

The New York Times Company
Fourth Quarter 2020 Earnings Conference Call
February 4, 2021

Harlan Toplitzky

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

On the call today, we have:

- Meredith Kopit Levien, president and chief executive 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.nytc.com.

With that, I will turn the call over to Meredith Kopit Levien.

Meredith Kopit Levien

Thanks, Harlan, and good morning everyone.

2020 was a year none of us could have imagined: The pandemic, its devastating human toll, and its many economic reverberations; a national reckoning over race and social justice; a bitterly contested U.S. presidential election; and an unending hunger for relief from it all. The need for quality, independent journalism was as acute as ever, and my colleagues across The Times rose to meet that need. They did so with energy and rigor commensurate with our mission.

Their work, which was consumed at historic levels, led to a year of strong business results. As of the end of 2020, The Times now has 7.5 million total subscriptions across our digital and print products and, notably, News crossed the 5 million digital subscriptions mark.

Thanks to acceleration of growth in our digital subscription business and, to a lesser degree, disciplined cost management; and despite the loss of 138 million dollars in high-margin advertising revenue last year, we recorded a slight increase in annual adjusted operating

profit.

That increase was driven by 2.3 million net new digital subscriptions and a 30 percent increase in total digital subscription revenue, a 15 percentage point acceleration compared to last year. All three of our products — News, Cooking, and Games — broke all previous records for annual net adds. And we saw continued success with our two strategic pricing initiatives in News: stepping up promotional subscriptions to higher prices at the one-year mark, and nearly a full year of our first-ever price increase on tenured subscriptions.

The strong news cycle has continued to mean record audiences, albeit with real fluctuations. During election week, 273 million global readers came to The Times, nearly doubling our previous weekly record. And reader tools like our expansive Coronavirus database and Covid-19 vaccine information — still among the most comprehensive of their kind — continue to drive elevated traffic.

Now, I can't tell you which storylines will drive outsized audience growth in the future, just like few could have predicted a devastating global pandemic or a violent assault at our nation's Capitol. Indeed, the news cycle will change and audiences will fluctuate, which could mean considerable variability in net subscription additions in any given quarter. And, as I said in the last earnings call, we regard 2020 as an outlier year for net subscription additions.

But whatever the news cycle, I believe we are well positioned to deliver continuous growth, and in 2021, more growth than we drove in 2019. We're more than a year into our registration-based customer journey, and we're encouraged to see that while many readers convert immediately in moments of high news need, there are plenty of others who do so over time as they begin to understand and experience The Times's breadth and value. And with each passing quarter, our understanding of audience signals and our ability to act on them grows, making it easier to drive conversion.

Advertising also performed better than expected in the fourth quarter. The pandemic substantially impacted our ad business all year, and we experienced a hastening of declines in traditional print categories at least some of which are unlikely to return.

But we also saw some stabilization in our digital ad business by mid-year. In fact, if you control for the closure of our services businesses, HelloSociety & Fake Love, and for our removal of open-market programmatic advertising from our apps at the beginning of the year, full year digital advertising revenues would have declined much more modestly, instead of the 12 percent we're reporting today. We credit that stabilization to the increasing potency of our ad products, and to our advertising team's continued ability to rapidly transform our value proposition.

In advertising, first-party, data-targeted media and audio remain our biggest growth drivers. In the second half of 2020, we introduced more unique first-party audience products, which

are performing well.

We also recorded \$36 million in podcast advertising revenue in 2020, up \$7 million from the prior year, powered by our expanding portfolio of audio programs. We expect podcast revenue growth to be strong into 2021, as we continue to see steady demand for The Daily and our other shows, and as we benefit from our acquisition of Serial and the rights to sell advertising against This American Life.

Now let me set all of these results into a broader strategic context as we begin what feels like more than just another new year.

Last year, we achieved two key milestones: digital revenue overtook print, and digital subscription revenue, which has long been our fastest growing revenue stream- from this point forward - will also be our largest. Those two milestones, and our best year on record for subscriptions, mark the end of the first decade of The Times' strategic transformation to a digital-first, subscription-first company.

They also mark the beginning of a new decade.

The Times sold its first digital subscription ten years ago this quarter. Reflecting back, these last ten years have been all about proving out our strategy of journalism worth paying for through direct-to-consumer digital subscriptions.

The next decade will be about scaling that idea.

A close look at the investments we made last year gives you a picture of our emerging plans in three areas: News, product work, and standalone products.

I'll start with News. Success going forward will continue to rely first and most on the quality, breadth, and differentiated value of our news report. So, in the coming year, we'll continue to invest thoughtfully in our 1,700-strong newsroom, particularly around covering the biggest stories of our time.

One of our core convictions about our growth in the next decade is that we are just at the beginning of unlocking all that digital news can be and do in peoples' lives. To tap that potential, we will also continue adding digital product talent — engineers, product designers, data scientists, and product managers — whose work will make our journalism more accessible, engaging, and impactful.

