

# GCI - Q4 2013 Gannett Co., Inc. Earnings Conference Call

FEBRUARY 04, 2014

(EDITED FOR CLARITY)

**OVERVIEW:**

Management discussed 4Q13 results, reporting non-GAAP EPS of \$0.66 on total company revenues of \$1.4b.

## CORPORATE PARTICIPANTS

**Jeff Heinz** *Gannett Co Inc - VP of IR*

**Gracia Martore** *Gannett Co Inc - President and CEO*

**Victoria Harker** *Gannett Co Inc - CFO*

**Bob Dickey** *Gannett Co Inc - President US Community Publishing*

**David Lougee** *Gannett Co Inc - President, Gannett Broadcasting*

## CONFERENCE CALL PARTICIPANTS

**Doug Arthur** *Evercore Partners - Analyst*

**Jim Goss** *Barrington Research Associates, Inc. - Analyst*

**John Janedis** *UBS - Analyst*

**William Bird** *FBR & Co. - Analyst*

**Alexia Quadrani** *JPMorgan Chase & Co. - Analyst*

**Barry Lucas** *GAMCO Investors, Inc./Gabelli & Co. - Analyst*

**Kannan Venkateshwar** *Barclays Capital - Analyst*

**Amy Stepnowski** *The Hartford - Media*

## PRESENTATION

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### Operator

Good day, everyone, and welcome to Gannett's fourth-quarter 2013 earnings conference call. Today's call is being recorded.

(Operator Instructions)

Our speakers for today will be Gracia Martore, President and Chief Executive Officer, and Victoria Harker, Chief Financial Officer. At this time, I would like to turn the call over to Jeff Heinz, Vice President, Investor Relations. Please go ahead, sir.

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### Jeff Heinz - Gannett Co Inc - VP of IR

Thanks, Vicky. Good morning, and welcome to our earnings call and webcast. Today, our President and CEO, Gracia Martore; and our CFO, Victoria Harker, will review Gannett's fourth-quarter 2013 results. After their prepared commentary, we will open up the call for questions.

Hopefully have you had the opportunity to review this morning's press release. If you have not seen it yet, it is available at [www.Gannett.com](http://www.Gannett.com). Before we get started, I would like to remind that you this conference call and webcast include forward-looking statements, and our actual results may differ.

Factors that might cause them to differ are outlined in our SEC filings. This presentation also includes certain non-GAAP financial measures. We have provided reconciliations of those measures to the most directly comparable GAAP measures in the press release and on the Investor Relations portion of our website. With that, let me turn the call over to Gracia.

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### Gracia Martore - Gannett Co Inc - President and CEO

Thanks, Jeff. And good morning, everyone. And let me join Jeff in welcoming you to our earnings conference call this morning.

I am going to provide a high-level overview of our fourth-quarter results, and I am going to update you on the strong progress we have made on our strategic initiatives, as well as on the integration of Belo into our Broadcasting portfolio. And after that, Victoria's going to review the financial performance of each of our segments as well as some balance sheet items and some assumptions for 2014.

Before I kick things off with our fourth-quarter results, I would like to just remind everyone that a couple of the comparative factors made this a difficult quarter to easily assess by purely looking at our reported numbers. First off, the reported comparisons include an extra week in the fourth quarter of 2012, 14 weeks versus 13 weeks in 2013. And secondly, we were also up against a record level of political advertising, over \$91 million in the fourth quarter of 2012, a formidable mountain to climb.

So, the issues impacting those comparisons need mentioning because they could mask the very good performance of our Company for the fourth quarter and the full year. Again, as I said, in the fourth quarter we were up against a huge amount of political advertising in 2012. But I think we did a fantastic job capturing additional demand.

Just to put that in perspective, the amount of political advertising we achieved in the fourth quarter of 2012 was a bit more than we achieved in all of 2010 and slightly less than what we achieved for all of 2008, the previous presidential election year. So, if you exclude the incremental impact of political spending, on a comparable week basis -- 13 weeks in both quarters -- revenue for the entire Company was virtually unchanged.

Now, if you exclude the net incremental impact of both Olympic and political spending, almost \$160 million -- and highest, by the way, we've ever achieved by a wide margin -- overall Company revenues for the full year were actually up compared to last year, on a comparable week basis.

Now, in tandem with that, we also continue to raise our operating efficiency levels across all of our business segments. And as a result, expenses overall were lower in the quarter, even though we continue to make smart investments to enhance and extend our strategic initiatives. For example, we are currently in the process of rolling out the latest iteration of our content subscription model, which includes USA TODAY content, in our local community publications, which I am going to cover in a little more detail in a few minutes.

And finally, despite the continued slow pace of economic growth, all of our segments were again solidly profitable. Most notably, in our Publishing segment, both operating income and operating margin, on a non-GAAP basis -- again excluding that extra week -- were slightly higher during the quarter than last year, despite the challenging operating environment -- a clear indication that we are on the right track as we work to stabilize Publishing.

Now, as you saw, earnings per share on a non-GAAP basis totaled \$0.66, in line with the guidance we provided in early December. We are pleased that all of our results for the quarter met or exceeded all of the projections we provided you at the UBS conference.

So, overall, it was a very strong quarter for the Gannett Company and one that caps off an exciting and highly productive year for us -- a year in which we took a number of unprecedented steps towards permanently changing the composition of the Gannett portfolio to better align ourselves with today's media landscape.

