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Q4 2022 Dallasnews Corp Earnings Call

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Grant S. Moise *DallasNews Corporation - CEO & Director*
Mary Kathryn Murray *DallasNews Corporation - President, CFO, Treasurer & Assistant Secretary*

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 2022 Investor Call.

(Operator Instructions)

As a reminder, this call is being recorded. I would now like to turn the call 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 fourth quarter and full year 2022 Investor Call. I'm joined by Katy Murray, President and Chief Financial Officer, who will be reviewing financial results; Grant Moise, Chief Executive Officer; who will provide brief business remarks; and Robert Decherd, Executive Chairman, who is available for questions.

Yesterday afternoon, we issued a press release announcing fourth quarter and full year 2022 results and filed our 2022 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 2022 and full year 2022 performance against fourth quarter 2021 and full year 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 - President, CFO, Treasurer & Assistant Secretary***

Good morning, everyone, and thank you for joining today's call. I will begin by reviewing fourth quarter financial results and will follow with the full year financial results. On a GAAP basis for the quarter, DallasNews Corporation reported a net loss of $2.1 million or $0.40 per share and an operating loss of $1.9 million. In Q4 of last year, we reported net income of $2.1 million and an operating loss of $700,000.

As a reminder, 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. On a non-GAAP basis for the quarter, we reported an adjusted operating loss of $1 million, a decrease of $1.3 million compared to adjusted operating income of $300,000 reported for the same period last year. The decrease is primarily due to a $1.5 million decline in revenue.

We reported $39.1 million of total revenue for the quarter, which compares to $40.6 million last year. The year-over-year decline is primarily due to a $1 million or 8.1% reduction in print advertising revenue. Both circulation and other revenue each decreased less than

$100,000 when compared to prior year. On a non-GAAP basis, total adjusted operating expense for the quarter was $40.1 million, an improvement of $200,000 when compared to the same period last year, driven by expense savings of $1.1 million in distribution expense, due to reduced TMC and out-of-market free print revenue and $600,000 in services, partially offset by an increase of $1.4 million in employee compensation and benefit expense.

Turning to our full year results on a GAAP basis. We reported a net loss of $9.8 million or $1.83 per share and an operating loss of $9 million. For 2021, we reported a net loss of $0.5 million and an operating loss of $10 million. As a reminder, the 2021 net loss includes a noncash pension benefit of $4.2 million, a non-cash tax benefit of $2.6 million related to the release of an uncertain tax reserve and cash proceeds of $1.3 million related to the sale of inactive IP addresses.

On a non-GAAP basis for the year, we reported an adjusted operating loss of $5.3 million, a $1.5 million greater loss when compared to an adjusted operating loss of $3.8 million reported for the same time last year. The decrease is primarily due to a $3.7 million decline in total revenue and a newsprint expense increase of $1.2 million, partially offset by expense savings of $2.7 million in distribution and $1 million in employee compensation and benefits. We reported $150.7 million of total revenue for the year, and this compares to $154.4 million last year.

The year-over-year decline is primarily due to reductions of $2.7 million or 5.6% in print advertising revenue and $900,000 or 3.6% in digital advertising and marketing services revenue. As we've noted previously, the digital advertising decline is primarily due to the company's strategic decision to exit sales that carry a low margin, partially offset by selling more consultative marketing services.

Circulation revenue increased $200,000 when compared to last year. This stability follows the trend we have been experiencing driven by a continued focus on growing digital subscriptions and revenue. As of December 31, The News had 68,010 digital-only subscribers, which is an 8,539 or 14.4% year-over-year improvement. Total subscribers, including both home delivery and digital subscribers was 146,583 as of December 31, and that compares to 148,742 last year.

A summary of historical print and digital subscriptions, also known as memberships, by quarter, is saved on our website under the Investor Relations section. Other revenue decreased $400,000 or 2.3% compared to last year, primarily due to reductions in revenue from mailed advertisings for business customers and distribution revenue from commercial printing.

On a non-GAAP basis, total adjusted operating expense for the year was $155.9 million, an improvement of $2.3 million or 1.4% when compared to $158.2 million of adjusted operating expense last year. The improvement is primarily due to expense savings of $2.7 million in distribution, $1 million in employee compensation and benefits, partially offset by an increase of $1.2 million in newsprint expense. For the year, our average newsprint consumption price was $728 per metric ton as compared to $572 per metric ton in 2021, reflecting a 27% increase year-over-year.