Our investment in product work is already helping The Times begin to meet more news needs. In 2020, we improved our experience for up-to-the-minute coverage, expanded our use of visual and data journalism, created new story formats, and began to personalize aspects of our customer journey, all of which are beginning to drive increased engagement.

While our product progress is increasingly evident to consumers, we still have plenty of work to do and investment to make to ensure that our underlying tech architecture, strategy, and

culture match our growing ambitions.

Some of our focus on improving those platforms lies in our growing ambitions around news-adjacent products. As I've alluded to in the past, we see even bigger market opportunities for both Games and Cooking, and given their growth potential, we expect to invest more in content, product development and marketing in these products than we have in previous years.

We're also thinking hard about expanding our subscription product portfolio. This year, we'll test the possibility of a subscription product for Wirecutter, and experiment more aggressively with Audm, the read-aloud audio subscription service we acquired in mid-2020. We see all of those products as a way for The Times to mean ever more in people's lives, and also to make a relationship with The New York Times brand more valuable.

Speaking of more valuable: ten years after we launched the pay model, with 6.7 million digital subscriptions and nearly 600 million dollars in annual digital subscription revenue, the opportunity has proven far bigger than we imagined. There are a billion people reading digital news, and an expected 100 million willing to pay for it in English, so it's not hard to imagine The Times having a subscriber base that is substantially larger than where we are today.

External factors will continue to influence our subscription growth, most notably, as I mentioned, fluctuations in the newscycle that could drive variability in net adds from quarter to quarter. But with every passing quarter, there is also more in our control — from an improving understanding of consumers, to pricing power, to more disciplined management of costs in our legacy business. And as our command of levers improves, so, too, should our profitability. As we continue to make progress in these areas, we aim to see modest profitability improvement in 2021, with more improvement to come in the years that follow. That said, we will continue to invest in our long-term growth even if that variability impacts our profitability in the near term.

Before I turn things over to Roland, let me say a few words about our people and the culture we're working to build as we continue to evolve and grow. Our team has always been a key differentiator for The New York Times. Most of the people who come to work here — whatever their role — do so because of an extraordinary level of commitment and a passion for our mission. As we grow and scale our operation, we're hard at work on being the kind of company that attracts, develops, and drives impact from best-in-class talent in all of our major disciplines. To help me and the rest of our leadership team in this critical work, I was happy to welcome our new chief human resources officer, Jacqui Welch, to The Times last month.

I'll close with a heartfelt thank you to our team of almost 5,000 around the world who did amazing work in a year that presented historic challenges. They're at the center of all we do, and we couldn't fulfill our mission without them.

And with that, I will hand things over to Roland.

Roland Caputo

Thank you, Meredith, and good morning.

As Meredith said, it's been an incredible year and our business results give us even more confidence in our ability to continue scaling the business.

Adjusted diluted earnings per share was 40 cents in the quarter, 3 cents lower than the prior year. We reported adjusted operating profit of approximately \$100 million dollars, which is slightly higher than the same period in 2019.

We added 425,000 net new subscriptions to our core digital news product and 202,000 net new subscriptions to our standalone digital products, for a total of 627,000 net new digital-only subscriptions. This quarter was the second best ever for net subscription additions, with only the second quarter of 2020 outperforming this quarter. As of the end of the quarter, we had nearly 850,000 Games subscriptions and 725,000 Cooking subscriptions. And while international and domestic subs both grew strongly, the international growth rate returned to outpacing domestic. The international share stands at 18 percent of total news subscriptions.

Total subscription revenues increased nearly 15 percent in the quarter, with digital-only subscription revenue growing almost 37 percent to \$167 million dollars. The continued acceleration in the rate of year-over-year digital subscription revenue growth, which was 18 percent in the first quarter, 30 percent in the second, 34 percent in the third quarter and now 37 percent in the fourth quarter is largely a result of three factors:

- First, the large number of new subscriptions we have added in the past year;
- Second, ongoing strength in retention of the \$1 dollar-per-week promotional subscriptions who have graduated to higher prices; and,
- Finally, the positive impact from our first-ever digital subscription price increase, which began late in the first quarter.

Digital news subscription ARPU for the quarter declined approximately 10 percent compared to the prior year and approximately 1 percent compared to the prior quarter, a 2-percentage point improvement in the quarter-over-quarter trend. The 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., continued to more than offset the benefits from both subscriptions graduating from their introductory promotion, as well as from price increases on our more tenured, full-price subscriptions. ARPU related solely to domestic news subscriptions declined approximately 7 percent versus the prior year and 1 percent versus the prior quarter.

We expect our digital pricing strategy to continue to provide a tailwind to digital news ARPU throughout 2021 as a result of the following factors:

1. The impact from subscriptions graduating from discounted promotions and
2. the price increase on tenured digital subscriptions.

