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Q3 2020 A. H. Belo Corp Earnings Call

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## CORPORATE PARTICIPANTS

**Grant S. Moise** *A.H. Belo Corporation - President & Publisher of The Dallas Morning News*  
**Mary Kathryn Murray** *A.H. Belo Corporation - Executive VP, CFO, Treasurer & Assistant Secretary*  
**Robert W. Dechard** *A.H. Belo Corporation - Chairman, President & CEO*

## CONFERENCE CALL PARTICIPANTS

**Chris Mooney**

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the A.H. Belo's Third quarter earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded. I would like to now turn the conference over to our host, Chief Financial Officer, Ms. Katy Murray. Please go ahead.

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### **Mary Kathryn Murray** *A.H. Belo Corporation - Executive VP, CFO, Treasurer & Assistant Secretary*

Good morning, everyone, and welcome to our third quarter 2020 investor call. I am joined by Robert Dechard, Chairman, President and Chief Executive Officer of A. H. Belo Corporation; and Grant Moise, Publisher and President of the Dallas Morning News, who are available for Q&A. We do hope that all of you and your families are well and safe.

Yesterday afternoon, we issued a press release announcing third quarter 2020 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 2020 performance against third quarter 2019 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.

A.H. Belo reported a third quarter 2020 net loss of \$100,000 or \$0.00 per share and an operating loss of \$2.4 million. In the third quarter of 2019, the company reported a net loss of \$4 million or \$0.19 per share and an operating loss of \$7 million. Adjusted operating loss, which adjusts GAAP operating loss to exclude severance, depreciation, amortization and asset disposal and impairments, was \$100,000 for the third quarter. This is an improvement of \$1.4 million or 92%, when compared to an adjusted operating loss of \$1.6 million reported in the third quarter of last year.

For the third quarter of 2020, total GAAP revenue was \$37.7 million, a decrease of \$5.3 million or 12% when compared to the \$43.1 million reported for the third quarter of last year. Approximately \$2.3 million of the year-over-year revenue decline is in print advertising revenue, which has been significantly impacted by the COVID-19 pandemic. Digital advertising revenue decreased \$1.8 million primarily attributable to the termination of the Dallas Morning News' affiliate relationship with Cars.com in September of last year. This is the last quarter where this will have a year-over-year impact.

Digital circulation was 1.8 million in the third quarter of this year, an increase of 400,000 or 35% compared to last year. The News ended the third quarter with 46,723 paid digital-only subscription, an increase of 13,066 or 39% when compared to the third quarter of last year. A summary of digital subscriptions by quarter and year is posted on our website under the Investor Relations section.

Print circulation for the third quarter was \$14.4 million, a decrease of \$1.1 million or 7% compared to the prior year. The decrease is primarily the result of a 31% year-over-year decline in single copy sales. COVID-19 has significantly reduced the number of locations where the paper has typically been for sale. Home delivery was only down 4% year-over-year.

Other revenue reported in the third quarter of 2020 was \$4.2 million compared to \$4.6 million reported in the third quarter of last year. The decline is due to the expected \$700,000 decrease in commercial printing revenue. Third quarter 2020 total GAAP operating expense was \$40.2 million, a decrease of \$9.9 million or 19.7% compared to the third quarter of last year. Excluding the \$2.9 million loss from asset disposals and impairments in 2019, the improvement is primarily due to reductions of \$3 million in employee compensation and benefit expense, \$1.5 million in newsprint expense and \$1.1 million in outside services expense.

As of October 23, the company had approximately \$46 million in cash and cash equivalents.

I would like to highlight success stories that we have had in the third quarter. Our investment in The News' membership team and supporting technology has shown strong signs of success since the beginning of the year. Our focus is growing our paid membership base, which is a combination of a decline in print membership and an increase in digital members. For the past 2 years, The News averaged losing 857 members per month. This year, we have been growing by 439 members per month, for a total turnaround of 1,296 members per month.

This summer, the Radio Television Digital News Association awarded the Dallas Morning News, a national Edward R. Murrow award for a 2-part 2019 series called "Guardians" that told the story of a woman searching for answers in her mother's death amid a serial murder investigation. This award named after famed CBS News journalist, Edward R. Murrow, is 1 of the most prestigious honors in broadcast and digital journalism. The News' story was selected from more than 5,000 entries.

