GCI - Q2 2014 Gannett Co., Inc. Earnings Call
(EDITED FOR CLARITY)

EVENT DATE/TIME: JULY 22, 2014 / 10:00AM ET

OVERVIEW:
Co. reported 2Q14 total revenues of $1.46b and non-GAAP EPS of $0.67.

CORPORATE PARTICIPANTS

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John Janedis *Jefferies & Company - Analyst*

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Doug Arthur *Evercore Partners - Analyst*

Michael Kupinski *Noble Financial Group - Analyst*

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Ed Atorino *The Benchmark Company - Analyst*

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Dan Jenkins *State of Wisconsin Investment Board - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Gannett second quarter 2014 earnings conference call. This call is being recorded. Due to the large number of callers, we will limit you to one question or comment. We greatly appreciate your cooperation and courtesy.

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.

Jeff Heinz - ***Gannett Company, Inc. - VP of IR***

Thanks, Stephanie. Good morning, and welcome to our earnings call and webcast. Today, our President and CEO, Gracia Martore, and CFO, Victoria Harker, will review Gannett's second quarter 2014 results. After their commentary, we'll open up the call for questions. Hopefully you've had the opportunity to review this morning's press release. If you've not seen it yet, it's available at Gannett.com.

Before we get started, I'd like to remind you that this conference call and webcast include forward-looking statements, and our actual results may differ. Factors that may 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.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Thanks, Jeff, and good morning, everyone, and welcome. Today I'm going to provide a high level summary of Gannett's strong performance in the second quarter, during which we advanced our growth strategy on a number of fronts. After that, Victoria Harker will review the financial results of each of our segments, provide some detail on special items, and cover some balance sheet items.

We achieved strong second quarter results and are pleased with the impact our strategic initiatives have had on both our top and bottom lines. Our expanded television station portfolio contributed to record broadcasting segment revenue, which along with the continued growth at CareerBuilder and our digital segment, contributed to overall Company-wide revenue growth. Our revenue growth outpaced expenses during the quarter, reflecting our ongoing efforts to increase efficiency across our business, particularly in the publishing segment. As a result, our operating income and adjusted EBITDA were up dramatically on a non-GAAP basis, both about 28% higher, and the Company's operating and cash flow margins overall also improved compared to the second quarter of last year.

On a pro forma basis, adjusted EBITDA was up significantly as well, reflecting an increase in Company revenues which were up 2%, while expenses were down almost 1%. As you saw this morning, earnings per share were $0.67, on a non-GAAP basis, an increase of 16% over the second quarter last year. Finally, and perhaps most importantly, we generated more than $300 million in free cash flow during the quarter, driven by the strength of our operations, as well as our portion of the proceeds from Classified Ventures' sale of Apartments.com.

Each of our businesses were strongly profitable, despite soft national advertising demand across much of the media industry. As I said, broadcasting segment results were strong. Second quarter revenues grew to a new high of $398 million. The biggest contributor to this growth was, .of course, the significant expansion in our television station portfolio. However, notwithstanding the growth driven by the inclusion of Belo stations, broadcasting revenue was also up 13% on a pro forma basis, representing strong growth in retransmission revenue and political advertising across our television station portfolio.

We also took a number of additional steps toward expanding the scale of our broadcast footprint. The integration of the Belo stations continues to move forward according to plan, and we are more than on track to deliver the synergies we have anticipated. Last month, we completed our sale of KTVK and KASW in Phoenix to Meredith, in connection with our acquisition of Belo. Combined with the earlier sale of KMOV, the total sales price for these TV stations was approximately $408 million.

In May, we further strengthened our broadcast portfolio and our market presence in Texas with the announced purchase of six stations from London Broadcasting Company, expanding our reach into more of the fastest-growing markets in the nation. With this transaction, Gannett reaches 83% of all Texas households. The new stations are expected to generate annual revenue of approximately $50 million this year, and we expect the acquisition to be accretive to EPS within the first 12 months.