Clearly, the biggest headline for 2013 was undoubtedly the acquisition of Belo. We received DOJ and FCC approval for the transaction very late in December and closed on December 23. And you have heard me say this before, but I think it is something that can't be overstated -- our combination with Belo is a true game changer for us, because it meaningfully accelerates the progress of our ongoing strategic transformation plan.

Now, an overarching component of our strategy is the diversification of our portfolio of businesses, which Belo delivers on a number of fronts. From a financial perspective, Belo shifts our business mix toward higher margin, higher growth revenue sources. We also are much more diversified by network affiliation.

We became the number one CBS affiliate group, the number four ABC affiliate group, and strengthened our existing number one position with NBC -- of course, excluding the O&Os. And with the addition of top-performing stations in more than 10 new markets, many of which are in high-growth regions like Texas, we are dramatically more diversified geographically.

Now, diversification does, frankly, a number of things for us. First and foremost, it enables us to compete more effectively in the digital age with a broad suite of products and platforms that appeal to consumers and businesses alike.

It allows us to better withstand certain external factors that are outside of our control, frankly, like a tepid economy or the secular headwinds we have experienced in Publishing over the past several years. And, perhaps most importantly, it positions us to be the media company that fully capitalizes on the new opportunities that are emerging as a result of the constant changes we are seeing in the media landscape and the new and evolving needs and preferences of our audiences.

Now, I would also be remiss if I didn't mention the strong cultural and values fit between Gannett and Belo. We have combined two companies with tremendous local reporting and deep, unparalleled connections to the local communities that we all serve. We have an exceptional group of highly rated stations in these communities.

So, as you can see, we're pretty excited to be hitting the ground running. The management team here is doing an absolutely terrific job on the integration, and we are well on our way to realizing the full range of benefits associated with this combination. And, of course, we benefit from Dave Lougee's knowledge of Belo, from his nine years there, and I'm very pleased that we have been able to retain virtually all of the key Belo talent we need to continue to move our broadcast business forward.

On a related note, in late December, we announced, in conjunction with Sander Media, the sale of three former Belo stations to Meredith: KMOV, in St. Louis; KTVK and KAFW, in Phoenix. We sold these stations for a total of approximately \$410 million, which lowers the effective cash purchase price of Belo from \$1.5 billion to \$1.1 billion.

The 2013 to 2014 projected average EBITDA was roughly \$35 million for these three stations. We obviously expect a very de minimus impact to our previously announced synergies. Accretion to non-GAAP EPS from the combined transaction is expected to be in a range of about \$0.43 in 2014, but Victoria will comment on that later. And while the impact to expected run rate synergies of \$175 million within three years is expected to be less than \$2 million.

Our acquisition of Belo was just one of our major accomplishments during the year. 2013 also marked the first fully year of our All Access Content Subscription Model. And I am delighted to report that we achieved the financial benefits we expected, namely more than \$100 million in operating income.

But the benefits associated with the content subscription model extend even further because it enabled us to gain a deeper understanding of the evolving needs and preferences of our audiences and advertisers. So, we're putting those insights into action to interact with consumers in new and innovative ways.

One good example of that is the program we launched in the fourth quarter and will be expanding during the first quarter of 2014. In four publishing markets, we included USA TODAY content in both the print and electronic editions, which allowed us to expand and deepen local coverage at the same time.

The enhanced content was received enthusiastically by subscribers in the pilot markets. They appreciate the enhanced value associated with national content from the nation's number one daily newspaper, as well as the renewed commitment to deep, high-quality local news coverage.

Now, as one of our readers in Palm Springs put it: "I have always been a fan of USA TODAY, and now I have the opportunity to enjoy the best of two papers every day of the week." And a subscriber in Westchester I thought captured it well: "Just a quick note to let you know that I really like the new approach and redesign of the paper. Love some of the more human interest stories like the commuting and the expanded local coverage, and I particularly enjoy the USA TODAY pages."

So now, it is obviously still early in the rollout, but we are meeting or exceeding our initial thoughts on this effort. As expected, we invested in the program in the fourth quarter, and we will make additional investments in the first quarter of about \$2 million. We are expecting profitability to be achieved in the second quarter and beyond.

Our All Access Content Subscription Model was founded on the principle of building subscription value, gathering and distributing content consumers find valuable and, in turn, are willing to pay for, while helping us grow and retain subscribers. And the USA TODAY content edition is another key building block of subscription value.

One sure sign of that is a greater willingness to pay higher subscription rates in these markets, compared with those that have not yet seen these product improvements. In fact, price-related stops are, on average, 2 percentage points lower in the pilot markets compared to the markets without this product, pointing to the potential for meaningfully improved retention, as a result of these changes.

Now, obviously, we are very early, but we are going to keep you posted on how that goes. Today, we are live in 16 markets and expect to complete the rollout across our top 35 markets by the first week in April.

Also in the Publishing segment, USA TODAY returned to its number one position, in total daily circulation, reaching 2.9 million based on the AAM's report for September 2013. We expect that 2.9 million to be significantly higher in the March book. And, to give you a sense of the total breadth of the audience, our total unduplicated monthly audience across all of our platforms -- print, desktop, mobile and tablet -- is now more than 44 million, according to ComScore.

Let me now catch you up on our digital marketing services effort, G/O Digital, where we continue to gain substantial traction, as revenue was up 50% in the quarter, compared to the fourth quarter of 2012, and 70% for the full year. On a year-over-year basis, our G/O Digital customer base more than doubled in the fourth quarter. But that is not all -- at the same time, average revenue per customer also increased.

