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Q3 2021 Dallasnews Corp Earnings Call

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CORPORATE PARTICIPANTS

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Grant S. Moise *DallasNews Corporation - President & Publisher of The Dallas Morning News*

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

Robert W. Decherd *DallasNews Corporation - Chairman, President & CEO*

CONFERENCE CALL PARTICIPANTS

Chris Mooney

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the DallasNews Corp Third Quarter 2021 Investor Call. (Operator Instructions) As a reminder, your conference call today is being recorded. I'll now turn the conference call over to your first speaker, Gary F. Cobleigh. Please go ahead.

Gary F. Cobleigh *DallasNews Corporation - VP, Controller*

Good morning, everyone. This is Gary Cobleigh, Controller of DallasNews Corporation. Welcome to our third quarter 2021 investor call. I'm joined by Katy Murray, Chief Financial Officer, who will be reviewing third quarter 2021 financial results and Robert Decherd, Chairman, President and Chief Executive Officer of DallasNews Corporation. Grant Moise, Publisher and President of the Dallas Morning News is also here and available for Q&A.

Yesterday afternoon, we issued a press release announcing third quarter 2021 results, and we filed our third quarter 10-Q. 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 third quarter 2021 performance against third quarter 2020 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 will now turn the call over to Katy.

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

Good morning, everyone. Thank you for joining today's call.

DallasNews reported third quarter 2021 net income of \$1.6 million or \$0.30 per share and an operating loss of \$2.6 million. In the third quarter of 2020, the Company reported a net loss of \$100,000 or \$0.02 per share and an operating loss of \$2.4 million. The third quarter of 2021, net income includes a tax benefit of \$2.4 million, primarily related to the release of a noncash uncertain tax reserve recorded in December of 2017. The statute of limitations expired in this quarter.

Adjusted operating loss, which adjusts GAAP operating loss to exclude severance expense, depreciation, amortization, and asset disposals and impairments was \$1.2 million for the third quarter, a decline of \$1.1 million when compared to an adjusted operating loss of \$100,000 reported in the third quarter of last year. The decline is due to increases of \$900,000 in employee compensation and benefit expense and \$700,000 in revenue-related outside services expense, partially offset by an increase in total revenue.

For the third quarter this year, total GAAP revenue was \$38.3 million, an improvement of \$600,000 or 1.5% when compared to the \$37.7 million reported for the third quarter of last year. The improvement is primarily due to an increase of \$900,000 or 15.5% in digital advertising revenue and \$700,000 or 42.5% in digital subscription revenue, partially offset by a print advertising decline of \$300,000 or

2.5% and a print circulation revenue decline of \$700,000 or 4.9%.

Last year, in the early stages of the pandemic, we sold personal protective equipment through our digital marketing automation platform. Because that platform was used to order the equipment, the revenue was included in digital advertising and marketing services revenue. Therefore, for comparative purposes, when excluding the sales of personal protective equipment last year, digital advertising and marketing services revenue grew \$1.4 million or 26.1% for the third quarter and \$1.8 million or 10.4% year-to-date. This year-over-year growth in digital advertising and marketing services revenue was generated from sales of high-margin owned and operated assets such as digital advertising on dallasnews.com, creative and strategic brand marketing services and web development.

Revenue generated from digital advertising on dallasnews.com grew \$400,000 or 49.5% for the third quarter and \$800,000 or 33.9% year-to-date when compared to last year's comparable periods. This growth reflects our strategic focus on driving revenue from the Company's owned and operated assets. An example of the growth we are seeing in digital advertising and marketing services is a recently won RFP having a total contract value of approximately \$1 million. This agreement will primarily focus on strategic and branding services and replaces services provided by an incumbent agency.

Total circulation revenue in the third quarter was \$16.2 million, a slight increase when compared to \$16.1 million reported last year. This is the second consecutive quarter to show year-over-year circulation revenue growth. The continued stability in total circulation revenue is the result of a number of initiatives focused on subscription pricing, lowering attrition in print subscribers and growing digital subscriptions. The news currently has approximately 147,000 print and digital subscribers. This compares to 136,000 print and digital subscribers in Q3 of last year and 143,000 in Q2 of this year.

Digital circulation revenue was \$2.5 million in the third quarter of this year, an increase of \$700,000 or 42.5% compared to last year. The News ended the third quarter of 2021 with 57,084 paid digital-only subscriptions, an increase of 10,361 or 22.2% when compared to the third quarter of last year and 4,154 or 7.8% when compared to last quarter. New digital subscription starts are up 35% year-over-year.