In addition, more than 70% of London's advertising revenues are driven by local advertisers, so this acquisition provides us with access to attractive new growth markets in Texas, in which there is demand for local digital marketing services opening up new inroads for G/O Digital. We closed on the London transaction on July 8.

Now moving on to publishing, we achieved solid profitability, despite continued secular headwinds. As I noted, national advertising unfavorably impacted our results, but if you exclude the impact of the always volatile national advertising, year-over-year comparisons for advertising revenue improved sequentially. In fact, comparisons for every category except national improved sequentially, with employment classified positive. Circulation revenues were down less than 1% compared to last year, and daily home delivery circulation revenue at our local domestic publishing operations was up in the quarter, both of which speak to the ongoing success of our all-access content subscription model, which as you know, provides our publishing audiences access to the content that matters most to them on the platform of their choosing.

The latest iteration of the content subscription model, our new USA TODAY content editions, included in 35 of our local publishing markets, continues to outperform our projections. In markets that have added USA TODAY content, we are achieving better yields on pricing actions, approximately 3 percentage points above expectations, and better retention with permanent stops that are 8% better than projected. As anticipated, the USA TODAY branded local editions, as well as higher app usage, drove growth in overall daily circulation to almost 3.3 million for USA TODAY, as it remained number one in daily circulation in the US based on the AAM report released in May for the six months ending March 31. Total local print editions of USA TODAY alone accounted for an increase of over 650,000 in daily circulation.

Now, based on the success we've had to date, we continue to tweak and enhance this program. We will be piloting similar content, but a less extensive version in August with the potential to roll it out to 13 additional markets. As we noted last quarter, other publishers are recognizing the value of USA TODAY content, and we are exploring potential partnerships.

Turning to Newsquest in the UK for a moment, they performed particularly well. In local currency, circulation revenue was up as more and better content in our UK publications has led to increased rates, while advertising revenue was flat compared to the second quarter last year. That's the first time since the first quarter of 2007 that ad revenues have remained steady year-over-year.

Another bright spot in our publishing segment continues to be the growth in digital revenues, as growing demand for digital marketing and advertising solutions, coupled with our ability to capture many of those opportunities, have contributed significantly to revenue growth. Digital revenues were up across the board in our publishing segment, at local community publishing operations, USA TODAY, and its associated businesses, and at Newsquest.

Turning now to our digital segment, operating revenues were up in the quarter, driven primarily by higher revenue growth at CareerBuilder. Strong sales of CareerBuilder's human capital software-as-a-service products was a primary driver of this growth. We continued to build that business through investment in sales staff expansion and technology support.

We continue to build momentum and transform local digital marketing for customers across 112 markets. G/O Digital, our digital marketing business, again achieved terrific growth during the quarter for small- to medium-sized businesses, up 64% over last year. This strong growth is attributed to both a growing customer base, up 54% over last year, as well as an 11% increase in average revenue per account.

We're continuing to focus on several key areas, activating both outside sales in local markets and inside sales at our call center sales team in Phoenix, driving improvement in our sales productivity, improving operational efficiency and client retention, as we successfully scale this business. As well, we've also taken significant steps to increase G/O Digital brand awareness across all of our broadcast and publishing markets through both television and digital ads.

During the quarter, G/O Digital launched “Leaders In Local,” an advertising campaign highlighting successful G/O Digital local business clients across the country, distributed across YouTube, all of our broadcast markets through both television and digital ads, and a national native advertising initiative with USA TODAY.com. This further reinforces our commitment to drive awareness and build independent credibility for the G/O Digital brand, leveraging key Gannett differentiators, our hometown and brand advantages. The power of G/O Digital, coupled with the local broadcast and newspaper markets, allows only Gannett to deliver this full range of local marketing services from smaller scale hyper-targeted, digital-only campaigns, to large scale fully integrated campaigns utilizing digital, broadcast, and print marketing.

As you know, the acquisition of Belo opened up new high growth markets for us. Our sales force in those new markets are fully trained on G/O Digital products and are beginning to see good traction. Looking ahead to the rest of the year, we think the rapid success of G/O Digital across our television portfolio underscores the additional opportunity we have with our new stations acquired from London Broadcasting this month, as the demand for local digital marketing solutions continues to rise exponentially.

