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Q1 2022 Dallasnews Corp Earnings Call

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CORPORATE PARTICIPANTS

Gary F. 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. Decherd *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, and welcome to the DallasNews Corporation Q1 2022 Investor Call. (Operator Instructions) As a reminder, today's call is being recorded. I'll turn the call now over to Mr. Gary F. Cobleigh. Please go ahead.

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

Good morning, everyone. This is Gary F. Cobleigh, Vice President and Controller of DallasNews Corporation. Welcome to our first quarter 2022 investor call. I'm joined by Katy Murray, Executive Vice President and Chief Financial Officer, who will be reviewing financial results; Robert Decherd, Chairman, President and Chief Executive Officer of DallasNews Corporation; and Grant Moise, Publisher and President of The Dallas Morning News.

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

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

Good morning, everyone, and thank you for joining today's call. On a GAAP basis for the quarter, we reported a net loss of \$2.6 million or \$0.49 per share and an operating loss of \$2.5 million. In Q1 last year, we reported a net loss of \$2.8 million and an operating loss of \$3.7 million. On a non-GAAP basis for the quarter, we reported an adjusted operating loss of \$1.6 million, an improvement of \$700,000 or 30.6%, compared to \$2.4 million for the same period last year. The improvement is primarily due to a decrease of \$1.5 million in employee compensation and benefits, partially offset by a decrease in total revenue of \$0.5 million. We reported \$36.3 million of total net revenue for the quarter, and this compares to \$36.8 million last year. The \$500,000 decline year-over-year is primarily due to a \$600,000 reduction in print advertising revenue, partially offset by a \$100,000 increase in digital advertising and marketing services revenue.

Medium Giant continues to see supply chain issues for certain advertisers in some key categories. But in the month of March, we saw robust activity in our marketing and agency service offerings, which Grant will expand on shortly.

Circulation revenue increased \$100,000 when compared to the first quarter of last year. This growth follows the trend we experienced in 2021, driven by more total members, print and digital combined and our pricing strategies.

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As of March 31, The Dallas Morning News had 62,356 digital-only subscribers, which is an 11,504 or 22.6% year-over-year improvement and a 2,885 sequential improvement. Total subscribers as of March 31 was 149,117 compared to 148,061 as of March 31 of last year and 148,742 as of December 31. Total adjusted operating expense for the quarter was \$43.9 million, reflecting an improvement of \$1.4 million from last year primarily related to the reduction of \$1.5 million in compensation and benefit expense.

As of the end of the quarter, headcount was 662 compared to 713 as of March 31 of last year. Cash on the balance sheet was \$31 million, and as of April 22, it was \$31 million. Consistent with the interim periods last year, we used the estimated annual tax rate method, and we recorded a \$184,000 tax expense for the Texas margin tax. We expect the Texas margin tax to be approximately \$600,000 for this year.

A few other notable items. Charter Holdings continues to make its interest payments timely. We anticipate receipt of \$22.7 million, including interest and principal payments on June 30. Overall, we are encouraged by the progress, thus far, in 2022 and look forward to a year focused on becoming a sustainably profitable digital news and information company supported by our strong balance sheet.

I will now turn the call over to Grant.

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

Thanks, Katy. I want to expand on a few of our most important lines of business and what we're seeing in these areas. First, Medium Giant saw increased RFP and new business wins in the month of March. The activity was primarily in the tourism, city economic development and financial services verticals. Medium Giant is also showing excellent client retention rates as well. 24 of our 25 largest accounts have renewed service agreements with us year-over-year. This renewal rate gives us confidence that Medium Giant is providing an excellent level of service and return on investment for its clients.

The second area is membership revenue. As Katy mentioned, relative to financial performance, we continue to see digital membership revenue grow in the mid-40% range year-over-year. That growth, combined with stability in print membership revenue, continues to provide stable and slightly growing subscription revenue. We continue to see stability in membership volume growth and the ability to maximize the price members are willing to pay for our content.

Membership growth is predicated on our newsroom continuing to add staff in areas members value the most. Examples of recent hires are in business, real estate, restaurants and our breaking and trending news team. Research has indicated members value these coverage areas, and the conversion metrics we are experiencing are proving those assumptions to be accurate.

