The New York Times Company
Second Quarter 2020 Earnings Conference Call
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Harlan Toplitzky

Thank you, and welcome to The New York Times Company's second quarter 2020 earnings conference call.

On the call today, we have:

- Mark Thompson, president and chief executive officer;
- Meredith Kopit Levien, executive vice president and chief operating officer; and
- Roland Caputo, executive vice president and chief financial 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 2019 10-K, as updated in subsequent quarterly reports on Form 10-Q.

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:

Thanks Harlan and good morning everyone. Good morning and goodbye – because, as everyone on the line must know, this is not just my 35th quarterly earnings call as chief executive of The New York Times, but my last. Meredith takes the helm in just a few weeks. Which is great news for the company and its shareholders – she's a unique talent and will be a bold and brilliant CEO – but one of the changes it's going to bring is to the language Times executives use on these calls.

Take the word "lumpiness." A fine, expressive word. Useful in so many contexts but never more so than when applied to advertising.

Now I've tried – God knows I've tried – to coach Meredith in the use of "lumpiness," but it turns out that unless you've spent decades steeped in true, gnarly British lumpiness, you just can't pronounce it with any conviction. Roland, needless to say, is a lost cause.

So no more lumpiness. Indeed no more Queen's English at all. From now it's all going to be in American. To echo George III in "Hamilton," good luck with that.

But I do want to thank all of you – and particularly our analysts – for your engagement and courtesy to me over the past eight years. Your testing of the Company's strategy and performance has helped us improve both – and as someone new to the public markets when I arrived in 2012, I've learned a lot from you.

I also hope you'll forgive me – before I hand over to Meredith and Roland to tell the story of the quarter – if I say that it's a source of some pride to me that my last full quarter as CEO of The New York Times Company was not only the best ever for new digital subscriptions, but the quarter in which total digital revenue exceeded print for the first time. It's taken its time coming – not because we've been slower than others to execute our digital strategy, quite the contrary, but because our great print platform has remained so resilient. But it's clearly a watershed moment in the transformation of The Times. In revenue as in everything else, we are a digital-first company and won't look back from here.

The story of The Times over this period is partly a complex saga of new digital tactics, new skills, new structures and processes. But it's a very simple story of a shared belief across the organization in the value and power of great journalism. The packaging and selling is important and we've made great strides in both, but the secret sauce is the journalism itself. It's the critical element in the virtuous circle of audience engagement, subscription and long-range retention. It's also the point of The New York Times. That's why we've invested in it so consistently in recent years. Nothing makes me more proud about my years at the Company than the fact that, in such a difficult moment for journalism as a whole, our newsroom is so strong and that – at a time when the public needs great journalism more than ever – they can at least still rely on The New York Times.

But let me hand over now to Meredith – who's played such a major part in all these successes and who will I believe take this company to even greater heights – to take you through the quarter.

Meredith Kopit Levien:

Thank you Mark. While you have indeed been *ineffectual* at working your particular use of English into the lexicon at The Times, you have *thoroughly succeeded* in leaving the company far better than you found it.

So on behalf of all of your colleagues, let me say that we're immensely grateful to you for your inspired and steady leadership over the past eight years. You led us over the major chasm of transformation to become a global, digital-first, subscription-first company. In doing so, you raised the ambitions not just for this place, but for the business of journalism everywhere.

Having total digital revenue overtake print in your last quarter is a perfect punctuation to your incredible run. Journalist Ken Doctor had it just right last week when he said that you have had "one of the most transformative runs of any publishing executive in modern times." And I, personally, could not be more grateful for the seven years of strong partnership, and getting to work with you and learn from you for much of it.

I'll have more to say in coming quarters, but you can largely expect that we'll forge ahead and execute on the strategy that has guided us over the past five years. That means continuing to invest in our newsroom, our products and our brand.

It also means continuing to increase our focus and emphasis on our product itself -- both the journalism and the way that people find and uniquely experience it -- as the central engine of our business, with plenty of work still ahead to build the world class product and tech operation to enable that.