As of December 31, headcount was 663, up 7 headcount compared to last year. Cash on the balance sheet was $27.8 million on December 31 and as of March 3, cash was $28 million. For the year, the company recorded $558,000 of tax expense. We expect cash taxes to be approximately $650,000 in 2023, primarily related to the Texas franchise tax. As of December 31, the company had $47.4 million of federal net operating loss carry-forwards. We are pleased with the progress the company has made this year toward our long-term strategy, and we are right in line with how we expected to end the year.

We remain in a good position on our balance sheet and are encouraged by what we are seeing so far in 2023. I will now turn the call over to Grant.

Grant S. Moise ***DallasNews Corporation - CEO & Director***

Thank you, Katy. Last year was defined as a year of change at DallasNews Corporation. That change included my appointment as CEO and the Board continuing to invest in the business. Throughout the transition, we continue to focus on becoming a sustainably profitable digital media and marketing services company. At the core of our business model is creating outstanding journalism that meets the evolving needs of the North Texas market. The Dallas Morning News is very fortunate to cover one of the most dynamic markets in the country, and we're constantly fine-tuning how to balance the needs of the community with reader interest. The sign that shows we're succeeding and meeting the needs of the market is digital membership revenue growth of 37% last year and total membership revenue growth at the highest rate in 12 years.

The News remains focused on this important line of revenue as we continuously seek to find the optimal balance between price and volume. Many of our peers across the country have focused on volume, but we believe pricing our content as aggressively as possible, reflects the commitment we have to local journalism and the investments we're making across North Texas. I'm also pleased with the progress at Medium Giant where we remain focused on growing digital marketing services revenue. Medium Giant's core emphasis is marketing services because its business model is built on annual contracts that provide a strong financial foundation for the business.

Currently, Medium Giant is retaining 84% of our 25 largest marketing services clients, which shows the services we're providing are meeting the evolving needs of our clients. We're currently running a nationwide search for a new president of Medium Giant and plan to make a decision on that important decision in the second quarter.

Overall, the Board and I remain focused on the return to growth plan that we created in 2021. This plan focuses on investing in the business so we can build the best digital foundation for the future while simultaneously returning capital to shareholders.

Business investments include digital and analytics talent, digital platforms, and new digital-first positions and teams in our newsroom. An example of those teams is what we call a breaking and trending team in the newsroom that was created in 2022 and is immediately impacting new digital membership starts.

Throughout this transition, we've recognized that the print product provides a financial foundation that must be thoughtfully managed as we make the transition to a digitally based company. I've been pleased with the team's ability to stabilize print membership and print advertising revenue. That being said, the expense side of the print business continues to be challenged by inflation.

For example, as Katy just referred to, our newsprint costs are almost 30% higher than last year. And to put that in even greater context, they're 64% higher than we were just 2 years ago. But in spite of these obstacles, we're charging some of the highest print membership prices in the country, and we believe that the quality of The News' print product is what is allowing us to do so.

Operator, we will now open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And we do have a question from Chris Mooney from Wedbush Securities.

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

I know, Katy, you went through a lot of numbers. So if you were -- if you actually discuss trends that we've seen so far in the first 2.5 months of the new year on advertising and on newspaper or newsprint costs, that would be appreciated.

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

Sure, Chris. I hope you're doing well. Look, I think when we started this year, the newsprint expense was really a surprise for all of us and just the availability of newsprint. I think one thing that I learned and I really wasn't as familiar with is that a lot of these plants or these paper mills, they started doing corrugated boxes back during the pandemic. And so from a business model perspective, still following up with that, as you can imagine, with all of the delivery and the Amazons and all of that. So newsprint prices did go up. We are optimistic that we will not see another price increase this year and maybe a little bit of some opportunity with that, but to be determined.

On the revenue side, I'll give some context and then let Grant step in as well. Look, I think we were pleased with print performance last year -- across the year. And going into this year, no different than kind of starting a year, you kind of see some things, maybe slowing down a little bit, but I feel like we are seeing the rebound starting really in February.

