

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q4 2021 Dallasnews Corp Earnings Call

EVENT DATE/TIME: MARCH 08, 2022 / 3:00PM GMT

CORPORATE PARTICIPANTS

Gary Cobleigh *DallasNews Corporation - VP & Controller*

Grant S. Moise *DallasNews Corporation - President & Publisher of The Dallas Morning News*

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

Robert W. Dechard *DallasNews Corporation - Chairman, President & CEO*

CONFERENCE CALL PARTICIPANTS

Chris Mooney *Wedbush Securities Inc., Research Division - Financial Advisor*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the DallasNews Corporation Fourth Quarter and Full Year 2021 Investor Call. (Operator Instructions) As a reminder, today's conference call is being recorded. Replay is available on the company's website.

With that, I would now like to turn the conference over to Gary Cobleigh. Please go ahead.

Gary Cobleigh *DallasNews Corporation - VP & Controller*

Good morning, everyone. This is Gary Cobleigh, Controller of DallasNews Corporation. Welcome to our fourth quarter and full year 2021 investor call. I'm joined by Katy Murray, Executive Vice President and Chief Financial Officer, who will be reviewing financial results; Robert Dechard, Chairman, President and Chief Executive Officer of DallasNews Corporation; and Grant Moise, Publisher and President of The Dallas Morning News.

Yesterday afternoon, we issued a press release announcing fourth quarter and full year 2021 results, and we filed our 2021 10-K. 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 fourth quarter 2021 and full year 2021 performance against fourth quarter 2020 and full year 2020 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 will now turn the call over to Katy.

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

Hello, everyone, and thank you for joining today's call.

DallasNews reported fourth quarter net income of \$2.1 million or \$0.40 per share and an operating loss of \$700,000. The fourth quarter 2021 net income includes a noncash pension benefit of \$1 million and cash proceeds of \$1.3 million related to the sale of inactive IP addresses. For the fourth quarter of 2020, the company reported a net loss of \$1.7 million or \$0.32 per share and an operating loss of \$4 million.

For the full year 2021, on a GAAP basis, DallasNews reported a net loss of \$500,000 or \$0.09 per share and an operating loss of \$10 million. The 2021 net loss includes a noncash pension benefit of \$4.2 million and a noncash tax benefit of \$2.6 million related to the release of an uncertain tax reserve, and it includes proceeds of \$1.3 million related to the sale of inactive IP addresses. For the full year 2020, the company reported a net loss of \$6.9 million or \$1.28 per share and an operating loss of \$15.6 million.

Adjusted operating income, which adjusts the GAAP operating income or loss to exclude severance expense, depreciation, amortization, asset sales or disposals and impairments, was \$300,000 for the fourth quarter, a decline of \$200,000 when compared to adjusted operating income of \$500,000 reported in the fourth quarter of last year. The decline is primarily due to expense increases of \$600,000 in newsprint, \$400,000 in outside services and \$200,000 in distribution and an operating revenue decline of \$200,000, partially offset by a \$1.3 million improvement in employee compensation and benefits.

For the full year 2021, adjusted operating loss was \$3.8 million, an improvement of \$1.1 million when compared to an adjusted operating loss of \$4.9 million reported for the full year 2020. The improvement is primarily due to a decrease of \$1.8 million in employee compensation and benefit expense, partially offset by an increase of \$800,000 in advertising and promotion expense.

Fourth quarter total GAAP revenue was \$40.6 million, a decrease of \$200,000 or 0.5% when compared to the \$40.8 million reported for the fourth quarter of last year, primarily due to a decline in commercial printing revenue. For the quarter, both advertising and marketing services revenue and circulation revenue remained flat year-over-year. Total revenue for the year was \$154.4 million, a slight increase of \$100,000 compared to last year.

Print advertising revenue improved by \$1.2 million compared to last year, which was significantly impacted by the COVID-19 pandemic. After normalizing full year 2020 digital advertising and marketing services revenue by excluding the protected equipment sales related to COVID-19, digital advertising and marketing services revenue grew \$2.1 million or 8.8% year-over-year. Total circulation revenue in the fourth quarter and full year was flat when compared to last year. The recent stability in total circulation revenue is the result of initiatives focused on subscription pricing, lowering attrition in print subscribers and growing digital subscriptions.

