The New York Times Company
First-Quarter Earnings Conference Call
April 19, 2012

Paula Schwartz

Thank you and good morning, everyone. Welcome to our first-quarter 2012 earnings conference call. We have several members of our senior management team here to discuss our results with you, including:

- Arthur Sulzberger, Jr., chairman and chief executive officer;
- Jim Follo, senior vice president and chief financial officer; and
- Scott Heekin-Canedy, president and general manager of The Times.

All of the comparisons on this conference call will be for the first quarter of 2012 to the first quarter of 2011, unless otherwise stated. Our discussion will include forward-looking statements, and our actual results may differ from those predicted. Some of the factors that may cause them to differ are included in our 2011 10-K. Our presentation will also 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 corporate Web site at www.nytco.com.

Now I will turn the call over to Arthur Sulzberger.

Arthur Sulzberger, Jr.

Thank you, Paula, and good morning everyone.

I am pleased to say that 2012 is off to a good start. Our first-quarter results are a testament to our successful digital strategy. Just one year after launching digital subscriptions at The Times, subscribers to paid digital products across the Company totaled approximately 472,000. Our strategy has provided a model for the rest of the industry, and we continue to see reports that a growing number of U.S. newspapers are adopting metered models.

Even as the advertising environment remains challenging on both the print and digital fronts, this year we expect to build on that strong start as we embark on our second year of paid digital subscriptions. We are exploring opportunities to deepen our readers' engagement through mobile, video and social media, all of which have been growing rapidly.

And we are investigating opportunities to further extend the Times brand and expand its global footprint. As an example, in February we launched Science Times China, a monthly magazine based on our Science Times coverage translated into Chinese and distributed in the largest cities in China.

Underlying most of our growth opportunities is our award-winning journalism – the strength and depth of which are unmatched in the industry. It was announced earlier this week that for the second consecutive year, all three newspaper units owned by the Times Company in 2011 won Pulitzer Prizes. The New York Times won two, for explanatory and international reporting; The Boston Globe won for film criticism; and The Tuscaloosa News won for breaking news reporting. While the global news environment continues to change dramatically, our quality journalism – with its broad scope and in-depth analysis – positions us as a continued leader in the news space.

Disciplined cost management is a key element of managing our business. Our challenge remains − how do we maintain our high-quality journalism while further reshaping our Company for the future. This involves the careful balancing of our investments to support our digital initiatives while finding further cost efficiencies across the organization.

During the quarter we made progress on our search for a new CEO. Our Board of Directors has retained the global search firm Spencer Stuart, and we are looking both internally and externally for an executive who meets our needs. We will take the time necessary to find the right person for the role.

And now I would like to turn the call over to Jim Follo.

Jim Follo

Thank you, Arthur, and good morning, everyone.

Our first-quarter results reflect continued strength on the circulation side of our business, led by the introduction about a year ago of The Times's digital subscription packages, as well as solid cost management, which together enabled us to achieve 9 percent growth in operating profit before depreciation, amortization and severance. This growth was despite continued uncertainty in the advertising marketplace.

In the financial results reported earlier this morning, the results of the Regional Media Group, which was sold early in the first quarter, are reported as discontinued operations for all periods presented.

We continued to refine and build upon our digital subscription initiatives in the first quarter. The Times recently reduced its pay meter count to 10 articles from the original 20, and both The Times and BostonGlobe.com grew their digital subscriber bases in the quarter. We are pleased with our progress to date in creating a robust new revenue stream based on charging for digital access to our award-winning content.

Overall circulation revenues were again bolstered by these digital paid products, especially at The Times. Total circulation revenues were up 10 percent for the Company and 13 percent for The Times Media Group in the quarter. Our new consumer revenue stream was enhanced by the improvement in home-delivery circulation we have seen following the launch of digital subscriptions in the form of new orders and improved retention rates, as well as by the print price increases implemented at The Times at the beginning of the year.

While total revenues for the Company were flat, the advertising environment again presented challenges in the first quarter. Digital advertising revenue was down 10 percent, driven by ongoing challenges at the About Group, which saw a 24 percent decline in advertising revenue, while digital advertising revenue at the News Media Group decreased 2 percent. Print advertising trends improved slightly from the fourth quarter and finished down 7 percent, while overall advertising revenues were down 8 percent.