We are seeing particularly strong growth among small and medium-sized businesses as we expected. The progress we are seeing with G/O Digital reinforces the fact that we are uniquely positioned in the digital marketing space.

We have an integrated suite of local and national solutions that include SEO, SEM, daily deals, consumer loyalty programs, coupled with long-term relationships with existing customers in great local markets. All of these factors work together synergistically to provide our advertisers with high performance, custom design programs that help them reach their advertising and sales goals.

Now, to ensure we continue this strong upward trajectory, we are making significant investments and growing our sales force both locally and at our G/O Digital hub in Phoenix. In addition, we are in the process of executing our plan to expand quickly into the new markets we gain through Belo.

Now, before we move to a detailed review of our quarterly results, I want to make a few more observations on the year. First off, 2013 was absolutely a turning point for Gannett.

We continue to leverage our unique strengths. For example, our USA TODAY content edition offers readers something they simply can't get anywhere else, as no other media organization can deliver as complete a daily newsreport, leveraging strictly its own reporting assets. With this product, we have uncovered a new way to utilize our unmatched national content and scale it locally.

Likewise, we can also scale local content nationally, as breaking news covered in any of our local publishing or broadcast communities can be used wherever there is a demand for it, across our vast network of more than 110 communities. This flexibility is something that sets Gannett apart from any of its peers, and it will serve to ensure that we continue to provide all of our audiences with the highest quality and most useful content via the platform or medium of their choice.

Our unique position as the largest local media company, combined with our financial flexibility, our strong balance sheet, our substantial free cash flow, gives us much to look forward to in 2014 and beyond. And we believe there will continue to be plenty of opportunities to create more value for our shareholders.

With that, I am going to turn it over now to Victoria. Victoria?

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**Victoria Harler - Gannett Co Inc - CFO**

Thanks, Gracia, and good morning, everyone. As Gracia has already mentioned, we are very pleased with our financial results a gain this quarter, despite some continuing headwinds within the Publishing sector.

Before I dive into the details of our results for each segment, I would like to briefly mention several one-time events which occurred during the quarter. In terms of special items, it is significant to note that our ongoing efforts to transform the business allowed us to perform with greater efficiency and effectiveness again this quarter. These initiatives drove \$21.6 million in workforce restructuring and related expenses, as well as \$10.1 million in facility consolidation costs during the quarter.

At the same time, in connection with an evaluation of our expected future financial performance, we recognized \$33 million in goodwill and intangible impairments during the quarter. When combined, these special items drove a \$64.6 million impact to the quarter, or \$0.18 in earnings per share. In terms of non-operating special items impacting the quarter, as you might expect, we incurred expenses of nearly \$21 million related to transactions, which impacted EPS by \$0.09.

Our efficiency programs such as our consolidation of printing and distribution platforms, as well as our global sourcing and real estate optimization efforts continued to generate significant cost savings, helping to fund the new product initiatives, including providing USA TODAY content in some of our local publishing operations. We are very proud of the performance of these initiatives as they continue to support the ongoing transformation of our business.

Now, on to operating results for the quarter. Please note that all of the comparisons that I will cover here for ongoing business results exclude the extra week, as well as Captivate's operating results from the prior year. Across the enterprise, as Gracia mentioned, total Company revenues of \$1.4 billion were relatively unchanged year over year, excluding the record level of political advertising that occurred in the fourth quarter of last year.

Total Company expenses of \$1.1 billion were 3% lower than last year, driven by our efficiency efforts. Together, these results drove non-GAAP EPS to the high end of our projected range, or \$0.66 a share.

Now, I will briefly touch on the segment-specific results. Broadcast segment revenues of \$228 million were up 23% for the quarter, when adjusted for a record level of political advertising -- over \$91 million -- which impacted fourth quarter results in 2012.

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Broadcasting core revenue increased by 9% excluding political advertising displacement year over year. Retransmission fees continued to increase over last year, up 31%, resulting from the renegotiated agreements, annual rate increases in existing ones, and the growing strength of our business.

Advertising trends improved across major categories, including auto, medical, retail, casual dining, and media, both year over year, and sequentially. Digital revenues in the Broadcast segment were also up, over 40% compared to last year, driven by the growth of digital marketing services, albeit it from a lower base, given the products and sales training launches during the fall.

Overall, we were very pleased with our Broadcast segment results in the fourth quarter, and we expect continued strong performance during the first quarter, resulting from the Winter Olympics in Sochi, as well as a few retransmission agreement renegotiations which closed at year end.

Based on current trends, we expect that Q1 total television revenues to be up almost 100%. On a pro forma basis, the percentage increase in total television revenues is projected to be up in the high teens.

In the Publishing segment, total revenues of \$944 million were down approximately 4.6%, in the range we had previously projected, driven by advertising revenue declines of 5.9%. While this was reflective of decreases in print advertising in several categories, it was notable that automotive advertising generated its first improvement of the year, driven by higher-than-expected seasonal sales.

Likewise, while softer than in previous years, domestic retail advertising saw sequential improvements, mainly due to holiday spending. While these data points don't establish trends yet, they do provide some potential views into 2014 opportunities.

Domestic online advertising revenue increased by 15% year over year, with the retail category also showing good growth, up 30%. This was driven by our digital marketing services business, branded G/O Digital, which provided many commercial customers with efficient and effective online marketing and advertising solutions during the holiday sales season.

