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AHC - Q3 2015 A. H. Belo Corp Earnings Call

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## CORPORATE PARTICIPANTS

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

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

## CONFERENCE CALL PARTICIPANTS

**David Cohen** *Minerva Advisors - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to the A. H. Belo Corporation third-quarter 2015 financial results conference call. (Operator Instructions) As a reminder, this conference is being recorded.

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

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

Thank you, Dan. Good morning, everyone. This is Katy Murray, Chief Financial Officer of A. H. Belo Corporation. Welcome to our third-quarter 2015 conference call.

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

Before the market opened this morning we issued a press release announcing third-quarter results. We have posted this release on our website under the Investor Relations section.

Unless otherwise specified, comparisons used on today's call measure third-quarter 2015 performance from continuing operations against third-quarter 2014 performance from continuing operations.

Our discussion today will include forward-looking statements. Forward-looking statements are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from those statements. The Company assumes no obligation to update the information in this communication except as otherwise required by law. Additional information about these factors is detailed in the Company's press releases and publicly available filings with the SEC.

Finally, today's discussions 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.

This morning, A. H. Belo Corporation reported total revenue of \$66.9 million in the third quarter of 2015, an increase of \$1 million or 1.5% over the \$65.9 million recognized in the prior-year period. Ad and marketing services revenue grew \$2.2 million or 6.1% to \$39.2 million, compared to the \$36.9 million recognized for the same period of 2014.

Circulation revenue decreased by 4.4% to \$20.3 million due to declining volumes, but was substantially offset by higher rates. Printing and distribution and other revenue decreased by 4.1% to \$7.4 million, primarily due to lower commercial printing volumes from regional and community papers.



Total consolidated operating expense in the third quarter was \$70 million, a 7% increase compared to the prior-year period. Excluding the severance expense of \$2.8 million and the \$2.1 million of operating expenses associated with DMV, acquired in the first quarter of this year, operating expenses were down a net \$300,000 compared to the third quarter of 2014 expenses of \$65.4 million, which reflects the Company's focus on expense management.

For the third quarter, we reported a net loss from continuing operations of \$0.18 per share, a decrease of \$0.28 per share compared to the third quarter of 2014. This decrease is primarily due to the prior-year gain of \$3.5 million for an economic parity payout related to the sale of the Company's investment in Classified Ventures and a \$2.8 million of severance expense recognized this quarter related to the voluntary severance offer.

Turning to the balance sheet, as of September 30 we had \$79.7 million of cash and cash equivalents and no debt.

Turning to guidance, based on our current visibility for the fourth quarter we expect operating income, excluding depreciation expense, amortization expense, and severance expense, to be in the range of \$11 million to \$13 million for the fiscal-year 2015. For the nine months ended September 30, 2015, we reported approximately \$3.8 million in operating income excluding depreciation, amortization, and severance expense, compared to \$9.7 million for the same time period in 2014. Reconciliations of operating income or loss for both 2014 and 2015 are available on the Investor Relations section of the Company's website.

With that, I will now turn the call over to Jim Moroney.

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

Thank you, Katy, and good morning, everyone. Before I talk about the specific results, I want to say that we are very pleased with our third-quarter performance not only from our top-line revenue growth but also our expense management.

As Katy mentioned, our total revenue of \$66.9 million this quarter represented a 1.5% or \$1 million increase over the \$65.9 million recognized in the same period last year. On a year-to-date basis, total revenue of \$199 million is virtually flat with the \$199.6 million recognized for the same period in 2014.

In addition to the total third-quarter revenue growth, we also saw a net 6.1% growth or \$2.2 million in our overall advertising and marketing services revenue when compared to the third quarter of 2014. This net growth was led by our marketing services businesses, which grew 123% from \$2.4 million in the third quarter of 2014 to \$5.4 million this quarter, and from revenue in digital advertising which grew 12.6% or \$700,000 to \$6.5 million this quarter.

The growth in our digital and marketing advertising revenue continues to accelerate. On a year-to-date basis, this revenue represents 15.7% of the Company's total revenue compared to 11.9% for the same period in 2014. Specifically for the third quarter of this year, total digital advertising and marketing services revenue was 17.7% of total revenue; and this compares to 12.3% in the third quarter of 2014.

As a percent of total advertising and marketing services revenue for the third quarter, total digital and marketing services revenue was 30.1%. This compares to 22% in the third quarter of 2014. This acceleration is a reflection of our continued focus on revenue diversification and organically growing our digital advertising and marketing services businesses.

In addition to the growth we saw in the areas of our core business, Crowdfunder, our event marketing business, which is not reported in the advertising and marketing services revenue line, continues to grow and expand. Earlier this year we held our first reunion event in conjunction with Hunt Consolidated, and the event was a success with approximately 7,500 attendees enjoying an evening of music, food, and fireworks.

Next month we'll be hosting two of our Untapped Craft Beer festivals. Untapped Dallas, our flagship event, is set for November 7 at Dallas's iconic Fair Park, where we are expecting over 10,000 attendees. We are very excited about our inaugural Untapped event in San Antonio being held on November 21. We expect Crowdfunder revenue this year to exceed \$3 million.



