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Q1 2024 Dallasnews Corp Earnings Call

EVENT DATE/TIME: MAY 16, 2024 / 2:00PM GMT

## CORPORATE PARTICIPANTS

**Gary Cobleigh** *DallasNews Corporation - Director, Accounting*

**Katy Murray** *DallasNews Corporation - President, Treasurer, Corporate Secretary*

**Grant Moise** *DallasNews Corporation - CEO*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by and welcome to the DallasNews Corporation's earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Gary Cobleigh, please go ahead.

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### **Gary Cobleigh** *DallasNews Corporation - Director, Accounting*

Good morning, everyone. This is Gary Cobleigh, Vice President and Controller of DallasNews Corporation. Welcome to our first quarter 2024 investor call. I'm joined by Katy Murray, President of DallasNews, who will be reviewing the financial results; and Grant Moise, Chief Executive Officer, who will provide brief business remarks. Cathy Collins, DallasNews' Chief Financial Officer is unable to attend today's call but will be available for our second quarter investor call.

Earlier this week, we issued a press release announcing the Company's plan to move our printing operations from Plano to a smaller facility in Carrollton. Katy and Grant will provide additional clarity on this announcement in a moment. Yesterday afternoon, we issued a press release announcing first quarter 2024 results, and we filed our first quarter 10-Q. All of these are posted on our website, [dallasnewscorporation.com](https://dallasnewscorporation.com) under the Investor Relations section.

Unless otherwise specified, comparisons used on today's call measure first quarter 2024 performance against first quarter 2023 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.

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### **Katy Murray** *DallasNews Corporation - President, Treasurer, Corporate Secretary*

Good morning, everyone, and thank you for joining today's call. I'm going to start with a discussion of the company's first quarter results and then provide financial commentary on our printing operations announcement before I turn the call over to Grant.

On a GAAP basis for the quarter, DallasNews Corporation reported a net loss of \$1.4 million or \$0.25 per share and an operating loss of \$1.8 million. In Q1 last year, we reported a net loss of \$2.6 million and an operating loss of \$2.8 million.

On a non-GAAP basis for the quarter, we reported an adjusted operating loss of \$800,000 or an improvement of \$1.4 million or 64% when compared to an adjusted operating loss of \$2.2 million reported for the same period last year. The improvement is primarily due to expense savings of \$2.5 million in distribution, \$1.6 million in employee comp and bene and \$900,000 in newsprint, partially offset by a total revenue decline of \$4.1 million.

We reported \$31.1 million of total revenue for the quarter compared to \$35.2 million last year. The decline is primarily due to a \$3.7 million or 39.3% decrease in print advertising revenue, driven by the Company's strategic decision last year to discontinue our shared mail program and print only editions of our niche publications. Excluding the Shared Mail and publications impact, all other advertising and marketing services revenue increased \$100,000 or 1%.

Circulation revenue increased \$300,000 compared to Q1 of last year. The digital-only subscription revenue increase of \$900,000 or

25.2% offset the print circulation revenue decline of \$600,000 or 5%. As of March 31, the news had 62,434 digital-only subscribers, which is a 6,616 or 9.6% year-over-year decline. While digital subscribers declined, the increase in digital-only subscription revenue is the positive result of the Company's focus on finding the optimal balance of volume and price.

Total subscribers, including both home delivery and digital was 129,857 as of March 31, and that compares to 132,694 as of the end of last year, and 145,369 as of March of last year.

Printing distribution and other revenue was \$3.2 million a decrease of \$700,000 or 18.7% when compared to the first quarter of last year, primarily due to a decline in commercial printing and distribution revenue as well as mailed advertisement for business customers.

On a non-GAAP basis, total adjusted operating expense for the quarter was \$31.9 million, an improvement of \$5.5 million or 14.7% when compared to the same period last year. Driven by expense savings of \$2.5 million in distribution, primarily resulting from the Shared Mail program and niche publication changes made in the third quarter of last year, \$1.6 million in employee compensation and benefits and \$900,000 in newsprint. Newsprint expense is favorable year over year as a result of lower circulation and the newsprint purchase price has continued to trend favorably.

The cost of newsprint in March was \$615 per metric ton, a 24.7% year over year decrease. We expect to continue realizing these savings in the second quarter. but pricing may level off later this year. As of March 31, headcount was 531, down 121 headcount compared to last year, resulting from the voluntary severance program we offered to participants in 2023 and the additional first quarter headcount reductions made within Medium Giant.

