The New York Times Company
Fourth-Quarter 2016 Earnings Conference Call
February 2, 2017

Harlan Toplitzky

Thank you, and welcome to The New York Times Company's fourth-quarter 2016 earnings conference call.

On the call today, we have:

- Mark Thompson, president and chief executive officer;
- Jim Follo, executive vice president and chief financial officer; and
- Meredith Kopit Levien, executive vice president and chief revenue officer.

Before we begin, I would like to remind you that management will make forward-looking statements during the course of this call, and our actual results could differ materially. Some of the risks and uncertainties that could impact our business are included in our 2015 10-K.

In addition, our presentation will include non-GAAP financial measures, and we have provided reconciliations to the most comparable GAAP measures in our earnings press release, which is available on our website at investors.nytco.com.

With that, I will turn the call over to Mark Thompson.

Mark Thompson

Thank you Harlan and good morning everyone.

The fourth quarter of 2016 saw unprecedented growth in digital subscriptions, double-digit year-over-year growth in digital advertising, encouraging results in our print consumer business, but continued stiff headwinds in print advertising.

Those headwinds, combined with investments in the growth areas in our business led to operating profit being down both for the quarter and the full year. Nonetheless, we see both Q4 and 2016 as a whole as a strong vindication of our strategic direction. We are a smartphone-first, subscription-first global news provider, committed to delivering journalism worth paying for, and innovative premium advertising experiences equally worth paying for. In a world full of fake news, and low quality commodity digital ads, it's a distinctive vision – and one which audiences and advertisers around the world responded to in 2016.

Let me turn first to our subscription businesses. President Trump was once again busy tweeting this weekend that our audiences and our subscribers were, to use his word, "dwindling."

Well, not so much, Mr. President. We had spectacular audiences in the quarter, with 220 million unique users coming to us in November, for example. And, as for subscribers, in Q4 we added 276,000 net new digital subscriptions to our news product. For comparison, that's more net new subscriptions in one quarter than we added in the whole of 2013 and 2014 combined. In 2016 as a whole, we added 514,000 net subscriptions to the digital news product.

But perhaps the new president was referring to the New Year and guessing that there had been a post-election lull. If so, wrong again. As you'll hear from Jim in a few minutes, we are continuing to see remarkably strong numbers of new subscribers. And remember that our digital subscription model was already accelerating even before the present intense news environment took hold. Six years in, our pay model remains buoyant, and the pool of near-at-hand already engaged potential subscribers looks not smaller, but bigger than it did a year or two ago.

Print circulation also benefitted in Q4, with the best quarter-over-quarter net growth in home delivery subscriptions in over eight years.

All this means that at the end of 2016, if you add up print, digital news and digital crossword subscriptions, we had a total of 2.9 million paid subscriptions. Indeed, I can announce that as of today, February 2nd, 2017, we have exceeded three million total paid subscriptions, a landmark in the history of The New York Times Company.

At the very peak of The Times's print-only history in 1993, we had 1.8 million subscriptions. So this is an important moment for us. But I also want to say that we have only just begun. I believe there is immense further potential for growth in subscriber numbers and revenue.

What makes our subscription-first growth strategy possible is the quality of the work of our newsroom and editorial departments. Under Dean Baquet's and James Bennet's leadership, Times journalism is in amazing form, and audiences have been flocking to our authoritative coverage of, and comment about, a momentous period in the politics of America and the world. We are committed to covering this period – and the new administration – fairly, but also rigorously and with neither fear nor favor. Indeed, we've allocated an additional $5 million dollars to the newsroom's budget this year to pay for more journalism, and especially investigative journalism, in Washington DC.

Dean and the newsroom published their own roadmap of the future a couple of weeks ago, and I'd encourage anyone who is interested in the future of quality journalism at The Times and elsewhere to read it.

As we look for ways to reach new subscribers and extend the powerful New York Times brand, we're continuing to innovate in the delivery of our journalism. Just this week, we launched a new

podcast, The Daily, which is already the most popular podcast in the iTunes store. And this morning we announced an exciting new venture with Snapchat that will see us deliver a special version of our morning briefing to that very distinct and highly engaged audience.

Digital subscription revenue grew 22 percent year-over-year in the quarter, and print consumer revenue was flat.

Digital advertising revenue also grew 11 percent year-over-year. The increase was driven largely by further gains in smartphone, branded content, marketing services and programmatic. The second half of 2016 was an important turning point for us as we saw the growth in these businesses more than make-up for declines in our web homepage and direct-sold banner businesses.