Print circulation revenue for the third quarter was \$13.7 million, a decrease of \$700,000 or 4.9% when compared to the prior year. As I noted, the News has experienced relative stability in its print subscriber base as home delivery revenue only declined 4.6%. Single copy sales declined 7.9%. For the 9 months ending September 30, 2021, home delivery revenue declined 3.8% and single copy sales declined 15.5%. Single copy sales have improved over the course of this year as we are seeing people return to pre-pandemic schedules and activities.

Other revenue reported in the third quarter of this year was \$4.1 million compared to \$4.2 million reported in the third quarter of last year. The decline is due to \$100,000 decrease in commercial printing revenue. Third quarter 2021 total GAAP operating expense was \$40.9 million, an increase of \$700,000 or 1.8% compared to the third quarter of last year. The change is due to increases of \$700,000 in revenue-related outside services expense and \$600,000 in employee compensation and benefit expense partially offset by a decrease of \$700,000 in depreciation expense. The employee compensation and benefit expense increase is primarily due to medical cost savings in the third quarter of 2020 and restoring employee's base salaries to pre-pandemic amounts, beginning last year.

As I noted earlier, the Company recorded a tax benefit of \$2.4 million in the third quarter of this year. The sale of the Denton Record-Chronicle in December of 2017 resulted in the Company recording a noncash uncertain tax reserve of \$2.6 million. The federal statute of limitations lapsed in August and this noncash reserve was reversed.

As of September 30, 2021, the Company had 672 employees, a decrease of 78 or 10.4% when compared to the prior year. Cash and cash equivalents were \$34.7 million, and the Company has no debt. Currently, the Company has approximately \$34 million in cash and cash equivalents.

Overall, our financial results and the progress we are making in growing digital-based revenue are very encouraging. I will now turn the call over to Robert.

Robert W. Decherd *DallasNews Corporation - Chairman, President & CEO*

Katy, thank you, and good morning, everyone. As noted in previous shareholder communications, we are investing in the business, and this will continue over the next 2 to 5 years. It results in operating losses in the earlier part of the transition, but we've eventually become an even more dynamic digital-focused company. At the same time, the Board is keenly aware of the need to return capital to shareholders while becoming a sustainably profitable business.

And we are optimistic that events anticipated for 2022 will help advance both priorities.

As Katy noted, we're very encouraged by the operating trends we saw in the third quarter and indications are that these will continue through the end of 2021 and into next year. Improved sales of owned and operated revenue and digital subscription revenue growth remain the keys to creating long-term enterprise value. The circulation performance Katy outlined is very promising in this context.

Good news on the product and DEI front is recent word that the Dallas Morning News has been recognized by the National Association of Black Journalists with its Best Practices Award for our work with Dallas-based Texas Metro News as well as The News' overall coverage of the social justice movement. This is only the beginning of The News' commitment to better reflect the entire community we serve.

As we've reported along the way, the Company's pension plans are stable and in sound financial condition. We further derisked the plans this month and continue to hold at a funded percentage of 94% to 95%. There will be no mandatory pension contributions for the foreseeable future.

This month, we completed vacating the Company's leased office space at Campbell Center in Dallas by subleasing the space over the remaining term of our lease, which ends in 2023. We generate an incremental \$1.3 million in cash that would not have been received otherwise.

Finally, Dunia Shive's election to the Board of Directors last month is an important moment in so far as continuing to add expertise and insight to our Board's deliberations. Dunia is a highly successful media executive with substantial digital knowledge. She fully understands the complexities of the course we have chosen for DallasNews Corporation and brings to bear insight to gain from serving in leadership roles on other much larger publicly company boards.

Operator, we're going to pause at this point, take questions, and we look forward to a healthy Q&A here. So we're all square on the formal remarks.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) For our first question, we will go to the line of Chris Mooney with Wedbush Securities.

Chris Mooney

Can you -- I hope you could hear me?

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

We can, Chris.

Chris Mooney

Katy, help us out a little bit at the -- on the second quarter conference call, I believe you said at the time that you had approximately \$40 million in cash. And this morning, you said you now have \$34 million in cash. Can you walk us through where the \$6 million difference rise?

Mary Kathryn Murray DallasNews Corporation - Executive VP, CFO, Treasurer & Assistant Secretary

Yes. I mean, Chris, primarily from the second quarter to now, we had a fair amount of severance that was paid out. As you recall, we offered the VSO. And so there was almost approximately \$2 million in cash that went out from a VSO perspective. The other thing that we did have in the quarter, as you know, we also had our dividends, our normal dividend that went out. There really wasn't anything extraordinary. But I would say that the main difference between that is really the payment of the severance related to the VSO offering that we had. Everything else has been normal course of business. There may have been some timing around when the quarter ends between accounts payable and payroll. But right now, our cash balance is where we had expected it to be.