In the UK, Newsquest advertising revenue was down 6.5% in local currency, due to continued economic stagnation. But it was notable that Newsquest's online advertising revenue grew 19% year over year, driven by retail categories across a small but growing base. Overall Publishing segment circulation revenue was down slightly, by about 1.6%, again excluding the extra week in 2012. This is primarily due to the cycling of the All Access Content Subscription Models launch, which had been anticipated.

We are very pleased to report that the all-access content subscription model has now engaged over 1.6 million digitally activated subscribers. And fully 64% of all subscribers participate in EZ Pay, enabling them easy access to content-rich products with lower support costs, and driving longer retention.

Not to be outdone, the USA TODAY group also recorded their first circulation revenue increase in several years, driven by their richer content and broader appeal, which supported single-copy and home-delivery price increases, despite planned volume losses from the transition to digital platforms at hotel partner programs. Newsquest was also able to sustain similar pricing changes, driving a circulation revenue increase of about 6% in local currency, its third consecutive quarterly growth.

In the Digital segment, revenues increased by 4% year over year, driven by growth at CareerBuilder. It was another strong quarter there, delivering a 7% in revenues and both sequential and year-over-year comparative results that were both the best of the year. Their operating income also increased in the middle single digits.

The growth of CareerBuilder was driven by additional partner programs and the strength of human capital software solutions, as well as their recent vertical acquisition of the oil and gas job search and geographical expansion into Vietnam. Overall, Company-wide Digital revenues totaled \$391 million in the quarter, reflecting an 8% increase year over year. Digital revenues comprised nearly 30% of all Gannett revenue, driven by higher revenues associated with the digital advertising and marketing solutions across all segments.

Now, turning to expenses for the quarter, on both a Company-wide and segment-specific basis. Once again, this quarter, we were very pleased to see ongoing expense reductions primarily from our efficiency efforts, as I previously mentioned. When combined with volume-related decreases, total Company expenses were 4% lower than last year, reflecting our ongoing efforts to optimize spending.

Broadcast segment expenses were down 1% year over year, due to lower sales costs associated with lower political advertising revenues as anticipated. Similarly, the Publishing segment's expenses were also down 5%, due to efficiency gains generated by Gannett publishing services, sourcing, and other direct cost reductions.

Expenses in the Digital segment were up 6%, reflecting continued investments in the repositioning of our PointRoll business. During the fourth quarter, total Company operating cash flow was \$326 million, with over a third of it attributable to the Broadcast segment.

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Free cash flow for the quarter was up \$153 million, which was lower than the same quarter last year, due again to the record levels of Broadcast segment political advertising last year. Despite this challenging year-over-year comparison, we generated substantial free cash flow, and each of our segments was solidly profitable.

Also during the quarter we invested nearly \$38 million in capital projects, primarily related to the ongoing digital development, product integration, and technology enhancements in the core and at CareerBuilder, as well as additional data center capacity needed at PointRoll. This brings the full-year capital investment to \$110 million, in line with our previous projections, with the majority of that spend on digital products, platforms, and efficiency efforts such as greater automation and real estate optimization.

As previously discussed, during the fourth quarter, we carried a heavier interest expense of about \$63 million, largely due to the debt associated with the Belo transaction, which was incurred in the second half of the year at very attractive rates.

During the quarter, we acquired 1.4 million shares for \$38 million, reflecting our ongoing commitment to our previously announced 300-million stock buyback program. This brings the annual repurchase volume to nearly 5 million shares for \$117 million, for 2013. In addition, the Company's pension plan had a terrific performance this year, with a return of over 16%.

Now, let's touch briefly on 2014 guidance. As noted, the Company closed on its acquisition of Belo on December 23. As a result, several operating assumptions for 2014 have been updated to reflect the acquisition.

Capital expenditures are expected to be in the range of \$140 million to \$150 million. Depreciation is expected to be approximately \$190 million, and amortization in the range of \$50 million to \$60 million. Please note that we're continuing to finalize these transaction-related valuation estimates as part of our 10-K process, which will be filed later this month.

As you would expect, if amortization settles in at closer to the high end of that range, we would likely anticipate no impact to EBITDA but would likely have a small impact to end-year 2014 EPS, lowering the range by about \$0.02. First-quarter interest is also projected to be around \$70 million.

Finally, the tax rate in 2014 is projected to be approximately 33%, and retransmission revenue is expected to be in the range of \$330 million to \$340 million. Keep in mind that the former Belo stations will continue to pay increased reverse retrans fees in 2014, in part driven by a full year of a major network affiliation renegotiation in the latter half of 2013.

In addition, the original Gannett stations will be impacted by the renegotiation of our ABC affiliation agreement later this month. While we are seeing the benefit of the after-acquired clauses on the Belo stations, recall that they will continue to be subject to the terms of their existing affiliation agreements, including reverse compensation.

Overall, we are very pleased with our fourth-quarter and full-year 2013 results. We see tremendous opportunities on the horizon, and we continue to make progress on our transformation efforts as we are excited about Gannett's prospects for 2014. We look forward to updating you as the year progresses.

With that, I will turn the call back to Gracia for her closing remarks prior to Q&A.

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### **Gracia Martore - Gannett Co Inc - President and CEO**

Thanks, Victoria. So, the fourth quarter capped off a very exciting productive year for Gannett. We are very well positioned for 2014, and we are going to remain relentlessly focused on the execution of our strategy. And we'll continue to explore new related initiatives -- such as we did this year -- that will accelerate growth.

