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Q2 2019 A. H. Belo Corp Earnings Call

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CORPORATE PARTICIPANTS

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the 2019 second quarter financial results conference call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Ms. Katy Murray. Please go ahead.

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

Good morning, everyone, and welcome to our second quarter 2019 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.

Yesterday afternoon, we issued a press release announcing our second quarter 2019 results. We have posted this release on our website under the Investor Relations section.

Unless otherwise specified, comparison views on today's call measure second quarter 2019 performance against second quarter 2018 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. Reconciliations to the most directly comparable financial measures based on our segment reporting presented in accordance with GAAP are provided on our website under the Investor Relations section.

A. H. Belo reported second quarter 2019 net income of \$16.9 million or \$0.78 per fully diluted share compared to a net loss of \$500,000 or \$0.03 per share in the second quarter of 2018. In the second quarter of 2019, the company completed the sale of its former headquarters for \$28 million resulting in a pretax gain of \$25.9 million.

For the second quarter of 2019, we reported adjusted operating income of \$220,000, a decline of \$1.5 million or 87.5% compared to the second quarter of last year. The decline was primarily due to \$1.9 million of expense related to a onetime consulting engagement with a leading global management consulting firm. Normalized in the quarter for this onetime expense, we would have reported adjusted operating income of \$2.1 million, an improvement of \$400,000 compared to last year.

Total adjusted operating revenue for A. H. Belo for the quarter was \$50.3 million, representing a decline of \$4 million or 7.4% compared to 2018, and total adjusted operating expenses of \$50.1 million represents improvement of \$2.5 million or 4.7% over last year.

The adjusted operating expense reduction of \$2.5 million comes from across almost all expense lines, with the majority of savings being from the compensation and benefit line and having 151 fewer head count compared to last year. Normalizing the quarter for the onetime consulting expense of \$1.9 million we incurred this quarter, expense improved \$4.4 million or 8.3% when compared to last year.

I will now turn to the review of the second quarter financial performance of The Dallas Morning News and Belo + Company separately.



Total revenue for The Dallas Morning News was \$40.9 million, a decrease of \$4.2 million or 9.2% compared to last year. Print and digital advertising revenue of \$19.1 million for the second quarter was down \$1.2 million or 6% compared to \$20.3 million reported in the second quarter of 2018.

Circulation revenue of \$17 million in the second quarter of 2019 declined \$900,000 or 5.1% compared to Q2 2018. Home delivery revenue declined by a net \$600,000 or 3.9%, and single copy revenue declined by a net \$300,000 or 13.4% compared to last year. The declines are primarily due to lower home delivery and single copy volume partially offset by rate increases. Digital-only subscription revenue was \$1.2 million for the second quarter, an increase of \$250,000 or 26.3% over last year. We are encouraged by the growth in digital subscription volume and pricing that know this is a multiyear strategy.

Other revenue at The Dallas Morning News decreased \$2 million or 29.9% to \$4.8 million for the second quarter of 2019. The decline is primarily due to The News eliminating its brokered printing business that provided print services direct to small business clients. In the first quarter of this year, we reduced the number of local and national commercial print customers we serve from more than 30 to 5. These changes, resizing the business to focus on a few major customers, are matching our expectations for margin improvement.

Operating expense for The Dallas Morning News for the second quarter of 2019 was \$18.2 million. Excluding the \$25.9 million gain for the sale of the former headquarters, operating expense was \$44.1 million, a reduction of \$2.8 million or 6% compared to Q2 of last year. Adjusted operating expense, which adjusts total operating expense for the new revenue standard, severance expense, depreciation, amortization, gain on sale of assets and asset impairments, was \$42.8 million for the second quarter. This represents a decrease of \$3.2 million or 7% compared to Q2 of last year. This improvement in adjusted operating expense is due to a decrease in employee compensation and benefit expense resulting from the head count reduction of 151 and a decrease in newsprint expense.

Adjusted operating loss for The Dallas Morning News was \$161,000 in the second quarter of 2019, a decline of \$1.2 million when compared to the net income of \$1.1 million in the second quarter of last year.

Turning now to Belo + Company. For the second quarter, Belo + Company reported total revenue of \$6.8 million, an increase of \$736,000 or 12.1% compared to the second quarter of last year. Operating expense at Belo + Company was \$6.8 million, an increase of \$1.1 million or 19.7% compared to Q2 of 2018. The increase in revenue expense was related to our recently acquired agency, Cubic Creative, which complements Belo + Company suite of services. Adjusted operating expense was \$7.4 million for the second quarter, an increase of \$752,000 or 11.4% compared to 2018 due to additional expenses from Cubic Creative. Adjusted operating income for Belo + Company in the second quarter of 2019 was \$381,000, a decline of \$292,000 compared to last year.