We maintained our focus on managing costs in the quarter. The Company's operating expenses before depreciation, amortization and severance declined 1 percent. On a GAAP basis, costs were up 1 percent, and we reported operating profit from continuing operations of $20 million in the first quarter compared to $26 million in the same period of 2011.

Diluted earnings per share from continuing operations excluding severance and special items was 8 cents in the first quarter compared with 0 cents in the same period of 2011. On a GAAP basis, we reported diluted EPS of 9 cents from continuing operations in the quarter compared with 2 cents in the first-quarter 2011 period.

Returning to our digital initiatives, as we recently announced in conjunction with the anniversary of our digital subscriptions, as of March 18 The Times Media Group had about 454,000 paid digital subscribers, up 16 percent from the fourth quarter. This number includes subscribers to The Times and International Herald Tribune digital packages, e-readers and replica editions. The Boston Globe had about 18,000 paid digital subscribers to BostonGlobe.com as of March 18, also including e-readers and replica editions. The sponsorship of more than 100,000 Times users ended in December, and we have already converted a large number of those readers to digital subscriptions and expect to continue that process into the second quarter.

In addition to the sale of our Regional Media Group for approximately $140 million in January, in the first quarter we also completed the sale of 100 of our remaining units in Fenway Sports Group for $30 million, resulting in an $18 million pre-tax gain. We still own 210 FSG units and continue to actively market that remaining stake.

Now let me provide more depth on our first-quarter revenues.

At the News Media Group, digital advertising showed weakness and was down 2 percent, while print advertising decreased 7 percent. The Group's total advertising revenues, which declined 6 percent year-over-year in the quarter, saw sequential improvement in the last two months, declining 9 percent in January, 7 percent in February and 2 percent in March.

The Group's weakness in digital advertising was led by declines in real estate classified and national display, which was soft in the first two months of the year but returned to healthy growth in March. In the first quarter, we saw digital gains in retail display as well as in the automotive classified category.

Within the News Media Group, at The Times Media Group, while overall revenues were up 3 percent in the quarter, advertising revenues were down 5 percent as growth in both print and digital retail advertising was more than offset by national and classified print declines. Aggregate national advertising declined, and aggregate classified advertising was also lower.

The Times's digital strategy is focused on continuing to grow its subscriber base and extend its digital brand. We plan to build on our success in the second year of paid digital subscription offerings through both the recent pay gate adjustment to 10 free articles and through the ongoing rollout of new features, functions and content. Most recently we enhanced our Times offerings by including group corporate accounts and special rates for college students, faculty and administrators. We plan to launch group accounts for education subscribers in the second quarter.

Ongoing investment in our content will continue to be a critical component of our digital strategy, as we expand some current content to drive increased engagement levels and create some entirely new homes for content. For instance, The Times just this week redesigned its popular health blog, Well, to better showcase the breadth of its expanded health and wellness content. And we remain focused on building our offerings particularly in the areas of mobile, social media and video. In the first quarter, for instance, The Times launched Business Day Live, a video program that features original news reports from The Times's business, media and technology desks on the NYTimes.com homepage every weekday morning. The program is broadcast live from The Times newsroom and complements the TimesCast reports that appear on NYTimes.com on weekday afternoons. Premium advertisers are increasingly embracing such environments.

Our print platform has been positively impacted by our digital strategy as well. The initial benefits to home-delivery circulation should again be evident in the upcoming ABC report for the period ending March 2012, capturing the continued early success of our pay gate. The Times's Sunday home-delivery volume again showed positive year-over-year growth in that six-month period, this time at nearly 2 percent. This latest data is another clear indicator of the multiplatform demand for our products.

Also on the circulation side, at the beginning of 2012, The Times instituted a price increase of 4 percent, on average, for home delivery across all days of the week and a 50-cent-per-copy rate increase for the weekday single-copy edition. This was our first increase in 2½ years. We anticipate this change will contribute to the improvement in Times circulation revenue in 2012, despite the slight volume declines that inevitably accompany a price increase.

