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Q3 2022 Dallasnews Corp Earnings Call

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## CORPORATE PARTICIPANTS

**Gary Cobleigh** *DallasNews Corporation - VP & Controller*

**Grant S. Moise** *DallasNews Corporation - CEO & Director*

**Mary Kathryn Murray** *DallasNews Corporation - President, CFO, Treasurer & Assistant Secretary*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to the DallasNews Corporation investor conference call. (Operator Instructions) And as a reminder, your call today is being recorded.

I'll now turn the conference call over to your host, Corporate Vice President and Controller of Dallas Newspaper Corporation, Gary Cobleigh. Please go ahead.

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### **Gary Cobleigh** *DallasNews Corporation - VP & Controller*

Good morning, everyone. This is Gary Cobleigh, Vice President and Controller of DallasNews Corporation. Welcome to our third quarter 2022 investor call. I'm joined by Katy Murray, President and Chief Financial Officer; who will be reviewing financial results; Grant Moise, Chief Executive Officer, who will provide brief business remarks; and Robert Decherd, Executive Chairman, who's available for questions.

Yesterday afternoon, we issued a press release announcing third quarter 2022 results and we filed our third quarter 10-Q. Both of these are posted on our website, dallasnewscorporation.com, under the Investor Relations section. Unless otherwise specified, comparisons used on today's call measure third quarter 2022 performance against third quarter 2021 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.

I'll now turn the call over to Katy.

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### **Mary Kathryn Murray** *DallasNews Corporation - President, CFO, Treasurer & Assistant Secretary*

Good morning, everyone, and thank you for joining today's call. On a GAAP basis for the quarter, DallasNews Corporation reported a net loss of \$2.6 million or \$0.48 per share and an operating loss of \$2.3 million. In Q3 last year, we reported net income of \$1.6 million and an operating loss of \$2.6 million. As a reminder, in the third quarter last year, net income included a tax benefit of \$2.4 million, primarily related to the release of a noncash uncertain tax reserve whereby the federal statute of limitations had lapsed. On a non-GAAP basis for the quarter, we reported an adjusted operating loss of \$1.6 million, \$400,000 greater than the \$1.2 million loss for the same period last year. The decrease is primarily due to a \$600,000 decline in total revenue and a \$700,000 increase in newsprint expense, partially offset by improvements of \$600,000 in employee compensation and benefits and \$700,000 in distribution expense.

We reported \$37.7 million of total net revenue for the quarter, and this compares to \$38.3 million last year. The year-over-year decline is primarily due to reductions of \$400,000 in digital advertising and marketing services revenue and \$200,000 in print advertising revenue. The digital advertising decline is due to the company's strategic decision to exit sales of a line of promotional products that carry a low margin. This \$900,000 year-over-year revenue decline in promotional product sales was partially offset by more consultative marketing services.

Turning to circulation. Revenue increased \$100,000 when compared to the third quarter of last year. This growth follows the trend we experienced last year, driven by a continued focus on growing digital subscriptions and revenue. As of September 30, The News had

64,172 digital-only subscribers, which is a 7,088 or 12.4% year-over-year improvement. Total subscribers, including both home delivery and digital subscribers, was 144,631 as of September 30. And this compares to 147,976 as of September of last year. A summary of historical print and digital subscriptions by quarter is saved on our website under the Investor Relations section.

Total adjusted operating expense for the third quarter was \$44.8 million, an improvement of \$1.4 million from last year, primarily related to savings in compensation and benefit expense and distribution, offset by an increase in newsprint expense. At the end of the third quarter, headcount was 668, down 4 headcount compared to September 30 of last year. Cash on the balance sheet was \$33 million on September 30, and as of October 21, cash was \$32 million.

Consistent with interim periods last year, we -- I'm sorry. Consistent with the interim period last year, we use the estimated annual tax rate method and recorded \$201,000 of tax expense for the Texas franchise tax. As a reminder, last quarter, we paid \$675,000 of Texas franchise tax for fiscal year 2021. On July 29, 2022, the company received cash proceeds of \$22.5 million from the collection of the Charter Holdings note, paying the note in full including interest.

In the third quarter, the company made a Board-approved voluntary pension contribution of \$5 million and paid a special dividend of \$1.50 per share, returning \$8 million to shareholders. Overall, we are pleased with the company's progress so far this year, and we look forward to continued success throughout the remainder of the year.

I will now turn the call over to Grant.

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**Grant S. Moise DallasNews Corporation - CEO & Director**

Thank you, Katy. The company performed well in the third quarter as we continued to see stability in some of our most important lines of revenue. While digital subscription volumes softened in the second and third quarters, we began to see volumes rebound in late July after we adjusted our introductory pricing. We were able to be more aggressive with our pricing because we're currently charging some of the highest prices in the country for digital newspaper subscriptions. We will remain committed to this premium pricing strategy, but we will continue to test our discounting tactics in our effort to maximize both price and volume.

We cannot price subscriptions aggressively without outstanding journalism. I'm really proud of the work our newsroom and editorial board had produced this year, and I was especially proud with the introduction of a new editorial series we launched in the third quarter called The American Middle. The focus of the series is to encourage politicians and citizens to focus our collective energy on the things we have in common rather than the issues that tear us apart, work we at The News are concerned about the binary mindset that has been adopted by so many Americans. And we hope this series will give our readers a sense of hope that there are important issues where we can find common ground.

Shifting to Medium Giant. We just completed 2 consecutive quarters of strong sales performance, bringing new clients onto our agency roster. We began to see revenue recognized in the third quarter from those new clients, which provides us a solid foundation of contracted revenue moving forward. This revenue is helping offset lower advertising inventory levels on dallasnews.com, where we've experienced audience decline this year in the mid-30% range. Many news companies are experiencing a similar decline in digital audiences, and we're working diligently to improve on those trends.

On the expense side, our 2 key expense lines impacted by inflation are fuel and newsprint pricing. While we hope some of those price pressures are temporary, we continue to look at every option we have to minimize the impact of those inflated costs. All things considered, I'm very pleased with the team's performance as we continue to remain focused on our long-term strategy of creating a sustainably profitable digital news company.

Alan, we will now open it up to questions.

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**Operator**

(Operator Instructions) Speakers, we have no one queued up for questions at this time.

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**Mary Kathryn Murray** *DallasNews Corporation - President, CFO, Treasurer & Assistant Secretary*

Alan, thank you. Again, we appreciate everyone joining us for our call, and we look forward to providing full year results when we enter next year. Thank you so much.

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**Operator**

Ladies and gentlemen, this conference is available for replay beginning today, October 26, at 12 noon Central Time and running until November 2 at midnight. During that time, you can access the AT&T Executive Replay Service by dialing toll-free (866) 207-1041, internationally (402) 970-0847 and use the access code, 3178965. That will conclude your conference call for today. Thank you for your participation and for using AT&T Event Teleconferencing. You may now disconnect.

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