This strategy, combined with the game-changing addition of Belo to our portfolio, our strong and flexible balance sheet, and increased advertising demand in connection with the upcoming Winter Olympic games that are going to be starting in a few days, and political elections, make for a promising and exciting 2014.

With that, I would like to open the call up for questions. Vicky?

QUESTION AND ANSWER

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**Operator**

Thank you.

(Operator Instructions)

We will take our first question from Doug Arthur with Evercore.

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**Doug Arthur - Evercore Partners - Analyst**

Yes, Gracia, two questions. First, on the enhanced content for the digital subscription, you have talked about price, potential price increases in those markets. Can you add, I think you mentioned that, a little briefly on the call, can you add some detail to that? And then I don't know if David is on the call, but I'm wondering – obviously, you had some significant retrans, renegotiations in the fourth quarter. You have given out that number for 2014, but what opportunities do you have for further renegotiation, on a significant level, for 2014 going into 2015? Thanks.

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**Gracia Martore - Gannett Co Inc - President and CEO**

Thanks, Doug. Let's start with your first question around the USA TODAY enhanced content along with our local content.

Yes, obviously, as I said, we expect to be able to achieve pricing opportunities as a result of the enhanced subscription model we're providing, which now includes some very welcome USA TODAY national and other kinds of content, as well as additional local content. Bob Dickey is here. Do you want to make any comment, Bob, on more specifically, on pricing actions?

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**Bob Dickey - Gannett Co Inc - President US Community Publishing**

Well, as you know, Gracia, the price is only just starting to roll out and we're taking a very strategic approach. This is not a market-wide effort. It is very much driven by the demographics and the demand in the marketplace.

So it is not a 100% market-wide effort at this point. But, based on that approach, we are seeing anywhere from three to four percentage point improvement in those USA TODAY local content markets versus the markets in the past that did not have that product.

So we're very encouraged. On the other side, what is really exciting as well, is that our starts have improved by about eight percentage points, prior to the launch. So we're not only seeing retention and acceptance of the price increase, we're also seeing former and new subscribers come back to us.

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**Gracia Martore - Gannett Co Inc - President and CEO**

And Doug, on the retransmission opportunities, obviously we still have some of the Belo subs that -- where we didn't in some small cases have after acquired clauses, so we will get some uplift from those as they come off over the next few years. And then almost, as you would expect at this point, on an annual basis, probably every fourth quarter, we are going to have opportunities, at some agreements, to continue to favorably impact that retransmission level.

But obviously, we are a long way from that. We are just starting to enjoy what we accomplished in December. Thanks for the question, Doug.

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**Doug Arthur - Evercore Partners - Analyst**

Thank you.

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**Operator**

Next we will hear from Jim Goss with Barrington Research.

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**Jim Goss - Barrington Research Associates, Inc. - Analyst**

Thank you. One quick question about the Sochi Olympics. I'm wondering, with the expanded franchise you have had in sports, as well as USA TODAY, and the broadcasting area, where it is most affected, can you look at how that might have an expanded impact relative to other past Olympics? And then secondly, and maybe in a more broader area, Gracia, you have always stressed the synergy and reach advantages in your multi-platform approach.

Yet there are always questions coming up about why doesn't Gannett split up the Company like everybody else is doing. I wonder if you could use this platform to discuss the pros and cons of being potentially unique or at least rare in keeping broadcasting and publishing together, rather than pursue a split, as has been the fashion for many in your peer group.

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**Gracia Martore - Gannett Co Inc - President and CEO**

Well, let me take the easy question first. Your second one. I think the most important thing that the Gannett Company can do right at this moment is to achieve all of the great synergies and all of the great things we believe we're going to achieve and we have set out that we are going to achieve from our combined broadcasting group, not only for 2014 but to set the stage for all of that to occur over the next three years.

So that has a lot of our time, focus, and energy right now. But at the same time, I will tell you, that the Board and I are continuously evaluating, as you would expect, everything, a lot of different ways for us to have consistent increases in shareholder value.

We evaluate everything from capital allocation decisions to the appropriate structure for our businesses, and our company and everything in between. But I think Jim, right at this moment in between, just literally having completed the Belo acquisition, in the short term, our time, energy and focus is to create the substantially more shareholder value we believe we are going to achieve with the successful and I believe overly successful achievement of everything we have promised around the Belo transaction.

Now, taking the other question, which is around sports, I will start with the USA TODAY sports side, and then I will have Dave Lougee who is here with me also talk a little bit about our Olympic efforts on our now-expanded group of NBC affiliates. So at the USA TODAY level, I think they have done just a fantastic job with their sports coverage. I think it is miles ahead of what it has been even in the last two, three years.

And so I think you will see coming out of Sochi a combination of the great work that USA TODAY is doing, but the combination of their work together with our broadcast folks, together with our local community publishing folks, in a concerted effort to provide some of the best coverage of the Olympics. But as we all – and so that will, I believe, lead to obviously some dollars at the publishing side, and in some digital but the vast majority of the Olympic dollars are obviously spent on television and Dave, why don't you comment on some of your efforts.

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**David Lougee - Gannett Co Inc - President, Gannett Broadcasting**

Yes, just to build on what Gracia said, it is a really good question, because we do have a very unique set of assets between many large, strong NBC stations, USA TODAY, which has always been a go to place for Olympic coverage, and all of our community papers that give and need coverage of the local athletes.

So we have, to your point, an incredibly integrated operation in place, in Sochi now, where people are safely inside the security zone there, with a lot of efforts on security. It is an integrated operation between NBC News and our NBC stations and our NBC stations with USA TODAY, and US Community Publishing. So any coverage of any local athlete and any of our 100-plus markets, we will have it and we can give it.