Look, I think from an economic perspective, Grant and I are paying a lot of attention to just what's going on in general with economy, the market inflation, et cetera, but feel good that we're on track with where we expect it to be.

Grant S. Moise ***DallasNews Corporation - CEO & Director***

Yes. Chris, good to hear from you. The only context I would add is -- we saw some softening in print, and it's really obvious by the numbers. I mean where we were in the fourth quarter at down a little over 8% in print advertising versus full year that was down 5.6%, really shows you that the fourth quarter softened. That hit right around Thanksgiving. But as Katy just mentioned, and I was happy to see that is kind of stuck with us through January, but we have now seen things rebound back to kind of more on prior run rates, which we're happy to see.

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

And can you give us any insight into trends of maybe the advertising sectors, auto or grocery stores, et cetera.

Grant S. Moise ***DallasNews Corporation - CEO & Director***

Yes. No, it's a good question. So grocery is one of our dominant categories of advertising. We've -- H-E-B has moved into this market for anyone on the call who's local will know that H-E-B is the dominant regional player in grocery, and they entered our market towards the early fall. That has provided some stability in grocery, and we're seeing that probably be more stable here, Chris, than about anywhere in the country because of the competition of them entering North Texas.

Automotive has really become a category of business for us that's almost non-existent at this point. Obviously, the pandemic really hit automotive where inventory at dealerships was so low to where that went down, and we have not seen the automotive advertising really improve. The one category of business for us that has been continuing to grow and is very strong is in financial services. That is both in print and digital. We're seeing a tremendous amount of banks, Frost Bank is adding quite a few branches into this market, and there's a lot of people kind of really now as many of us know, their -- also marketing rates on CDs and things like that, that have a much stronger yield than we've seen in quite some time, and we're seeing a lot of financial services marketers wanting to use all of our services in doing that. So I think that's probably a -- those are probably the kind of 3 categories to note.

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

Well, it sounds like things have improved some in the first quarter versus the trends that kind of went into place in the fourth quarter, seems to be encouraging.

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

Yes, that's a correct statement, Chris.

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

There's a one-liner in the press release that says the current phase of the RTG plan will be the most challenging. Could you bring some additional color to that? And the key business drivers that your team is focused on?

Grant S. Moise ***DallasNews Corporation - CEO & Director***

Yes, Chris, I think there's a few different factors that contribute to that comment. One of them is we -- the external environment, which as we all know, in markets is rather unstable. That's not only inflation but it's the kind of pressures that we're seeing on wages. And we have -- as Katy -- as we mentioned here on this, we're in this kind of 650 to 660 employee range. We believe that is about the correct size for the company. But the first factor of that is just some of the external pieces of the equation that are on there, especially the points we've made on newsprint. We are used to seeing that line of expense be a decreasing line for us. And as you've seen in 2022, it was an increasing line for us.

Also, too, there are -- we are at the point now from an investment standpoint, we're not only in people but in systems, we are really at a point where we are investing and have in our technology. And we're in this stage of now making sure that our talent is optimizing those platforms so that we can see more consistent digital growth, especially in membership. I think part of what we've seen on our membership patterns, Chris, has been that we see waves of great volume growth and then we see that kind of dissipate and become a little bit lower. And so this is a stage where we need to see more consistency in that line of our membership volume growth, and it's there. It's just there in a bit of fits and starts. And I think otherwise, Chris, I think there's just a real sense for us that we're at an important part in this. We're a combination of outside factors and internal factors.

We just see it as a point where we've got our heads down, knowing that we want to get this revenue back into a growing phase, but as we also referred to in here, we have trimmed out some of those lower margin digital products because we are really focused on getting these new wider margin marketing services products sold, and that's going to just take a lot of time and effort. But I'm happy with what I'm seeing that team accomplishing within that goal.

Operator

(Operator Instructions)

And at this time, there are no other questions in queue.

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

Well, Roxanne, we will end our call. I'd like to thank everybody for joining us for our 2022 earnings call, and we look forward to talking with everyone again towards the end of April when we discuss our first quarter of 2023 results. I hope everybody has a great weekend.

Operator

And a replay of this call is available on the company's website, dallasnewscorporation.com under the Investor Relations page. And this concludes our conference today. Thank you for your participation and for using AT&T conferencing service. You may now disconnect.