Cash and short-term investments were \$18.4 million on March 31 and as of last Friday, May 10, we had \$19 million in cash and cash equivalents. For the quarter, the company recorded \$200,000 of tax expense for the Texas franchise tax. We expect to pay approximately \$540,000 of Texas franchise tax to fiscal year 2023 later this month. On Tuesday, we announced the streamlining and relocation of our print operations to a smaller facility. This decision is a key step in our return to profitability.

The transition is expected to be completed in early 2025 and once completed, will lead to approximately \$5 million in annualized operating expense savings. These savings will be generated from a reduction in headcount of about 85 employees and other operating expense reductions related to the facility move.

Over the next eight months, we will be making an estimated \$8 million of capital investment in a press and other related equipment. Given the investment, the Board of Directors decided to suspend the declaration and payment of dividends until further notice.

I was pleased to see the financial progress we made in the first quarter, and I'm looking forward to the successful transition of our print operations to a more efficient and streamlined process.

I will now turn the call over to Grant.

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**Grant Moise *DallasNews Corporation* - CEO**

Thanks, Katy, and good morning, everyone. The favorable first quarter results, coupled with the recent announcement to streamline our printing operations, reflect management's and our Board's steadfast commitment to returning to a sustainably profitable business outlined in our return to growth plan.

In the first quarter, I was particularly pleased with our revenue performance. Medium Giant's revenue from continued operations grew 1% in the first quarter, which is an encouraging sign that we're delivering on the products and services our client's value most.

This growth also assures me we made the right move in exiting our Shared Mail business last year since advertiser interest was waning and it's allowed our Medium Giant sales team to focus on more relevant marketing solutions. The first quarter also provided evidence that the print advertising business is resilient. When we look at it without the preprint business, our ROP revenue remained flat compared to prior year which continues a multiyear trend of ROP stability.

I'm also encouraged by the circulation revenue growth we saw in the first quarter. Circulation revenue improved 1.8% year over year. This growth was driven by our focus on charging a premium price for our digital content. But we also know that we will need to continue to find the optimal balance that Katy was referring to between price and volume. Our headwinds in digital volume were expected during this time since we shortened our introductory pricing in the second half of last year and as we look forward, we will focus on a sustainable strategy that balances price with the ability to continue to grow our digital subscriber base.

Shifting our attention on Tuesday -- to our announcement on Tuesday that we'll be moving our print operation to a facility that is commensurate with our current volumes, I want to focus on two specifics of that decision. First is the financial improvements Katy mentioned and the second is the opportunity to monetize the North plant property. Our financial improvement in our business operations is an important component of this decision. I am confident we can improve our operating expense by \$5 million annually, which will play a significant role in returning the Company to profitability.

As we have shown over the past four quarters, we are improving our adjusted operating loss consistently. This estimated \$5 million improvement from the facility change when combined with our ongoing improvement from current operations gives me confidence that we're moving in the right direction financially. This decision also allows us to patiently weigh our options with the 29 acre property in Plano, which is zoned as a light industrial property.

Light industrial zoning provides a variety of options with the North Plant, including the potential uses of data center or other types of logistics operations that are popular in our e-commerce driven society. It will take us at least eight months to get the new facility in Carrollton up and running. And while we're getting that operation moving, we will immediately start looking at the best options for how to monetize the Plano property.

Overall, I see encouraging signs in both our first quarter operating metrics and our long-term strategic moves highlighted by the transition to more efficient print operations. All of these moves are motivated by our desire to build a sustainable media and marketing company that supports excellent local journalism.

The excellence of our journalism was recognized over the first quarter with a myriad of awards we won ranging from winning the Newspaper of the Year and Texas by the Texas Managing Editors to also winning national awards for the amazing work we did last year with our Deadly Fake series, which focused on the fentanyl epidemic happening throughout North Texas.

Last but not least, we added an important role to our company last month with the announcement of Stephen Buckley as the new Public Editor of The Dallas Morning News. My team and I felt it was time to do something bold to address the lack of trust in the media. So we put this unique position in place to help bridge the gap between the public and our newsroom. The early response to this initiative has been encouraging, which we hope leads to greater trust in the media and ultimately to improved subscription acquisition and retention.

Lois, let's now open it up to questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

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### **Katy Murray DallasNews Corporation - President, Treasurer, Corporate Secretary**

Lois, well, thank you. I'd like to thank everyone for joining our call today. Thank you for listening. And obviously, as we said, we had recorded this and it will be available on the website, and we look forward to updating everyone on our second quarter 2024 earnings call, which will be held sometime later in the summer. Thank you, everyone.

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**Operator**

Thank you. And ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. This is an AT&T teleconference. You may now disconnect.

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