Print advertising, however, remained tough for us as it has for the rest of the industry. In Q4, the year-over-year drop was 20 percent, while it was 16 percent for the full year. As I've noted in previous quarters, print advertising is a far smaller proportion of our total revenue than it once was. Nonetheless, it was enough, when taken with cost increases largely associated with our investments in future growth to impact both top-line revenue and profitability. Total revenue for the quarter fell 1 percent to $440 million dollars. Adjusted operating profit fell 19 percent in Q4 to $96 million.

Jim will give you guidance on how we see the present quarter shaping up, but I wanted to say a few words about investment and costs. We do believe that we have been presented with a unique opportunity to introduce and engage new audiences with Times journalism, and we plan to invest more in the early part of 2017 on marketing – including a campaign which we will launch in a few weeks' time. As you know, we plan to use our accommodation in our New York offices far more efficiently. That too will mean expense in 2017, but we expect will lead to increased rental income beginning in 2018. And we will continue to invest in visual journalism, in our new digital advertising businesses, in our global expansion and in other growth initiatives. These initiatives are reflective of our continued commitment to aggressively manage the business, while investing in our digital future.

2016 was a milestone year for The New York Times Company. We expanded our global footprint, saw record numbers of readers and accelerated our digital transformation. And most important, we saw a spectacular rate of growth in our consumer business. We are confident that we can sustain, or even accelerate that rate of growth.

We are a united company. We have a sense of mission which extends through every department. We know that the truth is hard to find. We are all determined to provide reliable, honest information and objective and insightful analysis and opinion to readers everywhere, and we believe that the audience demand is there to make it a great business.

Now with more detail on the financial picture, here's Jim.

Jim Follo

Thank you, Mark, and good morning, everyone.

As Mark said, the fourth quarter reflects solid consumer and digital advertising growth, but a very challenging print advertising environment.

Adjusted diluted earnings per share was 30 cents in the fourth quarter, compared with 37 cents in the prior year. We reported GAAP operating profit of approximately $56 million dollars, compared to an operating profit of $88 million dollars for the same period of 2015. Overall, revenues were down 1 percent in the quarter, with weakness in print advertising offsetting growth in both digital consumer and advertising revenues.

Total circulation revenues increased by 5 percent in the quarter, with digital-only subscription revenue growing strongly, up 22 percent, to $64 million dollars. On the print circulation side, revenues were slightly lower largely due to a decline in single copy revenues. Home delivery revenues were flat in the quarter compared to the prior year as a home delivery price increase in early 2016 more than offset volume declines. Total daily circulation declined 4.3 percent in the quarter compared to the prior year, while Sunday circulation declined 3.5 percent.

We experienced a decline in ARPU in the quarter due in large part to the sharp net increase in subscriptions, most of which start with a promotional discount. The large growth in net digital subscribers also impacts ARPU, as we only receive a partial quarter of revenue. We are still experiencing a heightened growth rate relative to the months preceding the Election and, therefore, expect ARPU to continue to decline before stabilizing when these new subscriptions revert to full price.

We saw strong growth in digital advertising for the second consecutive quarter. Mobile revenues continued to grow at a rapid rate versus 2015 and represented approximately 29 percent of total digital advertising revenues in the quarter. As creative services revenues, a component of advertising revenues, have been rising rapidly, the costs to support those revenues have also increased in the quarter.

Lower print advertising revenue was mainly due to declines in the luxury and retail categories, however most major categories also experienced declines and we expect this current environment to continue into 2017.

On a monthly basis, overall advertising revenue was down 8 percent in October, 7 percent in November and 15 percent in December.

Early in the quarter, we acquired The Wirecutter and The Sweethome, product-recommendation websites that serve as a guide to technology gear, home products and other consumer goods. The affiliate revenue we earn from readers who purchase products recommended on these sites is recorded in the Other Revenue line of our Income Statement. In the fourth quarter, Other Revenues grew 16% versus the same quarter in 2015 to $29 million dollars, largely due to this acquisition.

GAAP operating costs increased 3 percent in the quarter, while adjusted operating costs increased 5 percent. As Mark said, we continue to keep a sharp focus on our cost base, while investing where necessary to support growth. To that end, our print production and distribution costs were lower in the quarter, while costs grew in marketing to drive consumer acquisition, advertising, technology and in the newsroom as a result of the Election.

