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Q1 2023 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 & Secretary*

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 First Quarter 2023 Investor Call. (Operator Instructions)
As a reminder, this conference is being recorded.

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

Gary Cobleigh *DallasNews Corporation - VP & Controller*

Good morning, everyone. This is Gary Cobleigh, Vice President and Controller of DallasNews Corporation. Welcome to our first quarter 2023 investor call. I'm joined by Katy Murray, President and Chief Financial Officer, who will be reviewing the financial results; and Grant Moise, Chief Executive Officer, who will provide brief business remarks.

Yesterday afternoon, we issued a press release announcing first quarter 2023 results and filed our first quarter 2023 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 first quarter 2023 performance against first quarter 2022 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 - President, CFO, Treasurer & 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 \$0.49 per share, and an operating loss of \$2.8 million. In Q1 last year, we reported a net loss of \$2.6 million and an operating loss of \$2.5 million.

On a non-GAAP basis for the quarter, we reported an adjusted operating loss of \$2.2 million, \$500,000 greater than the adjusted operating loss of \$1.6 million reported for the same period last year. The change is primarily due to a total revenue decline of \$1.1 million, partially offset by expense savings of \$600,000.

We reported \$35.2 million of total revenue for the quarter compared to \$36.3 million last year. The year-over-year decline is primarily due to a \$1.4 million or 27.8% reduction in preprint revenue, partially offset by a \$300,000 or 6.1% increase in digital and advertising marketing services revenue. The increase in digital advertising on dallasnews.com was mostly from financial service clients. Grant will provide additional commentary about print revenue trends.

Circulation continues to stay relatively stable as total circulation revenue decreased less than \$100,000 compared to Q1 of last year. The

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print circulation revenue decline of \$700,000 or 5.6% was offset by a digital-only subscription increase of \$700,000 or 21.9%.

As of March 31, The News had 69,050 digital-only subscribers, which is a 6,694 or 10.7% year-over-year improvement. Total subscribers, including both home delivery and digital subscribers, was 145,369 as of March 31, and this compares to 149,117 as of Q1 last year and 146,583 as of December 31.

On a non-GAAP basis, total adjusted operating expense for the quarter was \$37.4 million, an improvement of \$600,000 or 1.5% when compared to the same period of last year. This is driven by expense savings of \$1 million in distribution expense, \$200,000 in newsprint expense, partially offset by an increase of \$900,000 in employee compensation and benefits.

Regarding newsprint expense for the quarter, our average newsprint consumption price was \$824 per metric ton as compared to \$658 per metric ton in 2022. This reflects a 25% increase year-over-year. Newsprint prices remain high, but we are optimistic that we will see the price per metric ton decline in the months ahead.

As of March 31, headcount was 652, down 10 head count compared to last year. Cash and short-term investments was \$25.8 million on March 31. As of April 21, we have \$26 million in cash, including short-term investments. For the quarter, the company recorded \$232,000 of tax expense. We expect cash taxes to be approximately \$650,000 this year primarily related to the Texas franchise tax.

I will now turn the call over to Grant.

Grant S. Moise DallasNews Corporation - CEO & Director

Thanks, Katy, and good morning, everyone. Some good news. As you know, we conducted a nationwide search to find someone to lead Medium Giant who has a wealth of experience in the full-service agency space, and we feel confident we have found the right person. Due to some of the transitions of this person from their current role, a formal announcement will be made before mid-May.

Katy mentioned that we are experiencing increasing pressure on our preprint business. In the first quarter, the single source of revenue decline was greater than our net revenue loss for the entire company. Because of this impact, we will be monitoring this area closely as we move forward to make sure we understand the reason for this trend and what we can do to proactively address it. Industry intelligence makes it clear that newspapers in all markets nationwide are experiencing similar downward pressure on preprint volumes.

At The Dallas Morning News, we remain focused on growing and we're deeply engaging with our digital readers. Over the course of the first quarter, digital audiences on dallasnews.com grew over 14%, which is an important trend for us as we continue to grow both digital advertising and digital membership at the news.

I covered the remainder of current operating trends in our year-end investor call on March 10, so we will now open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will go to the line of Chris Mooney, Wedbush Securities.

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

Net income, that \$362,000, is that interest income from the CDs?

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

So no, the -- we have not recorded any interest income yet on the loan. It's all accrued interest. .

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

Okay. And what is it then? It's at least somewhat -- significantly larger than the prior year's quarter.

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

So are you talking -- Chris, are you talking about other income?

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

Yes.

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

Oh, I'm sorry. I thought you said net income, and I was like, okay. No, on the other income side, it's a pension flip. This year, we're going to have the pension side of that moved, and that is what's driving the total other income.

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

Meaning that you have...

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

We had actual -- we had less expense. So we had expense last year, we had income this year on the pension accounting in the quarter.

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

Okay. All right. What rate did you get on the CDs?

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

A little over 4%.

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

Okay. And the reason you didn't put more in, you put \$10.5 million...

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

Well, we put \$10.5 million -- yes. I mean, Chris, we put \$10.5 million and we wanted to hold the \$10 million just really from a no-specific purpose, but just making sure that we didn't have all the cash locked up between 6 and 12 months.

