The New York Times Company
Second Quarter 2022 Earnings Conference Call
August 3, 2022

Harlan Toplitzky

Thank you, and welcome to The New York Times Company's second quarter 2022 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. These statements are based on our current expectations and assumptions, which may change over time. Our actual results could differ materially due to a number of risks and uncertainties that are described in the Company's 2021 10-K and subsequent SEC filings.

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.

And finally, please note that a copy of the prepared remarks from this morning's call will be posted to our investor website shortly after we conclude.

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

Meredith Kopit Levien

Thanks Harlan, and good morning everyone.

In a world that is getting ever-more complex, we believe that quality journalism can play an even more valuable role in people's lives.

Over the course of the year, we have introduced the next phase of our strategy to become the essential subscription for every English-speaking person seeking to understand and engage with the world. That strategy is grounded in three pillars:

- First, to build on our leadership in news to be the best news destination in the world;
- Second, to be more valuable to more people by helping them make the most of their lives and passions; and

- Third, to put those two things together in a more expansive and connected product experience – or bundle – that makes The Times even more indispensable to the daily lives of millions more people.

We are making palpable progress in each of these areas, and have strong conviction in our path forward and ability to create shareholder value.

Turning to our second quarter results, overall revenue grew more than 11 percent, with digital subscription revenue up nearly 26 percent and total advertising revenue up just over 4 percent.

We had 180,000 net digital subscriber additions in the quarter, which represents an approximately 70% improvement over the second quarter of 2021, driven by the bundle, Games, and The Athletic. It was also a relatively strong period for subscriber engagement.

There were two big success stories in the quarter: our effectiveness at getting more people to buy our all-access bundle, and the performance of our recent acquisitions. Together, they show our strategy in action.

As I've said on the last few earnings calls and at our June Investor Day, we believe that the bundle will allow us to better penetrate our addressable market and drive more volume and higher ARPU. News remains core to our value proposition. But the bundle helps ensure that The Times is indispensable to an ever-widening group of people – even as news engagement ebbs and flows.

In the second quarter, we brought in the highest-ever number of new starts to the bundle, thanks to a deliberate effort to prompt more people to buy it vs. News-only subscriptions. As a result, the bundle made up a majority of the quarter's total net subscriber additions.

That means we're seeing discernible momentum on a key element of our strategy to drive revenue, profit, and shareholder value. Our experience so far is that bundle subscribers — including our newest ones — pay more, engage more frequently, and retain better. So our plan is to lean even more heavily into selling the bundle to new subscribers, and getting existing subscribers to upgrade in the back half of the year. We expect much of the revenue benefit from this to begin in 2023, as we follow our proven playbook of moving subscribers from introductory offers to higher prices over time.

Our acquisitions also played a big role in the quarter. We had 50,000 standalone net additions to The Athletic, which is 50% higher than The Athletic's performance in the second quarter last year, before we acquired it.

Two quarters into owning The Athletic, we are even more excited about the opportunities we see, and we’re moving quickly to realize them.

We added The Athletic to our all digital access bundle in June, extending access to existing bundle subscribers, and at the end of the month, print subscribers. We also began promoting The Athletic stories on Times surfaces, including our homepage, The Morning newsletter, and our social feeds. And we plan to aggressively market The Athletic as part of The Times bundle to potential new subscribers globally in the second half of the year.

The quarter was also our best one yet for Games net additions, thanks to the continued success of Wordle in attracting an outsized number of new regular users. While smaller than the bundle as a percent of total net additions, Games-only starts were significantly higher than the second quarter last year.

Weekly active users of Wordle have come down off of the peak as expected, but remain high. And we have successfully capitalized on Wordle demand to drive engagement with our broader portfolio of games. For example, the number of people playing more than two games in a given week has nearly doubled quarter over quarter.

The Times now has 9.2 million subscribers, with 10.6 million subscriptions, and we believe we are well on our way to our next mile marker of 15 million subscribers by the end of 2027.

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On advertising, performance for the quarter was on track for total revenue, though digital grew less than expected and print grew more.

Let me set this quarter’s results and the next quarter’s guidance into a broader context. Our advertising revenue is cyclical and subject to significant fluctuations as a result of exogenous conditions. Having been in and around the ad business for a long time, I would call the patterns we are currently seeing in line with what we’d expect given the macroeconomic uncertainty.

We are confident in our advertising approach, which is grounded in the market-leading suite of first-party data and premium ad products that our subscription-first strategy enables. So we fully expect digital advertising to be a growth driver over the mid term, and overall advertising to continue to be a significant contributor to the Company’s profits.

Now let me turn now to costs.

Our adjusted cost growth in The New York Times Group slowed in the first and second quarters. Consistent with our plan, and as you'll see in our guidance, you can expect more meaningful improvements to cost growth in the back half of the year.

And – given the uncertain macroeconomic environment, we'll continue to look closely at costs, while prioritizing investment in areas that widen our moat, like journalism and digital product development.