As I have discussed before we are continuing to explore additional investment and acquisition opportunities in more channels of digital and marketing services that further diversify our sources of revenue. We're not looking for just any business, but one that complements our current marketing services offerings and provides our sales organization additional opportunities to offer marketing solutions to our customer base. Until we find the right investment opportunity, we will continue to focus on the organic growth of our digital and marketing services businesses in order to strengthen their contribution to operating profits.

We're now ready for questions, Dan.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) David Cohen, Minerva Advisors.

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### David Cohen - Minerva Advisors - Analyst

Hi. Morning, guys. Could you help us a little bit with the cash number? I seem to remember at the end of last quarter we were at \$84 million; and there was some conversation on the call about how that's really more like \$89 million or \$90 million with regard to the timing of some working capital items. In this quarter release there is a comment about cash being stable, and it shows \$79.7 million.

I'm just wondering -- obviously, there was almost \$2 million in dividend payment in the quarter. Can you sort of walk us through the difference between that \$89 million or \$90 million and the \$79.7 million that you just reported? Thanks.

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### Katy Murray - A. H. Belo Corporation - SVP, CFO

Hi, David. I'll walk you through that. A lot of this is timing, just really when the last day of the quarter is and also where payroll and AP falls. The other thing: we had \$2.8 million in severance that was paid out in Q3, which is a one-time cash item.

The other item, there were some taxes as well. There will be more detail on the cash flow, obviously, in the 10-Q.

But from an overall cash perspective, what I can tell you is as of today we're back over \$80 million. We're at approximately, call it, \$83 million to \$84 million in cash. A lot of it for us really is the timing of the end of the quarter with just various AP cycles, payroll cycles, and the like.

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### David Cohen - Minerva Advisors - Analyst

Okay. And there was no material share buyback in the quarter, is that correct?

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### Katy Murray - A. H. Belo Corporation - SVP, CFO

That is correct. We are currently following the same small repurchase that we've been doing throughout the year, where we by a few thousand a day; and that goes through the rest of this year. But there was no significant block of purchase.

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### David Cohen - Minerva Advisors - Analyst

Okay. Well, I guess the last question that I would ask, then, is -- we've talked about this before. There's not a lot of implied enterprise value, and therefore seemingly a perception among investors that the core print franchise isn't worth very much. There have been a few recent transactions,



most notably the Journal transaction with Gannett, which start to put some sort of a multiple on what I would call our segment publishing EBITDA, which would create a valuation which is significantly above what the market is putting on it right now.

Could you talk a little about the M&A environment and what you think you can do to highlight the underlying value of the core publishing franchise? Also, is there anything you can do to highlight the value of the emerging marketing business? Thanks a lot.

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

Okay. Thanks, David. You know, last quarter and obviously again this quarter we gave guidance, which was one way we were trying to indicate to the market that we still have an enterprise business that is still profitable and which was, as you point out, seemingly being neglected in the value that the market's ascribing to our Company. We're basically trading at cash, as many of you have noted either on calls like this or on calls that we've had together. And that's a fact.

I think that the M&A market out there -- you've got a couple of companies whose strategy is to acquire additional newspaper companies, most notably New Media, GateHouse, with Fortress behind them. Tribune though has also announced that they would be interested possibly in acquiring more. Then you've got Gannett, which made the acquisition that you talked about.

As we've said before, right now we're not out actively looking to acquire newspapers, nor are we actively trying to be acquired. If we get an offer from somebody we of course will -- with the fiduciary responsibility that we have to our shareholders -- take a look at it. But we're very heads down trying to continue to diversify our sources of revenue.

And frankly, I feel pretty good about the fact that, at least from what I've seen throughout the industry over the last couple of days, I don't see too many other positive revenue growth stories being reported on total revenue or on advertising and marketing services. So I think we're making progress.

We have to work some on improving the profitability of these things that we have either started up or bought, and that's what I think the last line of my script was, was to indicate that that's a major focus of what we're going to be doing in 2016 with all the businesses that we presently operate. Yet if we could find the right acquisition, we would bring that along.

I talked to Katy and I've talked to several investors as we've just had calls -- Katy and I particularly -- over the last quarter. I think that we're going to look to see if we can find some ways to report things that bring more visibility to the things that you've asked about: the core business, our acquisitions, our organic startups. How do we help you and the rest of the market, the Street, understand those businesses, apart and together, and how they work together?

We'll be having that same discussion with our Board in December. And I hope either with the first earnings call of 2016 or certainly by the second one we could bring, I think, a little more clarity, a little more transparency, to all of these different parts of our Company and I think get at some of the issues you're inquiring about.

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**David Cohen** - Minerva Advisors - Analyst

Great. Thank you for your response.

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**Operator**

(Operator Instructions) No additional questions are queuing up at this time. I'll turn it back over to you.

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

Thank you. Appreciate everybody being on the call. We felt like we had a really good quarter and a great report. We're looking forward to a good fourth quarter. So thank all of you for your time. Thank you, Dan.

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**Operator**

Ladies and gentlemen, this conference will be available for replay after 11:00 AM today through November 5, 2015, at midnight. You may access the AT&T replay system at any time by dialing 1-800-475-6701 and entering the access code 370660. International participants dial 320-365-3844. (Operator Instructions)

That does conclude our conference today. We would like to thank you for your participation and for using AT&T teleconference. You may now disconnect.

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