In September, the Dallas Morning News launched a new education lab, a nonprofit community funded journalism initiative that significantly expands coverage of the most pressing issues affecting the education to workforce pipeline in North Texas. The community funded lab will cover these issues through a North Texas lens, including topics such as school funding, equity and education, early childhood development, workforce readiness and school choice. Funding for this initiative is provided by some of the most philanthropic companies, foundations and philanthropists in Dallas.

Over the past year, an in-house development team has been working with the Washington Post's Arc Subs to launch a new digital subscription platform that manages relationships with digital subscribers. In September, the platform was launched. It is complementary to the Arc content management platform launched in September of last year, that drives digital offerings on dallasnews.com. By upgrading our customer relation technology with Arc Subs, we will reach more customers, improve customer service, and accelerate revenue growth via a modern and efficient sales platform.

FWD)DFW, our cause marketing initiative continues to be successful. This initiative has contributed more than \$3 million in revenue in its first 2 years. By connecting companies, causes in the community, we are generating conversations around equitable education, health and wellness. Our partners represent a cross-section of the most influential and civically-minded brands and businesses in North Texas. Each utilizes this platform to amplify corporate social responsibility stories and highlight issues such as civic engagement, philanthropy, diversity and inclusion and volunteerism.

In the third quarter, Belo and Company won approximately \$750,000 in top line, incremental revenue through expanded relationships with existing agency clients, including some large global brands across paid media, creative and content, analytics and brand strategy. Success results from providing the Dallas Morning News' clients with expanded marketing services and by expanding services with existing agency clients.

In addition, we launched Belo Business Builder, a 12-week client high intensity sales initiative designed aggressively to grow new business and reengage lapsed clients. Our sales team has seen early success in this initiative. In the first 6 weeks, they have completed hundreds of new business meetings and secured 33 new account contracts. We expect this initiative to deliver over \$1.5 million in new revenue in 2021.

Since in-person events have been limited, we created a virtual speaker series for our readers called DMN downloads. Over the past 7 months, we have held nearly 100 virtual events and featured some of our most read journalists. Through these virtual events, The News

has engaged with more than 10,000 readers. By comparison, last year we hosted nearly 60 in-person events and reached only 1,800 readers. Topics include discussions around food trends, personal finance, real estate investing and even how to fight property tax increases from our Watchdog reporter. This initiative has helped us improve churn statistics year-over-year for both print and digital members, which is helping drive our year-over-year improvement in the growth of total membership.

Overall, while this year has presented many challenges, we are incredibly proud of the momentum we are seeing resulting from these success stories and other initiatives. We are very focused on building on these successes.

I will now turn the call over to Robert.

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**Robert W. Dechard A.H. Belo Corporation - Chairman, President & CEO**

Katy, thank you, and good morning, everyone. Just briefly, I'm sure it's apparent to all of you that the initiatives that Katy just described and others we have made known over the last couple of years are very distinctive, and they're proprietary in the sense that they are original content or original programs that are created by the Dallas Morning News and its affiliated activities and really are ones we control. This is going to be the model for how the transition to a sustainably profitable digital newspaper is made. It's going to take time, as we've said before, and when we reflect on 2020 thus far and look ahead into 2021, this 24-month period is almost a matter of navigating through limbo. All of the dynamics that Katy described in terms of declines in print advertising, compensating lifts in our digital subscriptions. These things are going to play out as the pandemic is more clearly defined and whatever ultimate solutions are created for it.

When I've been talking about proprietary content, certainly any newspaper or media operation has the opportunity to build that around the election, but I doubt there is a newspaper in America that has done a better job than the Dallas Morning News. We have continued the commitment the newspaper's had for decades to informing voters, to interviewing literally every candidate running for office, who will present themselves through questionnaires, and this year, of course, Zoom calls. We have endorsed dozens of candidates. It's split about 60-40 in party lines. We are independent minded and we remain that way, and around the presidential election itself, Grant Moise and Brendan Minitier, who's our editor of editorial pages have really excelled with a series called What's at Stake that has helped us all reason our way through this very challenging time, and we think, prepare our readers and our communities for voting next Tuesday; though, as we know, probably 70% of them have already voted.