On the revenue side, most of our efforts right now from a go-to market strategy have been about furthering and accelerating the sales initiatives that we rolled out two years ago and very successfully accelerated our revenue results, on our Gannett properties, and that is continuing this year. Our focus now, and in the future will be doing that, with the expanded Gannett properties, the NBC properties that we have added and then doing that in concert with USA TODAY and community publishing on a go-forward basis.

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**Gracia Martore - Gannett Co Inc - President and CEO**

Thanks, Jim.

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**Jim Goss - Barrington Research Associates, Inc. - Analyst**

Thank you.

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**Operator**

Next, we will hear from John Janedis with UBS.

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**John Janedis - UBS - Analyst**

Hi, thank you. Gracia, your retrans outlook is a bit higher than I would have expected. You can give us maybe the implied same store growth rate in 2014, and are there any renewals coming up from the top five distributors? And maybe on a related topic, is there any way to help us think about the margin on the retrans, now that some of the stations are going to be paying reverse?

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**Gracia Martore - Gannett Co Inc - President and CEO**

Well, let me repeat I think what some of Victoria's comments. Obviously, from a reverse retrans perspective, there are a couple of factors at play.

Number one, our own three ABC affiliates, their affiliation agreements come due at the end of this month. So Dave will be quietly and privately doing the negotiations that we always do quietly and privately. Secondly, with respect to Belo, as you may recall, on our call announcing the transaction, both Dunia and I mentioned that Belo was already paying reverse retrans to a couple of the major networks but had not yet paid it to one of their other major networks. They completed those negotiations in the second half of last year.

And so we will be paying reverse retrans, to all networks, for a full year, in 2014, obviously subject to the agreements they have in place for how reverse retrans is paid each year. And also, as she mentioned, on the after acquired stations, we all have to remember that those dollars are subject to Belo's affiliation agreements and reverse retrans, contractual commitments they made.

So the reverse retrans number will be in the expense part of the equation, and as Victoria said, in our 10-K, we will provide guidance on what we believe expenses will be up for the broadcast group, both on a reported basis as well as on a pro forma basis. But we're not going to peel out these individual components. We believe in negotiating in private, and have strict confidentiality clauses on all of our agreements that we always live up to.

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**Gracia Martore - Gannett Co Inc - President and CEO**

You actually asked about additional opportunities on the retrans side. As I mentioned a little bit earlier, we're at the point now where literally every year, we are going to have some agreements coming up. I would expect we would have some agreements coming up, I know we will have some agreements coming up in the fourth quarter of this year.

But as we get closer to -- once we get them done, we will report on all of the good news that we have accomplished, just as we did this December, and now, we are beginning to enjoy that. As well, we have some small agreements with the Belo folks on -- that the after acquired clause -- we don't have after-acquired clauses, so we will enjoy the benefit of getting to closer to our rates when those agreements come up in the normal course of events over the next one, two, three years.

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**John Janedis - UBS - Analyst**

That's helpful. Maybe just as related to that then, as we look at your retrans growth at Gannett, same store I think is maybe up around 30% in 2013.

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**Gracia Martore - Gannett Co Inc - President and CEO**

Right.

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**John Janedis - UBS - Analyst**

Would 2014 be something, now that you aggregated together, would it be something similar to 30%, above or below? Can you help us with that?

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**Gracia Martore - Gannett Co Inc - President and CEO**

We will in the 10-K when we finalize it all.

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**John Janedis - UBS - Analyst**

Okay. Great. Thank you.

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**Gracia Martore - Gannett Co Inc - President and CEO**

Thanks, John.

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**Operator**

And next we will hear from William Bird with FBR.

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**William Bird - FBR & Co. - Analyst**

Good morning. Gracia, is the Aereo case having any noticeable impact on the TV M&A market, and does the unrevolved nature of that case influence your M&A strategy? Thank you.

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**Gracia Martore - Gannett Co Inc - President and CEO**

Actually, Bill, we're delighted that it is going to the Supreme Court. Because we believe that the Supreme Court is going to uphold the well-established, well-policed, well-done, copyright laws that are the law of the land here. So we are delighted that it is going to the Supreme Court.

And what I will continue to tell you is that we are very excited about the future prospects of our TV business. We don't see any reason for us to -- if we found another Belo opportunity, which had the combination of all of those unique factors we talked about, on the call when we announced the transaction, that we wouldn't be ready to move full speed ahead, but those are kind of unique transactions.

And we were very fortunate with the Belo transaction. But it does not dim our enthusiasm in any way. And I think you will -- I keep hearing that there are lots of transactions being looked at, and who knows what will be announced here or there. But no, I don't see any diminishment on our enthusiasm for our business.

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**William Bird - FBR & Co. - Analyst**

And Gracia, a related question, how best to think about where your leverage limit is? Clearly, there is a hard line where your credit agreements are. But how do you think about how much leverage you would consider adding to the Company?

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**Gracia Martore - Gannett Co Inc - President and CEO**

The beautiful thing about Gannett is that we – even before the Belo transaction, we generated an enormous amount of free cash flow. And with the Belo transaction, with high margin properties added to our mix, we generate even more enormous amounts of free cash flow. So our ability to pay down debt very quickly, as we fully are capable of doing right now, as a result of the Belo transaction, continues unabated.

