will see us looking to find some areas that might represent gaps in this marketing solutions ecosystem that we can fill in, more likely from acquisition than from organic growth, but I wouldn't rule out building something. It just depends on what it is.

We also might find some of the most important suppliers of other services that we need that we don't own as possible acquisition targets. So instead of continuing to buy their services, we might actually bring in a company like that and build the equity through not only the use that we have for other clients, but the clients they bring along with them as well.

I think we will be looking at what other audiences we can build through a new or different website execution. We have been talking a lot about that. That would be more internal and organic. And then, Barry, as always, we have the discussions on on ongoing basis at our board meetings in terms of capital allocation and what the best use of that capital is. I know that, for the time being, we have been trying to really kind of look at the lay of the land and see what the acquisition climate might look like going forward after taking a sort of a pause this year. And I think our first priority is kind of understanding that and then look to see if there's other opportunities we may have to improve shareholder value through different other capital allocation means.

So we are on it. We know we have got the cash. We want to be sure we can make the kind of acquisitions that I think would really improve the overall long-term Company performance. If we can make the right ones and I think, as you have seen in the past, we have been very judicious about doing that, both, I think, making -- not taking a swing for the fence and doing something that we can digest and integrate and help make work for our Company.

Barry Lucas - *Gabelli & Co. - Analyst*

Great. Thanks, Jim.

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

Thank you, Barry.

Operator

(Operator Instructions)

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

Karen, that sounds like they have got all the questions asked that they wanted to ask, and so we appreciate everybody being on the call, and Karen, we appreciate your help.

Operator

Thank you. Ladies and gentlemen, this conference will be available for replay after 11:00 AM today through November 8, 2016, 11:59 PM. You may access the AT&T Teleconference Replay System anytime by dialing 1-800-475-6701 and then enter the access code 403803. International participants may dial 320-365-3844. Those numbers again are 1-800-475-6701 and 320-365-3844. Access code 403803.

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