We're also very optimistic about the second half of the year in Broadcasting, as political advertising will accelerate as we approach Election Day. We have an exceptional political footprint, with primaries in nine states remaining in the third quarter, and strong races across multiple markets for Governor, Senate, and House. Issue spending, particularly energy and energy policy, should contribute to broadcasting results as well.

Now, before I turn it over to Victoria, I'd like to quickly acknowledge a nonfinancial achievement, but an incredibly important one nonetheless. Amid all of the tremendous progress we've made and the profound changes to the media landscape in the last decade, there is one thing that has always remained a constant at Gannett, and that is an unparalleled commitment to delivering outstanding journalism to our audiences. Our stations and publications won 64 regional 2014 Edward R. Murrow Awards, the Company's highest total ever, and 11 national Murrow awards, also a record for us.

We're incredibly proud of this achievement, and we sincerely thank our extremely dedicated and talented employees for delivering on our commitment to our readers, viewers, and users each and every day. With that, I'd like to turn it over to Victoria.

Victoria Harker - ***Gannett Company, Inc. - CFO***

Thanks, Gracia, and good morning, everyone. As Gracia has already mentioned, second quarter financial results highlight the outstanding progress we've made in the strategic transformation of our Company. Before I review the results by segment, as well as our capital allocation efforts during the quarter, I'd like to spend a few minutes reviewing several one-time events which occurred during the quarter to help provide additional context for our recurring trends and results.

During the quarter, our ongoing efforts to transform the business initiated over three years ago now resulted in greater operating efficiencies and effectiveness across the portfolio, as well as new revenue opportunities. To that end this quarter, we incurred $23 million in work force restructuring expenses, coupled with $29 million in other transformation costs and goodwill impairments relating to restructuring our portfolio. These operating special items totaled $52 million with an EPS impact of $0.16 per share.

From a non-operating standpoint during the quarter, as you've already heard, we enjoyed a pretax $148 million equity income gain from the sale of our share in Apartments.com, offset slightly by costs associated with the wind-down of our acquisition of Belo, as well as other transaction costs related to Apartments.com and the London Broadcast stations. Just as a reminder, as we communicated last quarter, the sale of Apartments.com is projected to have a $12 million revenue and $9 million unfavorable operating income impact for the year, which impacted second quarter operating income by about $3 million. Total non-operating special items for the quarter were a benefit of $144 million, with an associated GAAP EPS benefit of $0.39 per share. When taken all together, operating and non-operating special items totaled $92 million on a pretax basis for the quarter, with a GAAP EPS impact of $0.23 per share.

Beyond this, we incurred $13 million in costs associated with our strategic initiatives during the quarter, with our transformation initiatives generating about $80 million in revenue and over $40 million in cost savings for the quarter. Our efficiency programs include the consolidation of our printing and distribution platforms, as well as our real estate footprint, the hubbing of our financial support organizations, and streamlining our customer service efforts. As a result of these savings, we were able to invest in new initiatives, such as USA TODAY content integration into our top 35 local newspaper markets, now in its second quarter, and continuing to generate widespread consumer enthusiasm and engagement.

Now, let's take a few minutes to review the ongoing revenue results for the quarter. As a reminder, you can find all of our reported data and comparisons in our press release, although I will be focusing on our non-GAAP and pro forma numbers today. Across the portfolio, total Company revenues of $1.46 billion, were up 2% on a year-over-year basis, pro forma basis, reflecting the strength of all of our operations including our growing broadcast segment. However, both broadcasting and publishing segment revenues were impacted by soft national advertising revenues media-wide.