Our second quarter results and actions underscore the five-part value creation thesis we shared at Investor Day in June. Our confidence in the business is grounded in the following beliefs:

- First, that our high-quality portfolio of journalism and lifestyle products is our competitive advantage and the basis of our company's value.
- Second, that our product portfolio positions us to pursue a large and still-growing TAM of at least 135 million people.
- Third, that our model itself is advantaged, with favorable unit economics, numerous levers for value creation, and multiple revenue streams.
- Fourth, given the scale we've begun to achieve, we believe that our model will lead to sustained profit growth over time even as print continues to decline, and even as we continue investing to widen our moat.
- And finally, these things together mean that our model is — and we expect will continue to be — increasingly cash generative.

As we have articulated vis a vis targets:

- We're aiming for 15 million subscribers by the end of 2027, which we view as a mile marker and not an end point.
- We're targeting compound annual growth in AOP of between 9 and 12% over the next three to five years, with 2022 as the base year. This is more profit growth than we achieved on a CAGR basis in the previous five years.
- We expect to achieve margin expansion on a consolidated basis beginning in 2023,
- And we expect to return free cash flow to our shareholders in a range of 25 to 50% annually over the midterm. On that last point, in the second quarter and into the third, we continued to be active buyers of our stock.

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As we articulated at Investor Day, we factored headwinds into our midterm AOP target, given the outsized role advertising plays in our profitability and its sensitivity to macroeconomic conditions. These headwinds have begun to appear, and are reflected in our second-quarter results and forward-looking guidance.

We also see potential tailwinds. We're encouraged by this quarter's progress, which strengthens our belief in the power of the bundle, and our ability to translate our strategy into results.

We are also executing well so far with The Athletic — and have moved faster than initially anticipated in adding it to the bundle. As a result, we expect the impact of The Athletic on this year's consolidated profit will be less negative than we forecasted at the time of acquisition.

Let me close with our full-year 2022 outlook.

We are reaffirming the guidance that we shared in February and again in May: that we continue to expect to grow adjusted operating profit in our core business before the impact from The Athletic, though we do not expect that growth to entirely offset the dilutive impact of The Athletic on a consolidated basis.

We will see how macroeconomic trends play out, and also what we can achieve on subscriber ARPU as we lean more aggressively into selling the bundle. And we'll continue to keep you apprised of our progress and trajectory as we go.

I look forward to your questions. In the meantime, over to Roland.

Roland Caputo

Thank you, Meredith, and good morning. As Meredith said, our second quarter results suggest real progress against our strategic goals in the face of macroeconomic uncertainties, and we have real confidence in our path forward and ability to create shareholder value.

Turning to the quarter, adjusted diluted earnings per share was 24 cents, 12 cents lower than the prior year. We reported adjusted operating profit of approximately 76 million dollars, lower than the same period in 2021 by approximately $17 million dollars, largely as a result of the expected losses from our acquisition of The Athletic. Adjusted operating profit in The New York Times Group was approximately $89 million in the quarter, lower by approximately $4 million dollars compared to the prior year, while The Athletic lost approximately $12.5 million dollars.

On a consolidated basis, the Company added 180,000 net new digital-only subscribers and 230,000 net new digital-only subscriptions in the quarter, with strong growth in adoption of our bundled product. The number of multi-product subscribers, which includes bundle subscribers, grew by approximately 120,000 in the quarter driven mainly by increases to the number of bundle subscribers. As Meredith mentioned, we began giving our bundle subscribers access to The Athletic late in the second quarter and as a result, the disclosed number of subscribers with entitlements to The Athletic grew by approximately 420,000 in addition to the approximately 50,000 standalone Athletic net subscriber additions.

I also want to reiterate that we expect there to be variability in net additions from quarter-to-quarter as a result of seasonality, and other factors that may affect audience; however, we remain confident in our ability to achieve our goal of 15 million subscribers by year-end 2027.

Total subscription revenues increased approximately 13 percent in the quarter with digital-only subscription revenue growing approximately 25 percent to approximately $239 million dollars. Digital-only subscription revenue grew as a result of:

- The large number of new subscriptions we have added in the past year,
- continued strength in retention of the $1 dollar-per-week promotional subscriptions who have graduated to higher prices, and
- the inclusion of subscription revenue from The Athletic.

Moving to Subscriber ARPU. As a reminder, the ARPU we are reporting represents the average revenue per digital subscriber, and therefore includes all of our digital products. The ARPU commentary made prior to Q1 referred solely to the digital News product subscriptions. For the quarter, digital-only subscriber ARPU decreased 7.5 percent compared to the prior year and 3.3 percent compared to the prior quarter, both largely driven by The Athletic. Excluding the impact of The Athletic, the declines were significantly less pronounced although the effect of new subscribers at introductory promotional prices, including a large number of new Games subscribers, more than offset the gains from subscribers converting to the bundle or otherwise transitioning to higher prices.