On the expense side of the ledger, we're being impacted by commodity prices in a significant way. This year, we had planned for 2 newsprint price increases. We recently received notice of another \$50 per metric ton increase effective May 1. With this price increase, newsprint cost per metric ton is the highest it has been since the first quarter of 2019. While we cannot control the cost of newsprint, we are actively monitoring this area and are proactively working to mitigate the impact to our financials.

I will now turn the call over to Robert.

Robert W. Decherd DallasNews Corporation - Chairman, President & CEO

Grant, thank you, and good morning, everyone. This is your third version for me this year. We had the first quarter report. We, of course, had my letter with the proxy. So the themes are the same. There's good momentum coming into 2022. I don't want to miss the opportunity to call out the increase in circulation year-over-year. This is the first time in many years we have had that kind of positive circulation result. And we think it can continue as momentum continues to build.

Going back to my shareholder letter, the purposes of the company are the same as they have always been. We feel more strongly about this today than ever, providing accurate news and information that's taken on paramount importance in the world around us and across the country. Our investment in these resources is people and technology. And we are very carefully developing the financial model that enables us to make those investments while moving in the direction Katy reminded us, that is to be a sustainably profitable enterprise.

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We're also making really important progress in the area of DEI. Grant can address that in the Q&A, if you wish. I cited a couple of examples in my letter, and we're just tremendously encouraged by the progress there.

We all know that the market is moving around quite a bit. Volatility has become almost the norm since the beginning of the year. And as Grant noted with respect to the cost of newsprint, which also spills over to ink supplies, every version of our aspect of our production operations, predicting the effect of inflation is very tricky. But we have contingency plans in place if this continues, and we'll play that forward with you through the remainder of this year.

Our shareholder meeting is going to be in person again in the post-pandemic world. We'll be here in our auditorium at the company headquarters on May 12. And any of you who are in the vicinity are more than welcome. We look forward to the opportunity to visit about all the matters addressed in this call, but also look forward as to how our company is going to succeed over the long term.

Operator, why don't we pause there and open the line for questions? Grant and Katy can go into detail about any of the matters we broached.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll go to the line of Chris Mooney with Wedbush Securities.

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

The DEI or CEI, could you explain? I didn't quite get that. I think, Grant, that was in your court.

Robert W. Decherd DallasNews Corporation - Chairman, President & CEO

Yes, diversity, equity and inclusion. So this is the broad effort we're making to both expand our workforce through those models, but also to turn them into substantial business advantages for us. It's primarily about people and equity and inclusion. But for us as a company, these are really important factors. And I'll let Grant elaborate on it because he's been leading that charge.

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

Yes, Chris. I think probably the clearest way to explain it is we believe that as the demographics change in North Texas, that our aspiration is to reflect those in our -- especially in our client-facing departments first. I mean, obviously, that means our newsroom, our sales teams. And we've just really done a great job in the way that we're hiring. We have been very pleased with the -- we're making great progress in our management and our leadership ranks of getting greater diversity and perspective there. And then the last thing that we're always monitoring or that we are -- have really been refocused on, Chris, is making sure that all of the vendors who we do business with, that they kind of share in this commitment to us and that they kind of share that same kind of commitment to better kind of diversifying their own workforces and making sure that we're doing business with people who share our values. So -- but we're making really important progress in each of those areas.

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

Okay. And can you talk a little bit more, Grant, about business trends? You indicated the marketing side is seeing some positive trends. And I -- yes, go ahead. Just that's the basic question.

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

Yes. I'll touch on Medium Giant first, Chris. As Katy mentioned, the supply chain issues, which we thought would be behind us, are not. For example, I think primarily, I'll start with some of our furniture stores, just really kind of went dark with us for 2 out of the 3 months of the first quarter just because they were having trouble getting enough inventory. And so they didn't want to advertise if the inventory was not there to be purchased. So -- but what I was pleased on, what we were mentioning there towards the end is our RFP process, which is when we are trying to win big agency and marketing services clients, it is primarily going through a big request for proposal process. And we saw some significant wins in March, which is business that we will start to provide those services in the second quarter and beyond.