That said, we could not be more pleased at how well the Belo integration is progressing, with the second full quarter of results producing EBITDA synergies just as we had planned with the full-year trajectory ahead of the $75 million we had previously projected, and a non-GAAP EPS accretion of $0.43 per share for the year. Pro forma, broadcast segment revenues were up 13% year-over-year for the quarter, and benefited from strong retransmission fees, political-related advertising, and digital revenue. While political cycles have not yet swung into high gear, advertising revenues did benefit by $14 million increase in this category, thanks to some hotly contested state and local campaigns. Retransmission fees continue to cycle upward, by about 67% on a pro forma basis, as a result of rate increases and growth in our business.

In core advertising, as has been the case for many of our peers, some categories continue to trend softer, again, mainly due to national core advertising revenues. Bright spots did occur during the quarter in core advertising, which were reflected in auto, services, media, and home improvement categories. Broadcasting digital revenues were up 15%, driven by digital marketing services, which continued to see growing strength in the newly launched Belo stations, as these markets are now fully trained on G/O Digital products and starting to see good sales traction. Based on current trends, including a full quarter of results for the former Belo stations, we expect the percentage increase in total television revenues for the third quarter of 2014 to be in the high nineties compared to the third quarter of 2013. On a pro forma basis, the percentage increase in total television revenues in the third quarter of 2014 is projected to be in the high teens compared to the third quarter of 2013.

Pro forma publishing segment advertising revenues of $530 million were impacted by secular pressures in print, down approximately 5% with the year-over-year print advertising revenue decline partly offset by digital growth of 14%, albeit off a small but growing base. Within the segment, domestic publishing advertising revenues decreased by about 7% year-over-year, with declines across several categories.

In the UK, where economic recovery seems to be getting traction, Newsquest advertising was flat year-over-year and showed sequential improvement across all major categories, in pounds. Pro forma domestic online advertising revenue in the publishing segment, excluding Apartments.com, increased 11% year-over-year, with retail advertising up 10% year-over-year driven by G/O Digital, with a growing base of customers seeking to diversify their marketing spend, while increasing the efficiency of their online advertising solutions. Not to be outdone, Newsquest online advertising revenue grew 25% year-over-year in local currency, driven by retail advertising, again, from a small but growing base. Online revenue comparisons increased sequentially there as well.

Overall, publishing segment circulation revenue was down slightly year-over-year, by 0.6% due to continued growth at Newsquest, offset by declines at USA TODAY, which was down 3% due in part to planned volume losses and our local domestic papers, which were down about 1%.

That said, our local domestic publishing sites benefited by the ongoing strength of the all-access content subscription model, particularly within the top 35 markets where we have integrated our USA TODAY content. This enabled us to strategically increase pricing, resulting in year-over-year home delivery revenue growth, which caused comparisons to improve sequentially from the first quarter. In the UK, Newsquest circulation revenue increased by approximately 2% in local currency, marking their fifth consecutive quarter of revenue growth, driven by pricing increases implemented in the middle of last year.

During the quarter, digital segment revenue increased by 4% year-over-year, driven by continued growth at CareerBuilder, which was up 6% year-over-year. CareerBuilder's revenue increase was primarily driven by accelerating sales of human capital software-as-a-service products across the world and revenues related to the recently acquired Broadbean. Beyond CareerBuilder, ShopLocal also had a very strong quarter with revenue up about 45% year-over-year, driven by increased development and search product sales. During the second quarter, Company-wide digital revenues totaled $397 million, reflecting an increase of 6% year-over-year, on a pro forma basis, excluding Apartments.com. Digital revenues contributed 27% of total Company revenues during the quarter.

Now, turning to costs and efficiency-related efforts on both a Company-wide and segment-specific basis, during the quarter, total Company operating expenses of

$1.2 billion on a pro forma basis were down 1% year-over-year as a result of our continued focus on efficiencies, as well as lower volume in the publishing segment. Broadcast segment operating expenses were up 3% year-over-year on a pro forma basis, driven by higher revenue, as well as reverse compensation and investments in sales and marketing tools in support of new digital growth initiatives.