And, it means investing in our people -- doing all that it takes to attract and retain top talent in all of our major disciplines, and ensuring that The Times is a place where talented people can do their best work. That includes thinking and acting ambitiously about diversity, equity and inclusion to ensure that The Times both reflects the world we report on and is a workplace that feels inclusive and rewarding to all of our employees.

Now let me talk about the quarter.

This has been an extraordinary period in our world. Protests against police violence and racial injustice; tens of millions unemployed; political divisions that only seem to deepen as Election Day nears and a pandemic that continues to ravage the country. Through it all, Times journalists have helped readers and subscribers make sense of it.

Our ongoing investment in our newsroom has enabled our national desk to dispatch reporters across the nation to chronicle events on the ground as new pandemic hot spots emerged. They've used visual and investigative journalism to tell the story of how the virus spun out of control, and our reporting has movingly underscored the staggering human toll, racial disparities, and the tragic impact, particularly on health care and essential workers.

The Times has a long history of journalism that explores race in America, from Claude Sitton's pioneering work on the civil rights movement in the 1960s to last year's

Putlizer-winning 1619 Project, which was downloaded an additional 4 million times in the weeks since protests began in the U.S. after the death of George Floyd. The way we've reported on these protests showcases the full arsenal of modern Times journalism, involving everything from visual investigations to audio, photography and, of course, the written word.

It's this exceptional journalism that has continued to yield big audiences. In Q2, we saw an average of 130 million U.S. readers monthly according to ComScore. While the audience gains moderated somewhat from the first quarter's surge, they still represented a 32 percent increase over the same period last year.

The gains in audience -- and our improved ability to engage readers and turn them into subscribers -- led to a second consecutive quarter of historic numbers of total net digital subscription additions.

Q2 was our best quarter ever with 493,000 net additions to our core news product, and 176,000 to other digital products, for a total of 669,000 net new digital subscriptions.

Readers are responding to both the breadth and the depth of our offerings: the second quarter represented the largest number of subscription additions we've seen to our Cooking and Crossword products as well as to core news.

The end of the quarter marked the first full year of our registration-based customer journey in our core news product. The new journey has been effective in its own right in driving growth, and an important foundation for ongoing engagement and conversion optimizations. We also continued to experiment more aggressively and successfully with news product innovations that deepen engagement, including further expansion of our live news offerings.

These initiatives are positively impacting profitability. In the quarter, digital subscription revenue grew by 30 percent, driven by the rapid growth in subscription additions, promotional subscriptions graduating to higher prices, and to the benefit we saw from our digital price increase.

As of the end of Q2, The Times had 5-point-7 million total digital-only subscriptions and 6-point-5 million total subscriptions, well on the path to 10 million.

We are making steady progress on the levers and drivers of subscription, though the unusual market conditions are clearly amplifying their effect. We do not give forward guidance on subscriptions because the numbers are generally difficult to predict; that's particularly true at this moment. As we said on the last call, we don't expect the exceptional peaks of audience we saw in the early months of the coronavirus story to last forever, but also know we're about to enter the crucial last months of a presidential election.

It's also worth noting that while it has been our strategy and plan to increase the percentage of starts from organic measures vs. paid marketing over time, the more pronounced increases in organic of the last two quarters were in part a reflection of these unusual market conditions. You can therefore expect that we will return to more paid marketing in the back half of the year as we find efficient opportunities.

Our results in advertising, while substantially off prior years, were somewhat better than expected. We are continuing to evolve our ad organization to reflect an acceleration of underlying trends -- and lean even further into our strategy of drawing competitive strength and value from our brand, audience, and direct relationships. While in the second quarter that had the consequence of reducing the overall size of our advertising team and closing our stand-alone marketing services business, we did so entirely with our future advertising business in mind.

That future business will be increasingly driven by differentiated digital advertising products including fewer ads, but in larger formats; substantially better targeting of our audience using first-party data in privacy-forward ways; insights for marketers about what audiences are interested in; and audio.

We expect that our large print and traditional digital display advertising business will continue to be under pressure. While the ad business will go on being very important to the company's economics and profitability, it is unlikely to be a significant growth driver in the near term.