Non-operating retirement costs were down in the quarter to two and a half million dollars, from seven and a half million dollars in the prior year.

In the quarter, we recorded three special items, which we have excluded from our pro forma results.

In Q3 2016, the Company offered participants in various defined benefit plans the option to immediately receive a lump-sum payment, or to immediately begin receiving reduced monthly annuities. In the fourth quarter, the pension funds distributed over $50 million dollars on that offer and settled retirement obligations of over $53 million dollars, resulting in a $21 million dollar charge. The effect of this was to continue to reduce the overall size and inherent risk of our plans, as well as to improve our funded status.

The second item relates to a $4 million gain we recorded related to the sale of some of the assets at Madison Paper Industries, a paper mill in which the company has a 40% interest and which ceased operations in the second quarter of 2016.

We have also recorded a $4 million income tax benefit related to a reduction in the Company's reserve for uncertain tax positions.

Moving to the balance sheet, in December, we used approximately $189 million in cash to retire debt at maturity. As a result of that principal repayment, our cash and marketable securities balance declined during the quarter, and ended the quarter at $738 million dollars, with total debt and capital lease obligations, principally related to the sale-leaseback of our headquarters building, of approximately $247 million dollars.

The funded status on our qualified pension plans improved in the year, due to strong asset performance, an improvement in mortality tables and actions taken to reduce the size of our plans. The underfunded balance of our qualified pension plans at the end of the year was approximately $223 million, an improvement of approximately $50 million from last year.

In December, we announced our plan to consolidate the company's operations within our New York City headquarters from the 17 floors we currently occupy to nine by the end of 2017. As Mark mentioned, we believe this will enhance our ability to work together, while also allowing us to monetize eight floors, which total approximately 250 thousand square feet, in addition to the seven floors leased to third parties today. This effort is scheduled to take the entire year to complete and will require the temporary relocation of a number of employees to office space elsewhere in midtown Manhattan. We expect to incur approximately $50 million dollars in capital expenditures in 2017 to reconfigure the space, as well as $5 to $10 million dollars in operating expenses, largely in rent for the temporary office and moving costs. We will begin marketing the eight floors shortly, and expect to begin recording rental income in 2018. We will also incur up-front cash payments for lease commissions and other lease related items, upon execution of leases, which are not quantifiable at this time. Ultimately, we believe that this project will further enhance the value of our headquarters building.

Under our sale-leaseback agreement, we have the option to repurchase our leased space for $250 million dollars in 2019, which we currently expect to exercise. These actions will not restrict us in any way under the agreement.

Let me conclude with our outlook for the first quarter of 2017:

Circulation revenues are expected to increase approximately six percent compared to the first quarter of 2016, driven by the continued benefit from our digital subscription revenue growth. We expect digital-only revenue to grow approximately 25 percent.

For the first quarter of 2017, we continue to experience strong growth in net new subscribers. We currently expect approximately 200,000 net additional subscriptions to our digital news products and approximately 15,000 net additional subscriptions to our digital Crossword product.

Over the past several quarters we have experienced rapid growth in the number of subscriptions to our digital news product, far beyond the guidance I had provided on the prior quarters' earnings calls. In this environment, this metric has become increasingly difficult to predict and beginning with next quarter's earnings, we will discontinue the practice of providing forward guidance on the number of additional subscriptions we expect. However, we will continue to report the actual number of both news and Crossword product subscription additions each quarter.

Overall advertising revenues are currently expected to decrease in the high-single digits, with growth in digital advertising between approximately 10 to 15 percent.

Other revenues are expected to increase in the high- teens largely from the impact of the Wirecutter business we acquired early in the fourth quarter.

We expect additional costs related to an elevated level of marketing and advertising spend to

support digital revenue growth, as well as additional costs associated with acquired companies, and costs associated with our real estate project.

As such, operating costs and adjusted operating costs are expected to increase in the mid- to high- single digits.

Non-operating retirement costs are expected to be approximately $4 million dollars in the first quarter, while for the full year, interest expense is expected to be $20 to $25 million, and depreciation and amortization is expected to be $60 to $65 million.

As stated earlier in my remarks, we expect capital expenditures for our real estate project to approximate $50 million and total capital expenditures to be $85-$90 million for the year.

Finally, I want to note that our 2017 fiscal calendar includes a 53rd week, which will occur in the fourth quarter.

And with that, we'd be happy to open it up for questions.

Harlan Toplitzky

Thank you for joining us this morning. We look forward to talking to you again next quarter.