Publishing segment operating expenses were below last year, down approximately 3% due to lower volume, as well as efficiency gains generated by Gannett Publishing Services, sourcing, and other direct cost reductions. Digital segment operating expenses were up 5%, reflecting incremental increases in CareerBuilder to leverage the assets recently acquired through Broadbean, as well as investments in CareerBuilder's market-leading sales presence within the US. Other investments included technology development and human capital software solutions at CareerBuilder, as well as in PointRoll's strategic pivot into more integrated solutions for their clients.

Total Company adjusted EBITDA of $354 million increased by 28% year-over-year, driven by both broadcast and digital segments, which now generate about two-thirds of total Company-wide EBITDA. Free cash flow for the quarter was $307 million, which was 78% higher than last year due to proceeds of the sale of Apartments.com as well as strong operating results. During the quarter, we invested $42 million in capital projects, primarily related to ongoing digital development, as well as product integration, automation, and enhancements at CareerBuilder. CapEx spend during the quarter is trending in-line with the projected full year spend of $140 million to $150 million, with nearly 70% of that going to our development of digital products and platform.

During the second quarter, we continued to carry heavier interest expense of about $64 million, largely due to the debt associated with the Belo acquisition that was incurred in the second half of last year at very attractive, historically low interest rates. As of quarter end, outstanding debt was $3.45 billion and cash on the balance sheet was $431 million. During the quarter, we repurchased 1.4 million shares of Gannett stock for $38 million, and as of the end of the quarter, we have completed almost 50% of our $300 million commitment to share repurchases.

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

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Thanks, Victoria. The second quarter was a very strong follow-up to our terrific first quarter, and we have a great deal to look forward to in the second half of 2014. Innovation is happening across each of our businesses and is serving as the foundation for the next phase of growth. We are laser focused on continuing to build on our strong shareholder value creation we have delivered over the last three years.

We've also made tremendous progress on our goal of becoming a higher growth, higher margin business, as our broadcasting and digital segments generated more than two-thirds of our adjusted EBITDA during the quarter. In addition, we continue to have strong, predictable cash flows and a healthy balance sheet, both of which provide us with the financial flexibility necessary to make investments that will continue to fuel organic growth and to pursue exciting new growth opportunities that align with our goals. With momentum building across many of our businesses, many areas of our business, and anticipated increases in advertising demand, we are looking forward to a strong performance across all three of our business segments in the second half of the year, with quarter-over-quarter comparison improvement across virtually every category of revenue.

With that, I'd like to open up the call for questions. Stephanie?

QUESTION AND ANSWER

John Janedis - ***Jefferies & Company - Analyst***

Hi, good morning. Gracia, you called out national advertising. Historically, the category has been volatile, but can you give us more color? With the weakness broad based, was it more category or advertiser-specific? Is some of that money maybe moving to digital or just not getting spent?

Maybe one sneak question for Dave on the TV front, there's been talk of some political money moving to digital as well. How do you think political comes in relative to maybe 2010 or 2014? Thanks.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Sure. Let me take the first half of that question, and I'll turn it to Dave to respond to the broadcasting part. I'd say that on the national advertising front, we saw, as what I'm hearing is many in the media industry saw, which was more volatility in national advertising in the second quarter. I think it was a combination of several things: , still not particularly robust economy. I think we, perhaps, underestimated the impact of some World Cup advertising dollars that went to that every four-year event that was I think more robust, particularly in some markets we have,, perhaps had some impact on us.. Dave will comment on that later.

I think USA TODAY on the national side, we also saw some impact from all of those pieces. I think certainly we saw that in the World Cup, there was social media advertising that was much more robust than typically we have seen, and I think took some of the dollars away from some of the USA TODAY spending. As I look into the third quarter though, we certainly see improvement, very substantial improvement on the national advertising front, both from USA Today, as well as from our television stations. Dave, why don't you comment both on political and anything else you want to add on national?

David Lougee - ***Gannett Company, Inc. - President, Gannett Broadcasting***

Yes, just to echo what Gracia said, it was a weak quarter nationally, John. Yes, there have been high profile discussions of some dollars moving to digital, but I'd say the majority of it was the impact, these exogenous events that began at the start of the quarter. Even though we're not heavily in the Northeast, weather impacted budgets around the country, and also the stock market really didn't pick up in time to drive a lot of the decision making. We saw that trickle through the quarter.