At the New England Media Group, advertising revenues declined 12 percent in the quarter, mainly due to weakness in print advertising. Overall national ad revenue was down, and total retail advertising revenue was also lower. Digital classified ad revenue showed growth – reflecting increases in automotive and recruitment – but combined classified advertising revenue was down, resulting from continued print weakness.

On the circulation front, in April The Globe instituted a price increase of 25 cents per copy for the weekday single-copy edition in the Boston metro area and 50 cents outside that area. For seven-day home-delivery customers, there will be a price increase of about 6 percent. The Sunday-only rates remain unchanged. This was also The Globe's first circulation increase since 2009.

At the beginning of the second quarter, The Globe also launched a new digital replica edition, enabling subscribers to enjoy the actual print edition enhanced with digital features on their computers, tablets and mobile devices. The Boston Globe ePaper is available on BostonGlobe.com as well as in the iTunes store as an iPad and iPhone app.

Moving on to the About Group, total revenues decreased 23 percent to $24 million in the first quarter, with decreases in cost-per-click and display advertising both contributing to the decline.

About is beginning to show progress in its turnaround efforts, particularly on the display side, but there is still more work to be done. The group continues to aggressively respond to increased competition in both the display and search advertising markets, and we are moving forward with a variety of initiatives to address these challenges.

Declines in CPC advertising in the first quarter continued to result from lower click-through rates. Lower advertising rates for CPC ads remained an issue as well, a trend that was in line with the marketplace.

In the fourth quarter About began to see a positive impact on traffic, and that trend continued into the first quarter, with page views up 6 percent in the quarter. However, the traffic strength was offset by lower click-through rates and ad rates on the CPC side and the gradual ramp-up of the new sales team on the display side. As a result, we don't expect to see meaningful improvement in revenue trends until the second half of 2012, when display advertising is expected to return to growth.

On the display side, About has made strides in its sales plan to better leverage the site's strong reach, averaging 60 million monthly unique visitors in the U.S. in the first quarter. The Group rebuilt its sales force in the second half of 2011 and is slowly increasing sales activity. That said, much of the team is still new and will take time to perfect its execution.

The About Group's operating costs were flat in the first quarter, and operating costs excluding depreciation, amortization and severance increased 4 percent to $15 million. Operating costs in the first quarter of 2011 were reduced by a benefit from the sale of UCompareHealthCare.com, which more than offset the declines in compensation and benefits expense in the first quarter of 2012. Operating profit declined to $7 million in the quarter.

On a Companywide basis, our focus on controlling expenses led to the reduction of operating costs excluding depreciation, amortization and severance by 1 percent in the quarter, mainly due to lower benefits and outside printing expense, partially offset by higher compensation and various other costs.

However, we still expect costs to increase modestly this year. We plan to increase spending as we continue to invest in our digital capabilities and subscription acquisition efforts, invest in About's sales and marketing efforts, and reset our variable compensation targets, even as we expect expense savings in our production and distribution operations and from further leveraging our centralized processes and resources. Early this second quarter, we completed the consolidation of most of the Worcester Telegram & Gazette's printing into a Globe facility. The Globe has also begun to see the financial benefit from printing and delivering a local competitor, resulting in higher production costs as well as the associated revenues.

In the first quarter, our liquidity position was improved further as we recognized the cash proceeds from January's RMG sale and February's sale of FSG shares, bringing our cash position to $431 million. Two of our priorities for this cash will be managing the underfunded levels of our pension plans and paying off our $75 million 4.61 percent notes that mature later this year.

Depreciation and amortization increased to $32 million in the quarter, with the increase entirely attributable to the accelerated depreciation expense related to the Worcester consolidation, which was $7 million.

Turning to our outlook, in the second quarter advertising revenue trends for the News Media Group are expected to be similar to the first-quarter level, while at the About Group advertising revenue trends are expected to improve modestly.

Although at the beginning of the second quarter we cycled through the first full year of digital subscription packages at The Times, we expect to see continued benefit from these initiatives, as well as from the print price increases, and total circulation revenues are projected to increase in the high-single digits in the second quarter.

And as I alluded to earlier, operating expenses are expected to increase in the low-single digits in the second quarter.

And with that we'd be happy to take your questions.