The other thing I'd say before we go to Q&A is the quarter -- on the surface looks good in terms of the results -- the financial results in this environment, but keep in mind, last year's third quarter was very weak. So as we project forward or as you project forward in your models, this was a less challenging quarter from the standpoint of comps. We'll be back into that more typical situation in the fourth quarter and into 2021. So the Board and we continue to be focused on how do we invest our way through this period of limbo. And try to move from that into something that is more predictable, more manageable and ultimately, positions the company and the Dallas Morning News to thrive on the backside of the pandemic.

We're not alone in this. I'm sure you've heard this in almost every call you've been on, but we continue to like the position we're in. We continue to appreciate the extent to which our balance sheet is an advantage, and that we have under control as many of the variables as we possibly can.

Operator, I'll pause there, and we'll see what's in the Q&A and carry on from there.

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**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Our first question comes from the line of Chris Mooney with Wedbush.

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**Chris Mooney**

Let's see, Robert, would you care to comment on the process that you all have gone through with the unionization of your news desk?

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**Robert W. Dechard A.H. Belo Corporation - Chairman, President & CEO**

Of course, for those of you not familiar with the election that just took place with the News Guild CWA and our news department. This came to our attention in late spring, meaning the fact that there was and had been for some time an organizing effort underway in the newsroom. We spent the summer communicating with the organizing committee and ultimately, with all of the members of the unit that were identified, which is about 128 people -- 126 people. And then because of COVID, what would have normally been an election held in-person on 1 day in August, turned out to be almost an 8-week period of time where in the NLRB mailed ballots to each of the eligible voters. There was then 3 weeks for them to come back and return the ballots. And about 10 days ago, the ballots were counted with the organizing committee and the identified members choosing to be organizing. So we have a unit now, a bargaining unit established. We are responding to pretty extensive requests for information from the organizing committee or the officers of the unit. We will, of course, be bargaining in good faith. We expect to meet with them; however, I'd say in person, this may be Zoom, certainly by the end of the year, and we'll be in a series of conversations about terms, conditions, work rules, all of the things that go into a contract. Realistically, it's hard to imagine what changes in terms of financials. We're losing money. We've made that clear in our conversations with the Guild and the eligible members. So we'll have to see what's on their minds. This is a fairly substantial commitment -- I'd say, actually a significant commitment of time and energy for the management and the news department and even for those of us on this call. I think that's regrettable, because we need to focus completely on figuring out how to make it through the next 3 to 5 years, which has been the theme of all of our strategic planning.

So for now, Chris, it's what's called status quo for the members of the unit. And we are preparing to meet and as I noted, going through the process of responding to pretty extensive requests for information.

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**Chris Mooney**

Okay. The Belo and Company, can you give us a little bit more of an update? It sounds like in looking at the Q that the success you're having in marketing services is going to start appearing in the fourth quarter results? Is that about accurate?

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**Grant S. Moise A.H. Belo Corporation - President & Publisher of The Dallas Morning News**

Chris, it's Grant. I'll handle that. We have seen the third quarter -- the nice part is if you look at the -- what happened in the second quarter, it definitely ended up being the low point of the year-over-year decline to date. We are seeing that rebound nicely and it's bouncing back, but there's also a bit of apprehension. Just as we look at the different categories of business that we serve. For example, if you think of a category like real estate in North Texas, obviously, the real estate market here is just doing wonderfully. But then if we look at other categories of business that are being challenged like our retailers, and I think there's a big fear of what's happening with the pandemic, the way it's changing consumer buying patterns. And so we've learned in this pandemic, it's hard to look too far forward, because we've learned that our advertising and marketing services partners don't have a clear enough line of sight to give us the kind of forecastable revenue that we have seen historically.

So I would say, Chris, I'm very pleased with the sales activity the team has done. I really encourage them. The #1 thing we can focus on right now is being in close contact with our clients, trying to find solutions for them, but I think it's worth saying that it is very difficult to see much more than about 6 to 8 weeks ahead of us.

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**Chris Mooney**

Okay. That's about the end of the fourth quarter. Katy, you said cash at about \$46 million. You've got the tax refund according to the Q. And maybe more importantly, the noteholder or you're the noteholder, the company that's going to pay you, presumably \$22.5 million in the end of June next year, paid their interest for the third quarter. Is that correct?