Chris Mooney

And what's the quarterly dividend rate?

Mary Kathryn Murray DallasNews Corporation - Executive VP, CFO, Treasurer & Assistant Secretary

It's \$16 per share.

Chris Mooney

Dollars.

Mary Kathryn Murray DallasNews Corporation - Executive VP, CFO, Treasurer & Assistant Secretary

It's \$0.16 per share, and it's approximately.

Gary F. Cobleigh DallasNews Corporation - VP, Controller

\$850,000.

Mary Kathryn Murray DallasNews Corporation - Executive VP, CFO, Treasurer & Assistant Secretary

\$850 -- \$850,000.

Chris Mooney

Robert mentioned that you did something with the pension plan. Is that post quarter, so in the fourth quarter?

Mary Kathryn Murray DallasNews Corporation - Executive VP, CFO, Treasurer & Assistant Secretary

Well, what we did in the pension plan, and we did do this, it was effective in October. If you recall, it's been earlier, I think, even this year, we modified our investment strategy to really take out the risk of the asset returning assets. We had been at an investment break between -- we had 45% asset return seeking and 55% hedged. We had moved that to approximately 90% asset return seeking and 10% hedged. And we have recently in this past month or this current month, move that to 5% asset return seeking and 95% hedged.

Really, Chris, this opportunity for us with our pension plan staying around 94% and 95% funded felt like that was the right thing to do, to be able to sustain that funded percentage, allowing a lot of the market activity that we've been seeing. It does not impact us from an asset perspective. So when the markets go up, our hedging offsets that. So again, while we have this opportunity and we have no mandatory cash contributions, felt like it was the right thing to really go ahead and hedge the pension plan even more. If there's a point in time in the future that we wanted to change that investment portfolio, we could, obviously, do that with no cost, but that would be something we would decide later in the future and obviously disclose that on the call if we make such a decision.

Robert W. Dechard DallasNews Corporation - Chairman, President & CEO

Yes. Chris, let me just stay with that for a second. As you know, there are several factors in determining your pension liability, and it's even reported in 2 different forms. With the discount rate potentially moving up, this makes even more sense. And the other factor is that since we froze the plan 20 years ago, we really are skewed in terms of age of participants well to an older cohort. And that group of employees who are active as they move into the plan, they retire, move into the plan and then the plan itself is effectively improving its financial condition as the actuarial tables go to work. We can just sit on this for a long time. And since we view it as our only real debt or liability in that regard, having it in a certain condition just seemed to make a lot of sense to the Pension Investment Committee, which Katy chairs and Ron McCray, our Audit Committee Chair, sits on.

Chris Mooney

You appear to be in a very good position there. Just wanted to clarify for myself and maybe others that, that was not a cash infusion.

Robert W. Decherd DallasNews Corporation - Chairman, President & CEO

No, no, no, this was strictly changing the portfolio mix.

Chris Mooney

Could we get a little more color on the \$1 million new contract. Is that within the old Belo Company? Or where is that business being generated?

Grant S. Moise DallasNews Corporation - President & Publisher of The Dallas Morning News

Yes. That's correct, Chris. It's Grant. That is Belo and Company. It's just a sign of kind of continued -- it's a great example of the type of and size of accounts that, that team is going after -- it's a big win for us. It's a regional company here in North Texas. But I think the thing and the reason why we really called that out is -- we've been working Eric Myers, who leads that group, and his team have done a heck of a job really moving more into what we call strategic and branding services, which -- those are things where -- they're paying for our brains. They're paying for the talent of our group, and those accounts, Chris, have proven to be stickier in terms of the tenure that they'll stick with us rather than those where we're simply kind of buying media on their behalf.

Chris Mooney

Okay. Continued progress to -- for Belo. And you've vacated the offices. I assume. I saw the note in the queue that you would sublease some space. So it was just the old Belo space in the Campbell Center? (inaudible)

Mary Kathryn Murray DallasNews Corporation - Executive VP, CFO, Treasurer & Assistant Secretary

It was, Chris. So we've subleased the fifth and the 16th floor. So very excited to be able to have done that during this kind of uncertain rental time. And as Robert mentioned, we are fully subleased through the end of the lease term, which is August of 2023.

Operator

(Operator Instructions)

Mary Kathryn Murray DallasNews Corporation - Executive VP, CFO, Treasurer & Assistant Secretary

Yes. With no more questions, I think we will go ahead and conclude the conference call. We want to thank everybody for joining us. And we look forward to our next conference call, which will be on our year-end results in early 2022. Thank you so much.

Operator

Ladies and gentlemen, that will conclude your conference call for today. Thank you for your participation and for using AT&T Event Teleconferencing. You may now disconnect.

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