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Q2 2020 A. H. Belo Corp Earnings Call

EVENT DATE/TIME: JULY 28, 2020 / 2:00PM GMT

CORPORATE PARTICIPANTS

Mary Kathryn Murray *A.H. Belo Corporation - Executive VP, CFO, Treasurer & Assistant Secretary*
Robert W. Decherd *A.H. Belo Corporation - Chairman, President & CEO*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Second Quarter 2020 Financial Results Conference Call.

(Operator Instructions)

As a reminder, today's call is being recorded.

I will now turn the call over to Chief Financial Officer, Katy Murray. Please go ahead.

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

Thank you, Kevin. Good morning, everyone, and welcome to our second quarter 2020 conference call. I am joined by Robert Decherd, 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 hope all of you and your families are well and safe. Yesterday afternoon, we issued a press release announcing A.H. Belo's second 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 second quarter 2020 performance against second 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.

As a reminder, we are reporting as a single operating segment and have added details concerning total print and digital revenue, which is generated as part of advertising and marketing services revenue and circulation revenue. We believe this provides visibility into our digital growth strategy.

A.H. Belo reported second quarter 2020 net loss of \$3.4 million or \$0.16 per share. In the second quarter of 2019, the company reported net income of \$16.5 million or \$0.77 per fully diluted share. In the second quarter last year, the company sold its former headquarters at 508 Young Street, generating a tax-free operating gain of \$25.9 million. For tax purposes, the operating gain was offset with net operating losses.

For the second quarter of 2020, total GAAP revenue was \$35.4 million, a decrease of \$11.7 million or 24.8% when compared to the \$47.1 million reported for the second quarter of 2019, approximately \$9.7 million of the year-over-year revenue decline relates to advertising and marketing services revenue. In the second quarter of 2020, we recorded digital advertising and marketing services revenue of \$6.7 million, a decrease of \$2.3 million or 25.9% from the \$9 million reported in the second quarter of last year. Approximately \$2 million of this decline is attributable to the termination of the Dallas Morning News affiliate relationship with Cars.com in September 2019.

Digital circulation revenue was \$1.5 million in the second quarter of this year, an increase of -- \$300,000 or 24.1% compared to the second quarter of last year. As previously stated, one of our highest priorities is to grow the number of The News' paid digital subscribers. We ended the second quarter of 2020 with 43,590 pay digital-only subscriptions, an increase of 12,019 or 38.1% when compared to the second quarter of last year.

We have posted a summary of digital subscriptions by quarter and year on our website on our Investor Relations page. Print advertising revenue was \$8.9 million for the second quarter of 2020, a decrease of \$7.4 million or 45.3% when compared to the \$16.3 million reported for the same period last year. The decrease is due to revenue declines in all display and classified advertising categories, in addition to general trends adversely impacting the publishing industry, the COVID-19 pandemic significantly impacted the company's print advertising revenue.

Print circulation revenue for the second quarter of 2020 was \$14.2 million, a decrease of \$1.6 million or 10% compared to the prior year. This decrease is a result of declines in home delivery subscriptions and single copy sales offset by price increases. Other revenue reported in the second quarter of 2020 was \$4.1 million compared to the \$4.8 million in the second quarter of 2019. This decline is due to a \$700,000 decrease in our commercial printing revenue.

Second quarter of 2020, total GAAP operating expense was \$39.8 million, an increase of \$15.5 million or 64% compared to the second quarter of last year. Excluding the \$25.9 million gain from the sale of the company's former headquarters in Q2 of last year, operating expense in the second quarter of this year improved \$10.4 million. The improvement is primarily due to reductions of \$2.8 million in employee compensation and benefit expense, \$2.7 million in outside services expense, \$1.8 million in newsprint expense and \$1.4 million in distribution expense. Adjusted operating expense, which adjusts total operating expense for the revenue standard, severance expense, depreciation, amortization, asset disposals and impairments was \$38.9 million for the second quarter of 2020. This compares to adjusted operating expense in the second quarter of last year of \$50.1 million, an improvement of \$11.2 million or 22.4%.