Now, we are always very careful about using our balance sheet and allocating capital to investments and other usage, but again, if we see opportunities that we believe will create continued sustainable shareholder value, for our company, then we will take a long hard look at them. But they will always be through the prism of being an incredibly disciplined allocator of capital. And I think you probably have seen that, Bill, over the years, that we are unbelievably disciplined, and I think the Belo transaction is just another example of that.

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**William Bird - FBR & Co. - Analyst**

Thank you.

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**Operator**

Next we will hear from Alexia Quadrani with JPMorgan.

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**Alexia Quadrani - JPMorgan Chase & Co. - Analyst**

Just a question on the publishing side. With all of your initiatives that continue, they're ongoing, to drive circulation with the inclusion of the USA TODAY, and obviously the continued success of the paid all access model, could you give us a little color of I guess how we should look or how we should think about the circulation revenue stream in 2014? If we look at the run rate, what you had in Q4, is that a good run rate for 2014, or should we see some improvement there?

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**Gracia Martore - Gannett Co Inc - President and CEO**

You know, a couple of pieces, and then I will ask Bob to comment on obviously a community publishing, but at Newsquest, we did, as we have mentioned, similar things on the circulation side, which is to improve their content, focus on providing more value to consumer, and as a result, they have sustained circulation revenue growth, at least I think Victoria, for the last couple of quarters.

So you know, at some point next year we will cycle that but we had a nice increase in circulation revenue in the fourth quarter. We expect a positive number in the first quarter. At USA TODAY, we talked about I think on our last call the fact that we had circulation price increases both on single copy, as well as home delivery.

And as Victoria again mentioned earlier, we saw our -- a nice year-over-year gain in circulation revenue at USA TODAY, and we will have a few quarters, obviously, of that before we cycle that. And Bob, do you want to comment on US Community Publishing, given we have a couple of things in the mix with the pilot.

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**Bob Dickey - Gannett Co Inc - President US Community Publishing**

As we finish out the rollout of the USA TODAY local section, it certainly gives us some opportunity to increase subscription rates in those markets. That will be later in the year. So I would suggest that we will continue to see some improvements to the fourth quarter run rate, and we will, as we learn more from the pilots, we will have a better handle on exactly how aggressive we can be in the pricing arena.

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**Gracia Martore - Gannett Co Inc - President and CEO**

Yes, I think we had hoped to have some color for you, and sizing of that opportunity once we have completed the rollout here in the first quarter, get a couple of months under our belt of experience and then probably mid-year, be able to give you a pretty good handle on, based on some real intelligence, what our expectations are. But we do expect that initiative to be profitable in the second quarter and beyond.

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**Alexia Quadrani - JPMorgan Chase & Co. - Analyst**

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And just staying on the newspaper for the follow up, on the advertising side, I think you mentioned in the release, the combination of the softness being from secular but also some softness in the economy. It might be a difficult question to answer, Gracia, but any sense on maybe what is more secular and what is more cyclical there?

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**Gracia Martore - Gannett Co Inc - President and CEO**

It's interesting. I think we all look at the economy, and I think we thought we saw some good momentum in the middle of last year. And then towards the last quarter of the year, my sense was that some of that momentum kind of petered out a bit, as businesses and consumers focused on health care costs, and a variety of things, and the stock market did some gyrations that got people a little bit nervous, not dissimilar to what is going on for the last week or two.

And so I think we saw a bit of a slowdown, and particularly, on the employment side. I think folks, businesses got a little bit nervous about what employees were going to cost and all of those things that you would expect them to be nervous about. I think that some of those obviously, those impacts carry over, into the beginning of this year.

I would hope that we could get a little bit more clarity and certainty on the economy. I think unfortunately, as we are beginning the year, the amazing number of storms, the ice storms and the snow storms and everything else, that have been impacting, you saw I guess a couple of days ago, auto sales, being impacted, obviously if there's two feet or snow or three inches of ice, you can't go to the dealership to buy a car.

And therefore dealers probably don't think that they necessarily need to advertise. So we've got some odd things happening here in the first quarter. But we hope that we will see some improvement in the employment picture, as things settle down, on the health care side, and settle down with Congress, and all of those factors that I think kind of roiled the markets a bit in 2013.

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**Alexia Quadroni - JPMorgan Chase & Co. - Analyst**

Thank you very much.

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**Gracia Martore - Gannett Co Inc - President and CEO**

Thank you, Alexia.

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**Operator**

Next, we will hear from Barry Lucas with Gabelli and Company.

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**Barry Lucas - GAMCO Investors, Inc./Gabelli & Co. - Analyst**

Thanks very much and good morning. One housekeeping and then maybe one separate question, Gracia. Is it possible to strip out the last winter Olympics and get kind of a core advertising number that you are seeing in Q1 for television?

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**Victoria Harler - Gannett Co Inc - CFO**

Strip out the winter Olympics in 2010?

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**Barry Lucas - GAMCO Investors, Inc./Gabelli & Co. - Analyst**

Either way. Yes, the last Winter Games.

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**Victoria Harler - Gannett Co Inc - CFO**

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In 2010, we achieved about \$19 million of Olympic revenue. It was a Vancouver Olympics. We obviously expect the Sochi Olympics, based on what Dave talked about, of their team focus, on it, to do a bit better than that. Obviously, we wouldn't expect it to be better than a summer Olympics.

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**David Lougee - Gannett Co Inc - President, Gannett Broadcasting**

But not all incremental.

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**Gracia Martore - Gannett Co Inc - President and CEO**

Dave?