Print subscription revenues declined approximately 3 percent as the benefit from the first quarter home delivery price increase did not fully offset lower volumes in both home delivery and single copy.

Total advertising revenues increased approximately 4 percent in the quarter with digital advertising declining 2.4 percent, which was driven by a number of factors including the impact of the challenging macroeconomic environment, a reduction in marketer spend on advertising adjacent to news coverage, and supply constraints in programmatic advertising related to choices we made to drive more audience to our apps. Meanwhile, print advertising was higher by approximately 15 percent compared with 2021 primarily driven by growth in the live entertainment and luxury categories.

Other revenues increased approximately 18 percent compared with the prior year, to approximately $55 million dollars, primarily as a result of revenue from higher commercial printing, live events, television and film projects, Wirecutter affiliate referral revenues and licensing. Other revenues came in higher than guidance as a result of higher Wirecutter affiliate referral and television and film revenues.

Adjusted operating costs were higher in the quarter by nearly 18 percent as compared with 2021 mainly due to the addition of costs associated with The Athletic. Adjusted operating costs were in line with the low end of our guidance. Adjusted operating costs at The New York Times Group grew approximately 10 percent, slightly better than our guidance. I'll now discuss the cost drivers for The New York Times Group:

- Cost of revenue increased approximately 11 percent as a result of growth in the number of employees who work in the New York Times newsroom, as well as higher subscriber servicing costs and print production and distribution costs. The increase in production and distribution costs was due to higher raw material and fuel costs and increased commercial printing activity.
- Sales and marketing costs increased approximately 8.5percent largely due to higher advertising sales costs, which were lower in the prior year due largely to the pandemic. Media expenses were $28 million dollars, approximately 3 percent below last year.
- Product development costs increased approximately 18 percent as a result of growth in the number of digital product development employees in connection with strategic digital subscription initiatives.
- And general and administrative costs grew approximately 2 percent.

We had one special item in the quarter, a $34 million dollar gain related to an agreement to lease and then sell a 4 acre parcel of land adjacent to our College Point printing facility.

Our effective tax rate for the second quarter was approximately 28 percent. As we've said previously, we expect our rate to be approximately 27 percent on every dollar of marginal income we record with the possibility of some variability around the quarterly effective rate.

Moving to the balance sheet, our cash and marketable securities balance ended the quarter at approximately $453 million dollars, a decrease of approximately $21 million dollars compared with the first quarter of 2022, largely as a result of share repurchases and higher cash taxes.

After repurchasing sufficient shares in the first quarter to offset the dilution expected from the issuance of stock based compensation awards, opportunistic share repurchases during the second quarter totaled $25 million dollars and the Company repurchased an additional $13 million dollars worth of shares subsequent to the end of the quarter. Approximately $82 million dollars remain under the Company's repurchase authorization.

Last week, the Company entered into an agreement on a five-year, $350 million dollar revolving credit facility, which replaces a $250 million dollar facility that was scheduled to expire in two years. The company remains debt-free.

Let me conclude with our outlook for the third quarter of 2022 on The New York Times Group, which does not include The Athletic. Comparisons are to the Company's consolidated results for the third quarter of 2021 prior to the acquisition of The Athletic:

The effect of The Athletic on our consolidated guidance has been included in the Outlook section of the earnings release that we published this morning.

For The New York Times Group:

> Total subscription revenues are expected to increase 5 to 7 percent compared with the third quarter of 2021, with digital-only subscription revenue expected to increase 10 to 14 percent.
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> Overall advertising revenues are expected to decrease in the low- to mid-single digits compared with the third quarter of 2021, with digital advertising revenues expected to decrease 4 to 8 percent. As a reminder, the month of September typically plays an outsized role in our third quarter advertising results.
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> Other revenues are expected to decrease approximately 5 percent.
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> Adjusted operating costs are expected to increase in the mid-single digits compared with the third quarter of 2021 with cost growth for The New York Times Group expected to slow considerably in the second half of 2022. As Meredith noted, given the uncertain macroeconomic environment, we continue to look closely at costs while strategically investing in areas that widen our moat, like journalism and digital product development.

As Meredith also said, we are reaffirming our full year profit guidance: We continue to expect to grow adjusted operating profit in the New York Times Group, though we do not expect that growth to entirely offset the near-term dilutive impact of The Athletic segment on a consolidated basis.

And with that, I'll turn it back to Meredith for some final thoughts.

Meredith Kopit Levien

Thanks, Roland. Before we open the line for Q&A, let me just reiterate a few key takeaways.

- The macro headwinds we factored into our AOP targets are playing out largely as we anticipated.
- We slowed cost growth in Q1 and 2, and expect that trend to continue through the remainder of the year.
- We're doing better with The Athletic than we expected.
- And we are encouraged by the potential tailwinds in the business, particularly around the power of the bundle.

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.