We discontinued providing Times content to Apple News at the end of the second quarter. The decision is consistent with the core principles we have adopted in how we engage with the platforms: that quality news publications must be named and differentiated from other sources, that the end customer relationship and data should belong to publishers, and that the original creator of the content must be sufficiently compensated for its work. There are other important ways we will continue to partner with Apple through a variety of their products beyond Apple News.

Last month we acquired Serial Productions, the company that produces the groundbreaking Serial podcast. We have also entered into an ongoing creative and strategic alliance with This American Life, a radio program that transformed the genre. Among other things, we will sell This American Life's podcast advertising beginning next year.

As we have said in previous calls, we are big believers in the power that audio can have in building deeper connections with our audience and we're committed to bringing listeners the best audio journalism in the world. We launched 'The Daily' in 2017 and it has quickly become the most listened to news podcast in the country. Our goal is to continue to expand our audio offerings and to chart an ambitious course for high-quality, immersive audio journalism.

We also accelerated our progress on bringing The Times to new audiences through film and TV this past quarter. In the last month alone, we premiered "Father Soldier Son," our first feature documentary on Netflix, directed by Times reporters Leslye Davis and Catrin Einhorn. , And, "The Weekly" has been replaced by "The New York Times Presents" on FX and Hulu, a new monthly documentary series. We also announced a 1619 Project partnership with Lionsgate, Oprah Winfrey and Nikole Hannah-Jones, which will be adapted into a limited series for Amazon Studios.

I'll close by thanking Times employees around the world for their extraordinary work in exceedingly trying times. And once again, thanking Mark for all he has done for The New York Times Company.

And with that, I'll turn it over to Roland.

Roland Caputo

Thank you, Meredith, and good morning. I'd also like to take a moment to acknowledge Mark's upcoming departure and to thank him for his partnership over the past eight years. While I will surely miss working with Mark, I am equally excited by the prospect of continuing to work closely with Meredith in her new role.

As I said last quarter, although we expect short term results to be negatively affected by a decline in advertising, our subscription business, which represented nearly three-fourths of our revenue in the second quarter, provides a source of strength and resilience through a recurring revenue stream that we expect to grow further as we continue to excel at our core mission.

Adjusted diluted earnings per share was 18 cents in the quarter, one cent higher than the prior year. We reported adjusted operating profit of approximately $52 million dollars in the second quarter, which is approximately three million dollars lower than the same period in 2019.

Total subscription revenues increased approximately eight-and-a-half percent in the quarter, with digital-only subscription revenue growing nearly 30 percent to $146 million dollars. This represents a further acceleration in the sequential rate of quarterly growth, largely as a result of the large number of new subscriptions we have added in the past year, strength in retention of the $1 dollar-per-week promotional subscriptions who have passed the year-long promotional period and have graduated to higher prices, and the impact from our first-ever digital subscription price increase, which began late in the first quarter.

Quarterly digital news subscription ARPU declined approximately 11 percent compared to the prior year and approximately 3 percent compared to the prior quarter, consistent with the rates of decline we reported for the first quarter of 2020. For both sequential and year-over-year ARPU trends, the historically large number of newly acquired subscriptions, mostly on the $1 dollar per week promotion domestically and at deeper promotional rates in many areas outside of the U.S., more than offset the benefit from subscriptions graduating from their introductory promotion to either step-up or full price, as well as the benefit from price increases on our more tenured, full-price subscriptions. ARPU related solely to domestic news subscriptions declined 8-point-5 percent in the quarter versus prior year and 1-point-4 percent versus the prior quarter.

We continue to expect strength in subscription additions, largely at the $1 dollar per week promotion, as well as growth in international subscriptions, which monetize at a lower rate than our domestic ones will continue to weigh on ARPU in the third quarter. International subscriptions continued to make up approximately 18% of our digital-only news subscriptions at quarter-end.