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**David Lougee - Gannett Co Inc - President, Gannett Broadcasting**

The point is, Barry, it is not all incremental and so we are having -- we will have a, as I referenced earlier, a nice increase over Vancouver. But until the quarter comes in some advertisers pull money out of March to get into the games, et cetera, so it is hard to do that equation.

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**Gracia Martore - Gannett Co Inc - President and CEO**

We've got to see the full quarter and then we will have a better idea what was incremental versus the other.

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**Barry Lucas - GAMCO Investors, Inc./Gabelli & Co. - Analyst**

Just real quickly, any update you can provide on Classified Ventures and comment in particular on the Cox enterprise purchase of the balance of Auto Trader and that business?

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**Gracia Martore - Gannett Co Inc - President and CEO**

Yes, I think everyone publicly knows that Classified Ventures, the owner of apartments.com, are exploring options vis-a-vis the apartments.com piece of it. I think we all concluded that that was a less strategic part. Given we don't have deep-rooted relationships with apartment house owners, and the like. So clearly, that is undergoing a process.

And once it is completed, we will -- I'm sure they will share, the end result, on that process. Vis-a-vis Cox enterprises, I think that is sort of a bit of a unique situation, because you have an owner that potentially had either put rights or -- I think put rights so, I think it is sort of hard to draw any conclusions around valuation or anything, because it was sort of a unique set of circumstances. I think the only thing I would say is obviously given what has been going on with automobile sales, and that category, and the feeling that that is going to be continuing to be a strong category, that those assets are valuable assets at the appropriate price.

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**Barry Lucas - GAMCO Investors, Inc./Gabelli & Co. - Analyst**

Great. Thanks so much, Gracia.

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**Operator**

Next we will hear from Kannan Venkateshwar with Barclays.

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**Kannan Venkateshwar - Barclays Capital - Analyst**

Thanks. Thank you for the time.

The one question is when you're thinking about -- you obviously are being pretty conservative on the balance sheet side of it and have you been pretty consistent about that over time. So when you think about options from a capital allocation perspective or even more importantly from the perspective of whether to spin off newspapers and so on, is that goal of investment grade rating and constraint in terms of what you want to do with the balance sheet?

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**Gracia Martore - Gannett Co Inc - President and CEO**

Well, first of all, we are blessed with the fact that we do have investment grade metrics, albeit we are not rated investment grade. Nor would I turn down any great opportunity that I believe could have a sustainable long-term, intermediate to long-term impact on shareholder value, to, in a moment in time, continue those investment grade metrics.

But as I said earlier, and as we have historically done with this Company, for at least the last 28 years I have been here, is there are moments when opportunities come up, we expand the balance sheet. And then as I said earlier, that enormous amount of free cash flow we generate, we focus it on paying down debt, bring our metrics back where we are exceedingly comfortable and then have the flexibility to be opportunistic about other opportunities.

So I'm pleased that you think we run a conservative balance sheet. There were a few moments in 2008 and 2009 that people didn't have that view. But we totally agree. But the beautiful thing about Gannett is that we have great flexibility in that balance sheet. And we have great free cash flow generation. And that is a winning combination when you're an opportunistic investor as we are.

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**Victoria Harler - Gannett Co Inc - CFO**

Kannan, this is Victoria. Just a case in point when we went out to the market this somewhere relative to financing the Belo transaction, we had the benefit of really investment grades like covenants in terms of pricing and all of that. So we saw evidence that was a market perception as well as a reality.

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**Kannan Venkateshwar - Barclays Capital - Analyst**

Just to follow up on that, part of that -- part of those metrics are driven by the fact that you have the newspaper business still, which throws up a lot of cash, so in that sense, if you were to spin that off, obviously the metrics would look very different. So broadly that was the context for the question, which is, does that constrain what you do with the newspaper business?

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**Gracia Martore - Gannett Co Inc - President and CEO**

I don't think we are constrained by any of those factors. I think as I said earlier, right now, we are incredibly focused on achieving all of the great things that we are going to achieve as a result of the Belo acquisition. And in the short term, that is what we're focused on. Because that is what is going to create I believe the most shareholder value, the most sustainable shareholder value, certainly in the short term.

But as I said earlier, we, the Board and I, look at everything constantly. And if we believe that we can achieve sustained shareholder value, then we will do what is appropriate. But right now, we have a great acquisition that we're fearlessly integrating and feel very, very good about. But it is a lot of work. So let us do that work.

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**Kannan Venkateshwar - Barclays Capital - Analyst**

Thank you.

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**Gracia Martore - Gannett Co Inc - President and CEO**

Thank you. Okay. I think we've got time for one more question.

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**Operator**

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Okay. With that being said, we will take our last question from Amy Stepnowski with The Hartford.

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**Amy Stepnowski - The Hartford - Media**

This is actually just a housekeeping question. I know you will be releasing the K shortly, but just given all of the activity in the fourth quarter, could you give us an idea what kind of cash balance you ended the year with?

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**Victoria Harler - Gannett Co Inc - CFO**

We had about a \$470 million or so cash balance, both across the US and the piece that was Belo, as well as the UK. We are still finalizing the number. Obviously the K is not filed yet, but it is in that range.

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**Amy Stepnowski - The Hartford - Media**

Okay. Thanks very much. I appreciate it.

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**Gracia Martore - Gannett Co Inc - President and CEO**

Thank you all for joining us. I will turn it back to Vicky.

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**Operator**

And that does conclude today's teleconference. Thank you all for joining.