The News' total print and digital subscribers has remained relatively flat to the 150,000 we reported in 2020. Digital circulation revenue was \$2.8 million in the fourth quarter of this year, an increase of \$900,000 or 48.5% compared to the fourth quarter of last year. For the year, digital circulation revenue was \$9.6 million, an increase of \$3.1 million or 47.3%.

The news ended the year with 59,471 paid digital-only subscriptions, an increase of 10,568 or 21.6% year-over-year improvement and an increase of 2,387 subscriptions since the third quarter of 2021. New digital subscription starts are up 19% year-over-year. A summary of our digital subscriptions by quarter and year is posted on our website under the Investor Relations section.

Print circulation revenue for the fourth quarter was \$13.9 million, a decrease of \$900,000 or 6.3% compared to the fourth quarter of last year. For the year, print circulation revenue was \$55.3 million, a \$3.1 million or 5.3% decline. The year-over-year decline in home delivery was \$2.2 million or 4.2% and single copy sales declined \$900,000 or 15.2%. Both of these, which were improvements compared to 2020, which had a home delivery decline of \$3 million or 5.5% and a single copy decline of \$1.9 million or 24.7%.

Other revenue reported in the fourth quarter of 2021 was \$4.1 million compared to \$4.3 million reported in the fourth quarter of last year. For the year, other revenue declined \$1 million or 5.8% to \$16.2 million. The fourth quarter and full year decline is due to a reduction in commercial printing revenue and related distribution.

As of December 31, headcount was 656, a decrease of 87 or 11.7% from December of 2020. The company had approximately \$32 million in cash and cash equivalents and no debt. Cash as of Friday, March 4, was \$31 million. And for 2022, we expect capital expenditures to be approximately \$1 million.

The company recorded a tax benefit of \$2.2 million for 2021 because of the reversal of the \$2.6 million noncash tax benefit related to the release of an uncertain tax reserve. We expect cash taxes to be approximately \$700,000 in 2022 related to the Texas margin tax. As of December 31, 2021, the company has \$33.2 million federal net operating loss carryforward.

Overall, our financial results and the progress we are making in growing total digital-based revenue are very encouraging. We continued to make progress in 2021 toward being a sustainably profitable digital news and information company. And we remain well positioned with a strong balance sheet and are pleased with the early results we are seeing this year.

I will now turn the call over to Robert.

Robert W. Dechard *DallasNews Corporation - Chairman, President & CEO*

Katy, thank you, and good morning, everyone. I thought I'd add a few comments before Grant discusses some very encouraging operating developments. As you heard, we're making good progress in membership results, both digital and print, and Grant will talk more specifically about that.

You'll also note that advertisers are gradually, and that's the right -- gradually returning to print, albeit not yet to pre-pandemic levels. And we're not suggesting that we'll get there, but just having them back in the paper on a regular basis, both local and national advertisers, is a very encouraging sign.

Obviously, expense management continues to be an imperative as we adjust to being a smaller company focused on the content that we know advertisers seek and readers will pay for. The pricing aspect of this is very important. And again, Grant will talk about that in just a second.

We're continuing to invest in the business on a multiyear basis, as we discussed with you previously, noting, as Katy did, that we feel we made good progress in 2021. The past 2 years have been very uncertain for all companies, but particularly industries like ours that have more of a legacy component to them.

And we're subject to the impacts of COVID-19, everything from the absence of advertisers for a long period of time, to supply chain problems that are mostly resolved in our case. But pricing on the input side now becomes an issue. We talked about newsprint pricing. That will be a big event for us this year. But we would assume, like all commodities, it will cycle through and work out over the long term.

We're going to issue our proxy statement soon. We're holding an in-person Annual Meeting of Shareholders on Thursday, May 12. The pension plans continue to be stable, thanks to the derisking steps taken in 2020 and 2021. The plans are holding steady at about 91% funded status. And there are no mandatory contributions for the foreseeable future.

We expect to receive full payment in July of the company's note receivable related to the sale of our former headquarters campus. The total amount due, including interest, is approximately \$23 million. The Board, as you know, continues to review capital allocation scenarios. We're following this payment, and we'll address those scenarios at the regular meeting of the Board in late September.

With that, let me ask Grant to pick up on some of the operating themes, and we'll welcome your questions after that.