As Gracia mentioned, we saw some improvement outside of high World Cup markets that she referenced going into third. We are seeing improvement almost across the board on the national side, and in auto, which was weak at the beginning of the quarter, second quarter, is now even into positive territory on the third quarter. Relative to political, there are certainly new things being done with digital, but those dollars are being used for different things than the brand advertising that's being used for political and TV. We do not see any impact, based on our current trends. Local broadcasters are still considered absolutely essential to campaigns, and there has been no secular change whatsoever relative to our piece of that pie.

John Janedis - ***Jefferies & Company - Analyst***

Thank you.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

You had asked about political comparisons to 2010. We would expect political, with the combined Belo and Gannett stations, to be in excess of the 2010 number, not wildly in excess of it, because of a different mix of markets and hot races and all the rest. We certainly do see it a bit ahead of 2010, if it all comes in as we hope. As you can appreciate, a lot of that is back loaded to September, October, November, so we're going out on a little bit of a limb, but we feel good about the footprint we have and the races and the issues in our markets. We expect it to be in excess of 2010. Thanks, John. Next question?

Operator

William Bird, FBR Capital.

William Bird - ***FBR & Company - Analyst***

Good morning. Gracia, how do you think about your M&A strategy going forward, particularly around the trade-off between acquiring TV assets or digital assets where the multiple is likely to be above Gannett's multiple? Thank you.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Yes, thanks for the question, Bill. As I indicated earlier, we are blessed with the fact that we have a very strong balance sheet, a fair amount of financial flexibility in that balance sheet. We're also blessed with the fact that as we completed the Belo acquisition and have gotten a very, very good start on the integration of the Belo stations. That acquisition is more than exceeding our expectations. We're very excited about the opportunity we had with the London stations because it met all the criteria that we have for an acquisition.

The great thing about Gannett is that we have the ability to not just be an either/or decision. We can do some broadcast acquisitions. At the same time, we can potentially do some digital acquisitions, but we always put all of those through the prism of what is going to create the most shareholder value for the Company in the near- and long-term, and making sure that any acquisition that we do certainly achieves and checks off all the boxes we have around the financial discipline that we bring to every acquisition.

While a digital acquisition certainly may carry a higher multiple, you have to then look at what the growth characteristics of that particular digital asset are, and if it's double-digit top line and bottom line growth, perhaps that multiple is appropriate for that kind of growth. At the end of the day, this is a Company that is laser focused on creating shareholder value as we have done these last three years. We have tremendous financial discipline here, and we will apply that to every opportunity that we see.

William Bird - ***FBR & Company - Analyst***

Thank you.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Thanks, Bill.

Operator

Alexia Quadrani.

Alexia Quadrani - ***JPMorgan Chase - Analyst***

Thank you. My question is on the retrans, the guidance, and then maybe some commentary longer term. You're tracking ahead of your annual retrans side. Can you give us a sense of if you assume that will continue? Should we assume that comes in on the higher end of that?

Then if you talk about retrans longer term, when you begin to circle through your renewals, can we continue to see this kind of amazing growth rate you've been seeing? I know you still have the big disparity between where some of the cable channels are and where you guys are, and do you think you'll be successful in being able to close that gap?

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Let me answer part of that question, and then I'll turn it to Dave to answer the remainder of it. With respect to our current run rate of retrans revenues, we are very comfortable that what you saw in the second quarter should be a good run rate through the remainder of the year, so you can bake that into it. We do have a couple of retrans agreements coming up at the very end of the year, and I think we come into all of those discussions with the fact that we still believe that the value we bring is not fully reflected in the fees that we are being paid. We don't negotiate in public, but we'll report on all the good news we have to bake into our budgets for 2015 once we complete those negotiations. Dave, why don't you speak to the other issues?