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**Mary Kathryn Murray A.H. Belo Corporation - Executive VP, CFO, Treasurer & Assistant Secretary**

They did, Chris. And you are correct, we did receive the \$2.4 million tax refund in early October, which was helping to drive the cash balance. And the other thing that I would say is we have really seen some stabilization and some improvement in collectibility and collections. I think it's taken a lot of customers some time to figure out how to make payments on time from home, but we're seeing some of that as well. So that's been very good to see the collections return to what I would say, at least somewhat normal.

**Chris Mooney**

And it looks like you actually increased cash quarter-over-quarter before we get into the early October payments.

**Mary Kathryn Murray A.H. Belo Corporation - Executive VP, CFO, Treasurer & Assistant Secretary**

We did. We did. And part of that was there was also the sale of our 10% equity in a company called E-site. There was a transaction that we were able to sell that, and we generated \$750,000 of cash for that. So that happened in the third quarter as well. But to your point, with Charter Holdings, they did make their interest payment. The \$23 million that they owe us is now within 12 months. And they have an interest payment due in January and April and then that final payment at the end of June of next year.

**Robert W. Dechard A.H. Belo Corporation - Chairman, President & CEO**

And Chris, for those who are on the call, not in Dallas, and not as familiar with the real estate market that Grant referenced. The market has been encouragingly strong. I'm not going to say surprisingly, a lot of relocations from other parts of the country to the North Texas area. Downtown, which has been experiencing a real resurgence in the last decade, like most center cities, pretty much went on hold during the unrest in the springtime and early summer. It's slowly coming back. But with respect to our 508 Young Street property and Charter Holdings, just yesterday, a 40-story building was announced 3 blocks from that site right in the core of the city and on property that has been underutilized. So we would see that as a very positive sign. It's hard to read all of these things, interpret them accurately. But someone certainly had access to capital and has access and is planning to move ahead and get ready for the next cycle.

**Chris Mooney**

Yes. No, I thought that new building announcement was another nice positive for the outlook for your old headquarter location. Let's see. Katy, the pension plan number continues to drop. Is that just a -- the liability? Is that just a result of improved performance?

**Mary Kathryn Murray A.H. Belo Corporation - Executive VP, CFO, Treasurer & Assistant Secretary**

It is. I will say, we've been really pleased with the performance of the pension plans. We do not have any mandatory contributions in the foreseeable future, and that's the next several years. I would say that the performance of our investments have been just really, really positive this year. And even with the declining discount rate, right now, we are north of 85% of being funded. And so again, really the result of all of the derisking that has been done over the last 5-plus years, but then also just the real tight management of the plans overall, not only from the investment portfolio, but from the mix of the asset and the hedging side.

**Chris Mooney**

And the smaller part of the business, the print contract print business, you all reduced the number of customers from that at the end of the fourth quarter last year or third quarter?

**Mary Kathryn Murray A.H. Belo Corporation - Executive VP, CFO, Treasurer & Assistant Secretary**

It was -- it was in the first quarter of 2019.

**Chris Mooney**

Right.

**Mary Kathryn Murray A.H. Belo Corporation - Executive VP, CFO, Treasurer & Assistant Secretary**

We took out all of the small print customers, and we're now down to the large nationals. And the decline that I announced for this quarter over last year was expected. As you can imagine, I mean, they too have declines in some of their print product, the number of pages. But still pleased with our commercial printing business with the nationals that we print and deliver.

**Operator**

(Operator Instructions) It looks like Mr. Mooney is back in queue.

**Chris Mooney**

Katy, did I read correctly that the expected CapEx for this year is now down to \$1 million. Is that correct?

**Mary Kathryn Murray A.H. Belo Corporation - Executive VP, CFO, Treasurer & Assistant Secretary**

Chris, it is. It will actually be a little bit less than \$1 million. I think it's going to come in probably right around \$900,000 and that has all been really related to the North plant and any of the -- just the normal kind of maintenance that we need to do.

**Operator**

And at this time, there is no one in queue.

**Mary Kathryn Murray A.H. Belo Corporation - Executive VP, CFO, Treasurer & Assistant Secretary**

Well, Felina, thank you very much for hosting the meeting. Everyone, thank you for joining our third quarter investor call. Again, we hope you and your families and friends are safe, and we will speak with you next year when we have our fourth quarter and 2020 year-end call. Thank you.

**Operator**

Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Teleconferencing Services. You may now disconnect.

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