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

Okay. Dare I ask who you have it with? Or should we be concerned?

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

You should not be concerned. And I'm happy -- I mean, our bank is JPMorgan.

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

I guess they're okay.

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

They're okay.

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

All right. Yes. Well, behold, if they're not, we have a lot of [problem].

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

I know.

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

The trends in advertising beyond the preprints, is there any good news, bad news or just anything different going on?

Grant S. Moise DallasNews Corporation - CEO & Director

Yes. Chris, it's a good question. There are actually some very promising trends that I'm seeing. And actually, ironically, they're not all isolated to just digital and marketing services. Actually, the ROP line in print continues to grow. Not only did it grow in the quarter a little under 5%, but also the ROP line, when I look at it over a longer period of time, meaning the past 2 years, it has grown 13% from the end of March 2021 to the end of March today. So that is showing me some trends that the ROP line is definitely resilient.

And there's advertiser demand for -- even though it's a smaller audience in print, it is a very high disposable income, high buying power audience. So very happy to see that continue. It shows us that there's definitely still a meaningful contribution on the print line. I was also very happy to see our digital marketing services return into that 6% growth rate. That had been largely driven by dallasnews.com. Our marketing services line is in a kind of a lower growth rate. But at the dallasnews.com line, we saw a growth of over 25% in that advertising. So it's interesting.

The other encouraging sign I'm seeing there is not only did we grow the inventory by growing the audience, but we're also seeing prices increase on the website, Chris, so what we call our eCPM. We're seeing -- those prices had been relatively flat for the past about 18 months, but we're actually now seeing a slight improvement year-over-year in the past 2 quarters. So that's also a positive sign.

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

And that's referring to prices that advertisers pay?

Grant S. Moise DallasNews Corporation - CEO & Director

Yes, that's the prices that advertisers pay to place advertisements on our website and our app.

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

Well, that's encouraging.

Grant S. Moise DallasNews Corporation - CEO & Director

It is.

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

If you look at where you are now, if you go out 2 years, how would you -- do you see the revenues of the DallasNews being?

Grant S. Moise DallasNews Corporation - CEO & Director

Chris, I don't -- that's...

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

How's your crystal ball?

Grant S. Moise DallasNews Corporation - CEO & Director

Yes, I don't have something kind of there off the top of my head. I think it really depends. There's so many external factors. And I think, for example, preprints is one of them to where -- that's why I made mention of it in my comments. That trend going into this year, as an example, our Wednesday preprints were down 8%. Wednesday preprints have gone from down 8% to down 30%, and that has happened in a very, very short period of time.

And what it shows me is that what happens with our category of advertisers, especially in Dallas, Fort Worth, can really change things in a short period of time. To give you an example, H-E-B, which is a very significant grocery chain out of San Antonio, they launched in Dallas last year, but now that the strategies of other grocers seems to be changing, it's just that's a line that we thought -- I mean, H-E-B continues to open stores this year, yet grocers are pulling back on Wednesday preprints.

So I wish I had enough of a crystal ball, honestly, Chris, to know where those things are. But in general, we're building the digital and marketing services line so that it continues to become a larger -- a more important growth engine for us, but also so that it becomes a

bigger proportionate size of the revenue mix, which -- the bigger percentage digital becomes, the more we will see sustainable growth on the top line.

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

Okay. As a subscriber online, not printed any longer, I seem to be getting more, I guess, news items and news sort of sources from you on an ongoing basis, then I think that will be helpful. I don't know if that's -- if I'm just noticing them or if that's actually the case.

Grant S. Moise DallasNews Corporation - CEO & Director

You may just be noticing them. It may be a bit of the content mix, Chris. One of the things that I know has contributed to our recent growth in digital audience is our team. And as I had announced in previous quarter, we're partnering with Mather Economics, an analytics company out of Atlanta, who helps really baseline and look at content trends, not only across the country but across the globe.

And that partnership with Mather has given real-time feedback into the newsroom so that we're making just content choices, one, that are the important things that the region needs to know, but we're also getting our arms much better around what audiences want. And so that may be a part of what you're seeing, is varying sources that are providing some of what the audience is looking for.

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

Okay. I guess I am noticing in -- I do read the online version of the newspaper every day and it seems that you're developing more content that's focused just on general local interests and less on national, and I think that may be helpful in drawing more audience to you.

Grant S. Moise DallasNews Corporation - CEO & Director

Yes. Chris, you're hitting the nail on the head. We have a term that we use here with our team at the newsroom, which is that we want to cover this world through a North Texas lens. And so what that means is we know that our unique proposition in the market is to super-serve North Texas. And so whether we're covering stories out of D.C., whenever we're using our journalists, we always ask ourselves what does this mean to a North Texas resident. And so I'm glad you're seeing that because that is something that we are talking about frequently.

Operator

(Operator Instructions) There are no further questions in queue at this time, so please continue.

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

Karen, thank you. And again, thank you all that joined our call, and we look forward to talking with you again when we announce our second quarter 2023 earnings later this summer. Thank you. Bye-bye.

Operator

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

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