

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

AHC - Q3 2014 A. H. Belo Corp Earnings Call

EVENT DATE/TIME: OCTOBER 29, 2014 / 3:00PM GMT



CORPORATE PARTICIPANTS

Alison Engel *A.H. Belo Corporation - CFO*

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

Grant Moise *A.H. Belo Corporation - Dallas Morning News SVP - Business Development & Niche Products*

Dan Blizzard *A.H. Belo Corporation - SVP*

CONFERENCE CALL PARTICIPANTS

Richard Diamond *Strait Lane Capital - Analyst*

Chris Mooney *Esposito Securities, LLC - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Third Quarter 2014 Financial Results Conference Call.

At this time all lines are in a listen-only mode. Later we will conduct a question and answer session, instructions will be given to you at that time.

(Operator Instructions)

And as a reminder, today's conference call is being recorded.

I would now like to turn the conference over to Ms. Ali Engel. Please go ahead.

Alison Engel - A.H. Belo Corporation - CFO

Thank you Cynthia. Good morning everyone, welcome to A.H. Belo Corporation's third quarter 2014 conference call.

Jim Moroney, our Chief Executive Officer, will lead today's call. I will provide a brief look at our third quarter results leaving plenty of time for Q&A. Dan Blizzard, Senior Vice President, and Grant Moise, Senior Vice President, Business Development and Niche Products, are also available for Q&A.

Yesterday evening 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 2014 performance from continuing operations against third quarter 2013 performance from continuing operations.

In conjunction with the sale of our newspaper operations in both Providence, Rhode Island and Riverside, California, the Providence Journal and the Press-Enterprise newspaper operations are reported as discontinued operations in the Company's financial statements.

Accordingly, the results from continuing operations consist primarily of the Dallas Morning News and corporate.

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.

Any 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 in our press release and on our website under the Investor Relations section.

Now, I will turn you all over to Jim. Jim?

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

Thank you, Ali, and good morning everyone.

A.H. Belo Corporation announced third quarter net earnings of \$0.10 per share from continuing operations, an increase of \$0.08 per share over the third quarter of 2013.

Bottom line improvements in the third quarter underscore the success of our continued efforts to contain expenses across all parts of the Company, and dispose of assets not core to our Dallas based strategy. Adjusted EBITDA or earnings before interest, taxes, depreciation and amortization from continuing operations with net investment related gains excluded was \$4.2 million in this third quarter.

Total revenue in the third quarter of 2014 decreased 2.3%. Declines in print advertising revenue were offset by increases in commercial printing and digital revenue. Digital revenue which comprised 22% of advertising and marketing services revenue grew 9.6% over the prior year quarter. We're pleased with the continued growth in digital revenue which was particularly attributable to marketing services growth associated with Speakeasy.

In September we completed the sale of the newspaper operations of the Providence Journal and related property in Providence, Rhode Island to New Media Entertainment Group. Cash proceeds of \$48 million were received in September and we expect to finalize the settlement of the working capital adjustment in the fourth quarter.

After closing costs and estimated selling and exit costs we recorded a gain of \$17.1 million in the third quarter of this year. Also in the third quarter of this year, the Company sold its last remaining real estate in Riverside, California comprised of land and a building that formerly served as a commercial printing operation. The Company received net sales proceeds of \$1.6 million, generating a gain of \$300,000. The Company also sold 97 acres of undeveloped land in Southern Dallas. Net sale proceeds of \$1.8 million were received, generating a gain of \$600,000. These transactions along with the close of the sale of our interest in Classified Ventures in October are key components in our Dallas based strategy.

The cash proceeds generated from these divestures will allow the Company to continue its pursuit of opportunities to diversify and grow revenues and EBITDA and reduce our reliance on core print advertising revenues which remain challenged.

The Board and management continue to focus on capital allocation including potential investments and acquisitions in the advertising or marketing services arena, specifically companies with established financial performance and strong management teams. The Company's acquisition and investment efforts are focused on businesses with products and services that complement the existing advertising and marketing services currently offered.