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And so in a combination of getting new business that we picked up mostly in March in the first quarter and being able to hold on to 24 of our top 25 accounts, this has really been an important focal point for us, Chris, because as you will remember, because I know how closely you've monitored us, this was not the case 3 years ago. We had a churn problem in our clients in that area. And I'm just really, really proud of the way that this team is -- has shored that up. That's very important.

And then as Katy mentioned, Chris, on the membership or subscription side of the business, the fact that our volume is growing, meaning that our digital growth has been offsetting our print loss now for a bit over a year is a very positive sign. And also, I've been extremely pleased with not only retaining them, but also to retain them while we are putting, seeing -- trying to be as aggressive as we can be on pricing and seeing how much are people willing to pay us in the digital subscription area and just been very pleased there. So I think the momentum of not only volume growth but, obviously, revenue growth and subscriptions as well is a positive sign for us.

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

And this is -- I was doing a little bit of calculating, I guess, on the Lee Enterprises business. And it looks like Lee is generating about a -- at their most recent annual -- September annual, \$159,000 or so per employee. And it looks like you all are generating about 50-something thousand per employee.

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

Chris, this is Katy. So are you looking at total revenue? Or are you looking at subscription revenue?

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

No. I was looking at total revenue, and I realized Lee has got 1 division that's not probably applicable as to the analysis. But I haven't rejected it, but it would reduce it down somewhat, but it's still significantly higher revenue per employee.

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

So I'll take a look at that. I'll have to say, on the Lee revenue, we'd probably need to look and see what employee base and what revenues you're using on that calculation. But I think...

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

I was just [looking] around the 10-K.

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

Okay. I can go back and look at that. But I'll say, I mean, Chris, where we are from an employee perspective, feel good about where we are from an, obviously, a revenue per head. We do have the difference when you think about the revenue and looking at advertising and marketing services. And the Medium Giant employees that service that revenue line, we would really need to take that out separately versus -- and there's probably, I want to say, 170 to 180 people within Medium Giant versus looking at the rest of the employee base and looking at the print advertising revenue versus the circulation revenue, but that's something I can look at. But at this point, we feel really good about where we are from an employee base perspective. Obviously, we're growing right now in the newsroom, which we need to do. Medium Giant is hiring as the revenue opportunities that Grant elaborated on are coming through and just don't see ourselves being any smaller than where we are today. And like I said, in fact, we're hiring in the newsroom and hiring on the technology side as well.

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

Okay. And this one, I guess, is probably for Robert. So the Collin County has assessed your property in Plano, at just under, I guess, \$19 million for '22.

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

Right. Right.

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

It looks like you'll have [\$50 billion, \$52 billion] in cash at the end of June this year or July, early July. And you were happy to be able to receive or may become happy to receive a 4.5% rate of return on the \$22 million that was owed to you from the headquarter sale, but

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you're paying 9.5% or more at the current share price out to your shareholders, which I am appreciative of, but there's a quicker way to get a higher return than 4.5% on your money. So why haven't you started a share repurchase program?

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

Chris, we have talked about, I'll say, the whole range of capital distribution choices with our Board for years, as you know. And we have regularly invited investment bankers who we have worked with for years to run analyses of those choices. And the benefits are -- exist for each of those. It is a choice though. We're going to gladly deposit the proceeds from Charter at the end of June. The Board will be addressing this question again at its meeting in September.

Share repurchase is, if we're larger based in a very efficient market, is an attractive choice. We have neither of those advantages. We do not have a lot of float and purchasing shares even under an authorized plan, first, is difficult to do in large numbers. Second is a little bit disruptive in the market. Now you can immediately go to a Dutch auction or something of that variety. That's an idea we have discussed more than once in the past, but we've trended because of its simplicity and execution. And it's -- I'll say it's matching up to our current float, current market activity to dividends, whether they're regular or special. So those will all be conversations we have with the directors promptly. We had them recently. But we want to see the money, as the saying goes, and we'll address it promptly thereafter.

Operator

(Operator Instructions) And allowing a few moments -- yes, I was just going to say no further questions coming in.

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

Right. Well, everyone, thank you very much for joining our first quarter of this year's phone call and look forward to seeing any of you who can come to the shareholder meeting in early May. Have a good week. Thank you.

Operator

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

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