On the print subscription side, revenues were down six-point-seven percent largely due to a decline in single-copy and international bulk sales as many sales outlets were closed throughout much of the quarter. Revenue from domestic home delivery print subscriptions was flat in the quarter as a home delivery price increase implemented early in the year offset year-over-year subscription declines. Total daily circulation declined nearly 20 percent in the quarter compared with prior year, while Sunday circulation declined 9-point-7 percent. The closure of hotels, universities and other outlets as a result of stay-at-home orders across the country contributed approximately seven percentage points to the daily copy decline and 3 percentage points to Sunday, while the loss of Starbucks as a distribution outlet in August of 2019 contributed approximately 2 percentage points to the decline.

Total advertising revenues declined approximately 44 percent in the quarter, as both digital and print were severely impacted by lower marketer demand during the pandemic. Digital advertising declined approximately 32 percent in the quarter compared with the prior year, somewhat better than the guidance we gave on our first quarter earnings call, largely as a result of higher levels of spending from the technology category. Print advertising declined approximately 55 percent across most categories, with entertainment and luxury hit hardest.

Other revenues declined approximately five percent compared with the prior year, to $43 million dollars, primarily as a result of the conclusion of the first season of “The Weekly” television series, as well as lower revenues from live events and commercial printing. These declines were partially offset by licensing revenue related to Facebook News and an increase in affiliate referral revenue from Wirecutter.

Adjusted operating costs decreased eight percent in the quarter, significantly lower than the guidance we had originally issued as we attempted to partially offset lower expected advertising and other revenues as a result of the pandemic. Cost of revenue decreased approximately six percent as lower print production and distribution costs and advertising servicing costs more than offset higher digital content delivery and journalism costs. Sales and marketing costs decreased approximately 36 percent largely driven by lower media spend, which we reduced during the initial months of the coronavirus pandemic. The extremely strong news environment and the continued improvement of our digital products proved to be a strong combination and demonstrates that we have become less reliant on acquisition spend as a means to drive subscription growth. However, we do not view Q2 marketing spend as representative of future spend given the special circumstances under which we were operating in the second quarter. Continuing with the second quarter results, product development costs increased by approximately 22 percent largely due to growth in the number of employees engaged in digital subscription strategic initiatives.

We recorded a $6 million dollar severance expense in the quarter, largely as a result of workforce reductions primarily affecting our advertising department.

Our effective tax rate for the second quarter was 19-point-6 percent. On a going forward basis, we continue to expect our tax rate to be approximately 25 percent on every dollar of marginal income we record with some variability around the quarterly effective rate.

Moving to the balance sheet, our cash and marketable securities balance ended the quarter at $757 million dollars, an increase of $70 million dollars compared with the first quarter. The company remains debt-free with a $250 million dollar revolving line of credit available. As I said last quarter, the consistently conservative approach we have taken in managing our balance sheet in tandem with the continued strong results produced by our subscription-first business has provided us the financial flexibility and confidence to continue pursuing our growth strategy even as we manage through the economic fallout of the COVID-19 crisis.

As Meredith noted, we announced the acquisition of Serial Productions, which closed last week and included an approximately $25 million dollar cash payment at closing.

Let me conclude with our outlook for the third quarter of 2020, which is based on our current knowledge and assumptions and could be impacted by the evolving effects of the pandemic:

> Total subscription revenues are expected to increase approximately 10% compared with the third quarter of 2019, with digital-only subscription revenue expected to increase approximately 30%.
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> Overall advertising revenues are expected to decrease between 35 and 40 percent compared with the third quarter of 2019 and digital advertising revenues are expected to decrease approximately 20 percent. As a reminder, September typically plays an

outsized role in third quarter advertising revenue, which when combined with uncertainty arising from the COVID-19 pandemic, makes this year's third quarter especially difficult to predict.

Other revenues are expected to decrease approximately 10 percent, as licensing revenue from Facebook News is expected to be more than offset by lower revenues from our television series, and as a result of the pandemic's impact on both commercial printing and our live events business.

Both operating costs and adjusted operating costs are expected to be flat or to decrease in the low single-digits compared with the third quarter of 2019 as we pull back on non-essential spending while continuing to invest in the drivers of digital subscription growth.

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.