The Company remains committed to returning capital to shareholders primarily through dividends. We paid a quarterly dividend of \$0.08 per share in the third quarter and the Company declared our fourth quarter dividend of \$0.08 to be paid before the end of the year.

Ali will now provide more detail around our third quarter financial results. Ali?

Alison Engel - *A.H. Belo Corporation - CFO*

Thank you, Jim.



A.H. Belo Corporation announced third quarter net earnings of \$0.10 per share from continuing operations compared to \$0.02 per share in the third quarter of 2013. Third quarter 2014 net income from continuing and discontinued operations of \$18.4 million includes the \$17.1 million gain related to the sale of the Providence Journal newspaper operations, and \$3.5 million of income for an economic parity payment in connection with the dissolution of the partnership which held the Company's interest in Classified Ventures.

As Jim mentioned, total revenue in the third quarter of 2014 decreased 2.3% from the prior year period to \$65.9 million. Revenue from advertising and marketing services including print and digital revenues decreased 8.6%. Digital Revenue increased 9.6% over the prior year quarter primarily due to continued growth in marketing services revenue associated with Speakeasy.

Increases in digital revenue were offset by declines in display, pre-print and classified advertising revenues of 19%, 8% and 8% respectively.

Circulation revenue declined 2.6% over the prior year period primarily due to lower volumes in home delivery and single copy.

Printing and distribution revenue increased 46.9% in the third quarter due primarily due to the impact of the contract to print the Fort Worth Star-Telegram which commenced in the first quarter and additional printing of local community newspapers in Dallas.

Total consolidated operating expense decreased 3.3% in the third quarter to \$65.4 million as employee compensation and benefits, newsprint and appreciation expenses all declined.

In the third quarter of 2014, the Company made required contributions of \$5.8 million to its pension plans. No further pension contributions are required in 2014. As of September 30th, we had \$108.1 million of cash and cash equivalents and no debt.

Now Cynthia, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions).

And one moment please for the first question.

(Operator Instructions)

We will go to the line of Richard Diamond with Strait Lane Capital. Your line is open.

Richard Diamond - Strait Lane Capital - Analyst

Yes, good morning, everyone. I want to start by complimenting A.H.'s management team. When you combine quality of company leadership, integrity and cash on the balance sheet, there are few more attractive companies in my portfolio. Here is my question, now that you have been cross selling approximately two years, can you talk about lessons learned in various successes that you can apply going forward?

Thank you.



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

Sure, Richard. Thank you for the nice words. And let me talk about that just for a minute, our strategy going forward continues to be built on doing an increasing amount of cross channel selling among the different channels of advertising and marketing that we own or have access to. I think the best example I can use is Speakeasy, and the lesson we have learned is this one.

In the beginning we have a great opportunity to take our customer base and introduce them to a new channel of marketing like Speakeasy and have great success with it because of the relationships we have built with them when they have a need like they did for content marketing.

As time goes on, however, we start working our way through those accounts of ours and in the say second year less of the accounts that are new to the Company like Speakeasy are coming from us as current customers of ours and we're getting more new customers from outside our customer base.

I think the way this works and it's a nice sort of virtuous cycle if you will. We start off by building credibility with all of these customers that were previously customers of ours in other channels of marketing, and as we build that base it then attracts and assures companies that we weren't necessarily doing business with that this is a good company, a company that has customers that give those new customers some assurance that things must be going right.

We think we can repeat this same sort of formula as we bring on new channels of marketing using our base to get started, to sort of generate a lot of new sales and then that tends to attract other new customers a little bit like come on in the water, it's fine. So I think those are the most important lessons we learned, I don't know, Grant, if there is anything that you want to add to that at all?

Grant Moise - *A.H. Belo Corporation - Dallas Morning News SVP - Business Development & Niche Products*

No I think it's a great example of I think adding to our credibility in these new businesses has been very important with the legacy business we have and it's -- we've been very pleased to watch the success that we've had, specifically as Jim is saying Speakeasy as well as 508 Digital.

Richard Diamond - *Strait Lane Capital - Analyst*

Thank you very much.