Turning now to A. H. Belo financial metrics. As of June 30, head count was 879, a decrease of 151 or 14.7% from June 30 of last year. As of June 30, 2019, the company had approximately \$52 million of cash and no debt. As of July 26, the company had approximately \$53 million in cash and cash equivalents.

We expect capital expenditures to be approximately \$1.5 million for the remainder of 2019. The company share repurchase program in the second quarter resulted in repurchases of approximately 48,000 shares for \$187,000. The company reported tax expense of \$7.1 million in the second quarter of 2019. Cash taxes for 2019 will be approximately \$900,000 related to the Texas margin tax. The sale of our former headquarters generated \$25.9 million of pretax income, which is offset 100% with net operating loss carryforwards. With regard to the pension plans, we do not have a mandatory contribution in 2019 and do not expect to have any for several years.

Overall, operating results in the second quarter are encouraging. With the creation of a single decision-making structure that provides momentum to digital subscription objectives and the Arc platform launch this fall, the Board and the management committee continue to be optimistic about the company's future prospects.

To Lisa, before we turn to questions, Robert Decherd has some additional commentary.



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

Katy, thank you, and good morning, everyone. This was a good quarter for us. We're making progress as I hinted at the annual meeting, and we continue to see the signs that the initiatives that Grant has undertaken at The Dallas Morning News, together with some of the decisions we made about commercial print and the organization, are going to yield some very significant benefits over the remainder of this year and for several years to come.

As we look at the adjusted operating income, adding back the expense of the consulting engagement, the numbers are very promising. As Katy said, our cash is holding up on the balance sheet right about \$50 million, and the single decision-making structure we put in place from a management standpoint is going to give us a lot of leverage and lift in terms of how we go to market, how we support our revenue strategy and how we extend and protect our brands in the market.

There is some operating expense savings associated with that. It's not the reason we made the change. We're not yet able to quantify what that would be, but it certainly will be beneficial in 2020. The purpose of this at its root is to realize, as I said at the annual meeting, we have to think as a smaller company, streamline everything we do, and insofar as how we make decisions about strategy and implementing strategy, do that in the most focused way possible. So this is a reflection of that kind of reasoning. And I'm very encouraged already that as we're bringing these organizations together, there is power in doing so.

One of the things that we have focused on in the last 6 months particularly, including with the consulting firm we've been working with, is to underscore the commitment we have to digital marketing services. This is a critical part of our success, of our future. We have developed, I believe, important insights about how to go to market most effectively, and Grant and Katy and I believe there is upside from a revenue standpoint both in continuing to be focused on the digital marketing services space but to do so with a single organization we now put in place.

We've also spent a great deal of time understanding more deeply how we generate growth and sustain growth in digital subscriptions. This is the pivotal area for The Dallas Morning News and all newspapers in the next 5 to 10 years as we see a conversion from a print-dependent kind of operating environment to one that has to be built off of digital subscription revenue and volume.

Katy mentioned the Arc platform that's being implemented this fall. This is a very significant change for The Dallas Morning News -- or commitment rather more than a change. It's going to give us a much more functional site. It's going to be more of a news site that reflects the real strength of The Dallas Morning News as a journalistic organization and as a brand in the market. And there are other software packages that are being brought on board that will help us with pricing and differentiation in digital subscriptions.

I mentioned brand and brand support. Grant has spent a lot of time in the last 6 months with his team and brand experts thinking about how to position The Dallas Morning News as we introduce the Arc platform. Again, there's a lot of lift in this kind of initiative and coordinating it with the change in our decision-making structure. The deeper understanding of the digital marketing services potential for our company is going to give us, I think, a much stronger presence in the market and better results as we go through the remainder of this year and into 2020.

As you can imagine, there's a lot of detail behind these broader statements I'm making. But as we have experienced in the last year, if we get focused on a few things, do them really well, we can create outcomes that are important for our shareholders, for the company and, in this instance, for The Dallas Morning News.

Let me pause there, Katy, and we'll take questions and welcome any and all.

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

To Lisa, we're ready for questions now.

Operator

(Operator Instructions) And speakers at this time, we have no callers in queue for Q&A.



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

To Lisa, well, thank you very much. And we appreciate everybody who dialed in, and we hope you have a nice rest of your day. Thank you.

Operator

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

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