Given the large number of subscription additions in 2020, we expect approximately 1.6million subscriptions will graduate to higher prices in 2021. In 2020 we also increased price on approximately 900,000 digital subscriptions and expect another 500,000 over the course of 2021.

On the print subscription side, revenues were down nearly three percent largely due to a decline in single-copy and international bulk sales. Revenue from domestic home delivery print subscriptions grew 2.2 percent in the quarter as a home delivery price increase implemented early in the year more than offset year-over-year subscription declines. It's also worth noting that print home delivery net subscription losses were the lowest we've seen in the last three years, driven by people working from home, the strong news environment, and internal efforts. Total daily circulation declined 14 percent in the quarter compared with prior year, while Sunday circulation declined 3.2 percent. The widespread business closures, vast decrease in commuting and reductions in travel as a result of the pandemic contributed approximately 5 percentage points to the daily copy decline and 1 percentage point to Sunday.

Total advertising revenues declined approximately 20 percent in the quarter, as print continued to be severely impacted by lower marketer demand during the pandemic. Digital advertising declined approximately 2 percent in the quarter compared with the prior year with growth in podcasts and open market programmatic partially offsetting declines in our creative services businesses. As a reminder, in the early part of 2020, we closed our HelloSociety and Fake Love agencies and turned-off open market programmatic advertising within our apps. These together were responsible for approximately \$8 million dollars in revenue in the fourth quarter of 2019 and \$28 million dollars for full year 2019. It's also worth noting that our fourth quarter digital advertising revenue is better than the guidance we gave in early December, largely as a result of better than expected rates earned on open-market programmatic advertising. Our first-party data offerings delivered more than 20 percent of our core digital advertising revenue in the fourth quarter, compared with less than 7 percent in the same period last year.

Meanwhile, print advertising declined approximately 38 percent with entertainment, media and luxury categories hit hardest.

Other revenues declined approximately 12 percent compared with the prior year, to \$54 million dollars, primarily as a result of fewer television episodes, as well as lower revenues from live events and commercial printing. These declines were partially offset by an increase in Wirecutter affiliate referral revenue.

Adjusted operating costs were slightly lower in the quarter. Cost of revenue decreased approximately three-and-a-half percent as lower print production, distribution and advertising servicing costs more than offset higher digital content delivery, subscriber servicing and journalism costs. Sales and marketing costs decreased approximately 9 percent largely driven by lower advertising sales costs. Product development costs increased by approximately 23 percent largely due to growth in the number of engineers employed. We plan to continue adding to headcount in this area over the next 12 to 18 months as we expect to continue leaning into our investments in product development and in our core news and standalone journalism to drive further growth. General and administrative costs increased by approximately 11 percent, largely due to increased headcount, appreciation of the Company's stock price on stock-based awards, and higher consulting costs.

We recorded two special items in the fourth quarter:

- A \$5 million dollar gain reflecting the Company's share of a distribution from the ongoing liquidation of Madison Paper Industries assets, and
- an \$81 million dollar non-cash pension settlement charge, which is the result of a transfer of pension benefit obligations to an insurer, allowing the Company to reduce our overall qualified pension plan obligations by \$235 million dollars.

We had an income tax benefit in the quarter primarily attributable to the pension settlement charge; however, as we've said previously, we expect our tax rate to be approximately 27 percent on every dollar of marginal income we record with significant variability around the quarterly effective rate.

Our qualified pension plans ended the year 102 percent funded with an approximate \$36 million dollar surplus. This is an improvement from the 94 percent funded status we reported on our May 2020 earnings call, during the early weeks of the Covid-19 pandemic. Over the long-term we intend to continue working to increase the funded status of these plans.

Moving to the balance sheet, our cash and marketable securities balance ended the quarter at \$882 million dollars, an increase of \$82 million dollars compared with the third quarter. The company remains debt-free with a \$250 million dollar revolving line of credit available.

Given the continued strong results over the past several years, the Company's Board of Directors has approved a one-cent per share increase to the dividend to seven-cents per quarter, the third increase in the last three years. Management and our Board will continue to keep the balance sheet and our plans for capital allocation under close review. But as I have previously stated, we have a strong preference for maintaining the flexibility to invest when and in the manner we want in order to fuel further growth in our digital businesses independent of the vagaries of the market and will therefore, continue to take a relatively conservative approach to the management of the balance sheet.

Let me conclude with our outlook for the first quarter of 2021, 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 15 percent compared with the first quarter of 2020, with digital-only subscription revenue expected to increase approximately 35 to 40 percent.

Overall advertising revenues are expected to decrease in the high-teens compared with the first quarter of 2020 and digital advertising revenues are expected to increase in the low- to mid-single digits.

Other revenues are expected to decrease approximately 10 to 15 percent, as a result of fewer television episodes.

Both operating costs and adjusted operating costs are expected to increase in the mid-single digits compared with the first quarter of 2020 as we increase investment into 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.