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

Thanks, Richard.

Operator

Thank you. (Operator Instructions)

Next we will go to the line of Chris Mooney with Esposito.

Your line is open.

Chris Mooney - *Esposito Securities, LLC - Analyst*

Good morning folks.



Alison Engel - *A.H. Belo Corporation - CFO*

Hey, Chris.

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

Good morning, Chris.

Chris Mooney - *Esposito Securities, LLC - Analyst*

Any thoughts on the guidance for this year now that we've had both, all the dispositions take place on EBITDA? It looks like you've -- what, \$10.7 million or so, so far for this year?

Alison Engel - *A.H. Belo Corporation - CFO*

Yes Chris, we didn't -- decided not to give any further guidance because of the revenue challenges in the third quarter and kind of not sure how that was going to pertain to the fourth quarter, so we have kind of put the brakes on that and if we obviously decide to change that, we'll update everyone through a press release at some point.

Chris Mooney - *Esposito Securities, LLC - Analyst*

Okay. And when do you think you will know since you didn't say anything about in the release on the tax implications?

Alison Engel - *A.H. Belo Corporation - CFO*

Yes. We think we will know at the end of November. We've got a couple of things we are working through that will give us more clarity on that, so I had hoped to be able to give that number today but we're not there yet, so for a couple of different reasons, and so I think potentially after our December Board meeting we might be able to give you more guidance on that.

Chris Mooney - *Esposito Securities, LLC - Analyst*

Okay. Jim, thoughts on the -- I guess this is - is it Wonderful Media where you've taken two temporary impairments.

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

Yes.

Chris Mooney - *Esposito Securities, LLC - Analyst*

And wasn't that a \$5 million investment originally?

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

Yes. Chris, I'm going to let Grant talk about it because he represents us on the Board, but I'll just do a little bit of -- by way of backdrop for anyone else on the call. Obviously one of the areas that's still, despite the third quarter which was a little bit of an anomaly, but the pre-print business for

newspapers has tended to, while declining, being a very low-single digit number and that's being our experience, but yes, we all believe that somewhere in time these pre-prints are going to become more digital than they will be actual printed material.

And the industry got together and is working on finding a solution and invested in, with several media companies -- newspaper media companies in Wanderful Media. So let me let Grant pick it up from there.

Grant Moise - *A.H. Belo Corporation - Dallas Morning News SVP - Business Development & Niche Products*

Sure. Chris, yes, Wanderful in the most recent impairments -- as a member of the Board of Wanderful for me are really more tied to the -- a piece of the assets which were purchased the former [Tribidia] company which is really in the way that print advertisements are converted into to make them basically a digital -- to put them into a digital format.

The Company, and I'm a big supporter of what we have done, has moved more into a mobile strategy in a different way of acquiring digital assets that can be put into the marketplace and unfortunately that has caused some short term impairments because of the conversion technology that was bought along with Tribidia. It's just become a bit little less -- it's become less important to that core business because of the mode of conversion.

It's very much moved into a mobile friendly mobile shopping marketplace from which there are multiple ways now in which we're accessing those assets. So it's really in terms of the way that the assets were gathered which related to the impairment, however the business most recently had some nice momentum behind it with national advertisers and then it's coming on-board and we're seeing that the fourth importer will be very important obviously for the holiday shopping season where there is a great deal of sales effort being put against the new strategy.

However, just to -- the impairment was more so associated with the historic Tribidia assets that were bought in the way that ads were converted more than I would say that is anything in terms of financial performance of the Company in recent months.

Chris Mooney - *Esposito Securities, LLC - Analyst*

Okay. I'm a subscriber to HomeSnap site and get an ongoing series of emails from them which actually are pretty well-formatted. You all own just under I think 20% of it. Any thoughts on how they are doing?

Alison Engel - *A.H. Belo Corporation - CFO*

So I think Chris, they are doing well. They've got a lot on their plate right now, as they're trying to ramp up and really prove their monetization -- the monetization side of that business. I think they've done a great job on the technology side. They've got a lot of plans for the next six months to a year to ramp up that business. Again, it's a lot like Wanderful in that it's in a very early stage with a good technology that now needs the monetization and the sales efforts behind it.