Grant S. Moise *DallasNews Corporation - President & Publisher of The Dallas Morning News*

Thank you, Robert. Over the past 7 months, we've hired a new senior leadership team in our newsroom and editorial board. Katrice Hardy was named our Executive Editor of The Dallas Morning News in July of 2021. And Amy Hollyfield was named our new Managing Editor just last month. We also named Rudy Bush the new Editorial Page Editor in February as well.

All 3 of these industry veterans are leaders who approach their roles with a keen understanding that fair and balanced journalism is the bedrock of our relationship with our members. The 3 of them also bring a digital-first mindset that is helping us maintain a strong digital subscription performance.

Speaking of digital subscriptions, I'm very pleased with the consistent progress we're showing in digital subscription revenue. This is the combination of a strong subscription strategy as well as Katrice's focus on resourcing new newsroom positions in areas our digital audiences value most. She has built a breaking and trending news team and has grown our real estate and restaurant coverage in her first few months in her new role.

Medium Giant also had a very good year in 2021. As Katy mentioned, we grew print advertising for the year. After normalizing 2020 for our PPE sales, we also grew digital advertising. Even as our pandemic comps became more challenging over the course of the year, we

maintained stability throughout the fourth quarter. This growth and overall stability is a reflection of the strong team that Eric Myers, our President of Medium Giant, has built.

This success has occurred in the midst of the supply chain issues Robert just referred to that continue to challenge our marketing partners.

The supply chain impacted categories such as furniture, automotive and real estate and result in clients either reducing or eliminating their investment with our products and services.

But in spite of these logistical challenges, I'm extremely proud of the achievements and the strong leadership foundation we have built, and look forward to a successful 2022.

Operator, I think we'll pause there and open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we have a question from Chris Mooney with Wedbush Securities.

Chris Mooney Wedbush Securities Inc., Research Division - Financial Advisor

First, Grant, since you're perhaps still teed up, could you elaborate on the real estate content?

Grant S. Moise DallasNews Corporation - President & Publisher of The Dallas Morning News

Part of what we've done there, Chris, is Steve Brown, as you know, Chris, for being such an avid reader, as I know you are, Steve has been covering real estate on his own for about 3 decades now and has done a wonderful job. We have added a second real estate reporter so that we can even balance more between residential and commercial.

And to give you a sense of the strategic piece of that, that I mentioned is real estate, and especially with the talent of Steve Brown and how strong of a real estate market North Texas is, it is our #1 digital converting beat. Real estate has been a top performer now for a couple of years, and Katrice and her team even saw more opportunity there to expand. So Steve has so much knowledge of this market that we're going to just add a little bit more firepower alongside him.

Chris Mooney Wedbush Securities Inc., Research Division - Financial Advisor

As an avid reader, I'm very glad to see that. Grant, this may be for you as well. I see in the K that the unionization process is ongoing, and that 19% of your employees are members of the proposed union, I guess? Is that the way to look at it? And where are those people located within the organization?

Grant S. Moise DallasNews Corporation - President & Publisher of The Dallas Morning News

Yes, Chris. Chris, let me kick that to Katy. Katy has been handling all of our union work, so she can answer that best.

Mary Kathryn Murray DallasNews Corporation - Executive VP, CFO, Treasurer & Assistant Secretary

Chris, as you know, members of the newsroom, there's approximately 129 to 130 voted to form a union back in October of 2020. And currently, right now, we're still working through the collective bargaining agreement, so it has not been finalized. But from a K perspective, required to disclose whether there might be some potential employees who would be covered by union contract. But there is no contract at this time, but it is only in the newsroom.

Chris Mooney Wedbush Securities Inc., Research Division - Financial Advisor

Okay. And on the employment headcount, with the revenues, I guess, sort of stabilized, maybe it's the right term. Currently, are you expecting to have further headcount reductions as you did in 2021?

Mary Kathryn Murray DallasNews Corporation - Executive VP, CFO, Treasurer & Assistant Secretary

Chris, I'll take that first, and then I'll pass it over to Grant. Right now, I would say that we don't expect to see or foresee any further reductions in headcount. Actually, we're hiring. We're hiring across multiple organizations, as Grant mentioned, and I'll let him give a little bit more detail about where we're hiring in our sales-facing organization and news.