The significant year-over-year improvement in adjusted operating expense is a result of continued management of discretionary spending, newsprint savings, a decrease in headcount and approximately \$1.9 million incurred last year for management consulting engagement. Adjusted operating loss for the second quarter of this year was \$2.5 million, a decline of \$2.7 million from the adjusted operating income of \$200,000 reported in the second quarter of last year, primarily is the result of a decrease in advertising and marketing services revenue.

As of June 30, headcount was 769, a decrease of 110 or 12.5% from June 30 of last year. As of June 30, the company had approximately \$42.3 million of cash and cash equivalents and no debt. As of July 24, the company had approximately \$42 million in cash and cash equivalents. With regard to the company's pension plans, we do not have a mandatory contribution this year. At this time, we do not expect to have any mandatory contributions next year. However, that could be impacted by market conditions.

The company recorded tax expense of \$400,000 in the second quarter of 2020, and we expect cash taxes to be approximately \$700,000 in 2020 related to the Texas margin tax. On April 6 of this year, due to the uncertainty of the impact of COVID-19 on company operations, we announced across the board compensation reduction of between 3% and 17%, depending on an individual employees than current pay level. Our hope was that as economic conditions improved, we will be able to restore part or all of the compensation reductions.

Based on financial performance in the first half of this year versus plan and our visibility for the second half of 2020, we will restore base compensation effective August 10 for employees who had base salaries of \$60,000 or less prior to the reductions made in late April. While this year has presented challenges that everyone is facing, we are pleased with the company's financial performance and the momentum we are seeing in our digital revenue growth strategy. This momentum is a result of hard work and focus of all of our employees.

I will now turn the call over to Robert.

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

Katy, thank you, and good morning, everyone. I just want to call out a few important matters as we go towards Q&A. This has been a very challenging environment for everyone in every business in the United States. As I said in our press release last evening, we've more than held our own. We've made fast-paced, smart adjustments in very unpredictable circumstances. And Grant, Katy and our entire team have provided exemplary leadership during this period of time.

Equally important as our journalists have covered the pandemic, and more recently, the protests around the Black Lives Matter efforts. They've just done exceptional work. And under duress, great journalists do their best work. That's been the case for us. And I am very grateful to them and the entire company salutes them. It takes hundreds of people to come together every day to produce a newspaper even in so-called normal circumstances, but in these conditions, it's been quite remarkable, and it's helped our communities hold strong.

We also recently announced a very important promotion, Leona Allen, who's been with our company a quarter of the century and played a variety of roles throughout our news organization and really throughout the company, has become deputy publisher. She will report directly to Grant and be a member of his management committee. Her work with the entire company is to improve both internal and external commitments to diversity and inclusion. I've known Leona a long time. She's going to do a terrific job in this role, which begins next week.

Katy mentioned in her remarks, the growth in our digital circulation. We're continuing to see very positive trends, which Grant can address in the Q&A. And we've also seen encouraging trends on the print circulation side. There's a time when people are thirsting for news and information they can rely on. This is probably the most intense such time in my career, and we're benefiting from that, which we believe can result in building long-term relationships with these readers and subscribers or our members as we now call them. We also are very pleased that our pension plans have held up strongly despite the dip in March and April. You'll recall that we have invested those assets very conservatively, and that has enabled us to keep our funded ratios high. And as we said so many times, this is a commitment the Board is determined to fulfill over the long term.

As we look to the second half of the year, we think we could see the continuation of current operating trends, which have improved, and that would result in our 2020 investment in the business being on plan. At the same time, we all know that projecting even 30 or 60 days ahead in this environment is extremely difficult to do, and it may call on us to make more, as I earlier said, smart, fast-paced adjustments as the year plays out.

Overall, however, we feel good about where we've arrived at the end of the second quarter and heading into the second half and look forward to your questions.

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

Kevin, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

At this time, we have no questions in queue.

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

Let's wait just a minute, Kevin, and then we'll wrap up if not.

Operator

(Operator Instructions)

And we have no questions in queue at this time.

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

All right. Well, Kevin, thank you, and thanks to everyone for joining us this morning. We look forward to bringing up to speed in October after what we hope will be a successful third quarter. Thank you.

Operator

Thank you. Ladies and gentlemen, that does conclude your conference. We do thank you for joining. You may now disconnect. Have a good day.

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