So we're still enthusiastic about that, we funded a little bit more to that investment this year, a small amount. And so, we've remained -- that does remain on our high profile list in terms of I think long term opportunity for I guess realization of that investment, but they've got a ways to go.

One of the things, I'll just note to you and anyone else on the call is, when we had a closing dinner for Apartments.com this summer, what we were talking a lot about the history of CV and I mean we had started that business well over 15 years ago. So although things are moving a lot faster today in technology than I think they were when Classified Ventures started, we need to give these new businesses time to take prove their concepts and work and it's not going to happen overnight.



Chris Mooney - *Esposito Securities, LLC - Analyst*

Okay. Two other areas of historical interest, real estate still held for sale. Can you kind of give a ball park of what you think base -- that would be worth?

Alison Engel - *A.H. Belo Corporation - CFO*

Yes. Dan is here, yes. He'll talk about it.

Chris Mooney - *Esposito Securities, LLC - Analyst*

Yes. Thank you.

Dan Blizzard - *A.H. Belo Corporation - SVP*

This is Dan Blizzard. So we've got five properties in Dallas that could be considered for monetization, one is our former South Plant facility, Southern Dallas that could deliver a value range, net proceeds, north of \$7 million. We got four properties in Downtown Dallas that range in value from \$11 million to \$16 million -- pardon me, a long spreadsheet that could range from \$13 million to \$14 million.

The market in downtown Dallas is on fire as you know from a commercial real estate perspective, we're ideally located. There is no need for us to be monetizing those assets at this time. We don't need the cash. We generate enough parking revenue on those lots to cover their expenses. We could monetize them if the time came that we needed to. And then we have four assets in Providence, Rhode Island that we're -- on the market for sale right now that have a value range from \$11 million to call it \$16 million, depending on the type of buyer that would come along.

Chris Mooney - *Esposito Securities, LLC - Analyst*

And nobody knocking on your doors asking you about corporate headquarters?

Dan Blizzard - *A.H. Belo Corporation - SVP*

Corporate headquarters being, anyone interested in buying the Dallas Morning News building?

Chris Mooney - *Esposito Securities, LLC - Analyst*

Yes, and the land.

Dan Blizzard - *A.H. Belo Corporation - SVP*

Not in my lifetime.

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

Chris, there is always a lot of talk going on. As you probably well know, around Downtown Dallas and there is talk about a high speed rail and there is talk about a baseball stadium move and from time to time that the footprint of those discussions winds up putting a shadow over where we're and we're sitting back, we're not in any kind of need to move and we're not necessarily wanting to move to but we will always entertain discussions



because if it's financially better for the Company then that's a decision we could make at the time, but right now we don't have anything active going on.

Chris Mooney - *Esposito Securities, LLC - Analyst*

I would have been surprised if you did. Just for fun, I know that we hear about this the fourth quarter but any thoughts on the pension plan?

Alison Engel - *A.H. Belo Corporation - CFO*

No, I mean I think it's going to be a tough year for the plan in terms of that I think we're going to go backwards in our unfunded status because of interest rates which have just not gone our way this year, Chris, unfortunately.

But I don't think that really changes anything because we know it's a long term interest rate play really to a medium term I guess interest rate play to get the plan where we wanted to be. We're doing lots of things to keep de-risking it and moving forward with it but nothing significant other than just unfortunately a rate problem.

Operator

Thank you. And at this time I'm showing no further questions in queue. Please continue.

Alison Engel - *A.H. Belo Corporation - CFO*

Okay. I think we're done. Thank you everybody. We will talk to you all next quarter.

Operator

Thank you. And ladies and gentlemen, today's conference call will be available for replay after 12 pm today until midnight, November 5th. You may access the AT&T teleconference replay system by dialing 800-475-6701 and entering the access code of 338-424.

International participants may dial 320-365-3844.

Those numbers once again. 1-800-475-6701 or 320-365-3844 and enter the access code of 338-424.

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



DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.