Grant S. Moise DallasNews Corporation - President & Publisher of The Dallas Morning News

Yes. revenue-generating positions, Chris, we are in kind of full hiring mode. Our newsroom is in growth mode, obviously, with digital subscriptions being at the -- just at the forefront of our strategy. As I've mentioned, Katrice has been growing that team, and we continue to add there.

It's interesting, as we all know, we're in a unique competitive environment, where wages are going up considerably. And so there's just a piece for us, too, where, as we lose employees who are leaving to different opportunities, I think even though we're in a hiring mode, this is a very unique hiring environment, especially here in North Texas. And so that -- obviously, addition of employees is obviously just offset by the competitive environment we're facing.

Chris Mooney Wedbush Securities Inc., Research Division - Financial Advisor

Okay. And Grant, maybe I see that the consumption of newsprint is down about 14% year-over-year. Is that a reflection also of the number of pages?

Grant S. Moise DallasNews Corporation - President & Publisher of The Dallas Morning News

Part of the strategy that we've been deploying, Chris, is we are only taking page count down along with the advertising demand. So we have been, for about 2 years now, holding our content, which means our news hole is not being reduced. Because I believe that the price people are paying as members, that they deserve as much content this year as they had last year.

So some of that, that newsprint cost is coming down mostly in volume, but as also Katy mentioned, the price of newsprint for us -- to give you a sense, we're at about \$720 a metric ton right now. And just 2 years ago, we were at \$520 a metric ton. So we're just keeping a very close, close eye on that, but trying not to reduce the size of the print product based on what we're charging our members.

Chris Mooney Wedbush Securities Inc., Research Division - Financial Advisor

Okay. And just one more for me. And Katy, the -- I kind of ballparked it that the operating cash utilization without recognizing the \$1.3 million of sale of the IP address, it would be about \$3 million in the fourth quarter. And it sounds like you're running about the same so far this quarter. Is that about right?

Mary Kathryn Murray DallasNews Corporation - Executive VP, CFO, Treasurer & Assistant Secretary

Chris, that is correct. And you're right to normalize it for the IP sales. That was a onetime event.

Chris Mooney Wedbush Securities Inc., Research Division - Financial Advisor

Sure. And just for fun, what were the IP addresses [that's sold]?

Mary Kathryn Murray DallasNews Corporation - Executive VP, CFO, Treasurer & Assistant Secretary

Yes, and there's a market for IP addresses. So as a company, as you know, we've been historically a much larger company. And when you think about IP addresses over the course of our history, with the number of businesses and operating companies that we've had, we have had substantially more IP addresses.

And the market for them is when you can sell them in ranges. And we have had people come and approach us about the ranges of IP addresses. We sold about 30,000 as a substantial range, and that's what generated the \$1.3 million in IP sales. I will say that, that is, again, a onetime. We did have something similar to that in 2020 in the third quarter. We do not have any other IP addresses that we are looking to monetize, but that was an operating asset that we had. And we had the opportunity to monetize it, and we took that opportunity in the fourth quarter.

Operator

(Operator Instructions) And we have no questions. You may continue.

Robert W. Dechard *DallasNews Corporation - Chairman, President & CEO*

Thank you, Lea. Let me actually use Chris' questions to frame the calculus that we are running in our strategy and just reassure everyone why the progress we've reported is so important. This is all about creating valuable content, journalistic and otherwise, that people are willing to pay for consistently over time. And that's what we're seeing in our digital subs, which are fully priced compared to a lot of our peers, maybe most of our peers.

And the quality equation is how we get to the other side of this. So we are going to continue to invest, as Grant said. And the people who produce the content, our journalists, are so important to this equation. We're going to continue pushing our marketing services, which is an approach that takes advantage of the market in which we're operating, and the skills that Eric Myers and his team are putting to bear.

And we're going to be very careful stewards of the balance sheet and the expense side of the operations because, as a small company, we cannot venture off of this track. It's the winning track. We're making progress, and we look forward to telling you more about that as the year proceeds.

So Lea, I think we are done, and thanks, everyone, for joining.

Operator

Very good. Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.

DISCLAIMER

Refinitiv 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 Briefs 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 BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV 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 BRIEF. 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.

©2022 Refinitiv. All Rights Reserved.