David Lougee - ***Gannett Company, Inc. - President, Gannett Broadcasting***

Yes, to elaborate on what Gracia said, Alexia, that with all the noise that's out there relative to cable bills, et cetera, is that when you continue to look at that issue of program fees and our percentage of them, the lack of alignment is so significant that while there's going to be a lot of pressure on program fees around a lot of services, we still believe that broadcasting just has so much upside. It comes down to the consumer. We're valued tremendously by the consumer. It's shown every day. We think we're going be in appropriately good stead for quite a period of time.

Alexia Quadrani - ***JPMorgan Chase - Analyst***

Just following up on that point, have you circled like I said though contracts you've already received retrans from going into the second, have you gone through anything a second time? Are you seeing your ability to leverage that point?

David Lougee - ***Gannett Company, Inc. - President, Gannett Broadcasting***

Yes. We negotiated at the end of last year … deals that weren't that long. Yes, we've not done just single, long-term deals. We've actually done more shorter-term deals in many cases. Yes, we have cycled through several. We'll again at the end of this year. We will at the end of next year

Alexia Quadrani - ***JPMorgan Chase - Analyst***

I guess my point is you are seeing the increases to prove your point that you do have so much upside still?

David Lougee - ***Gannett Company, Inc. - President, Gannett Broadcasting***

I just would point to our numbers for the best estimates of the increases

Alexia Quadrani - ***JPMorgan Chase - Analyst***

All right. Thanks so much.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Thanks, Alexia.

Operator

(Operator Instructions)

Doug Arthur, Evercore Partners.

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

Yes, good morning. Victoria, can you just review the impact of sale of Apartments.com? Was that a second quarter, I guess, because it happened toward the second quarter? It was the $3 million impact on operating profit? Is that a correct interpretation?

Victoria Harker - ***Gannett Company, Inc. - CFO***

Yes, in operating income, we had actually when we had talked to it in last quarter's call as well, we had spoken to the fact that the full year impact of $12 million in revenue and about $9 million in op income. The second quarter impact of that is that we had anticipated then was about $3 million on operating income.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

And about $4 million on revenue.

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

Okay. Then last question, you talked about the financing you did at favorable rates in second half last year. What is the go-ahead plan on the debt position in the second half? Anything expected to dramatically change?

Victoria Harker - ***Gannett Company, Inc. - CFO***

We do have notes that come due in November, and we anticipate paying them down, but beyond that, we don't have any immediate plans. We continue to look at opportunistically where we have rates that will enable us, net of make wholes and if it makes economic sense, but we don't currently anticipate anything for the second half.

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

Okay, great. Thanks.

Operator

Michael Kupinski, Noble Financial.

Michael Kupinski - ***Noble Financial Group - Analyst***

Thank you for taking the question. Just a follow-up on the national front, could you provide us some color on what national did throughout the quarter? Did it significantly fall off then in June because of World Cup? If you can give me a little color there. Then in your comment, Gracia, I was wondering in terms of national bouncing back, was that including political, or was that ex-political? Then I was wondering if you can give us what the pro forma political was on 2010, given all the new station sales and acquisitions and so forth.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

That's a bunch of questions. Yes, for instance, national advertising on the publishing front, there was real volatility between May and June. May was down in the single digits, whereas June was down in the higher teens. Clearly the impact in June was much more pronounced.

David Lougee - ***Gannett Company, Inc. - President, Gannett Broadcasting***

The broadcast side, we have some calendar dates, line-ups issues with the Belo calendar last year. The months aren't perfectly aligned, but yes, there were some volatility. We saw some in markets that weren't as strong, World Cup markets in June, we saw some strength and some other markets were impacted by World Cup.

There was some volatility around some events. But the overall arc has been relatively better in recent months, as I said. The answer, as Gracia said on the third quarter, was that national is up ex-political.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Yes, and again on the national and broadcast, when I look at the underlying numbers, national was softest for broadcasting in June.

David Lougee - ***Gannett Company, Inc. - President, Gannett Broadcasting***

Right.

Michael Kupinski - ***Noble Financial Group - Analyst***

Okay.

David Lougee - ***Gannett Company, Inc. - President, Gannett Broadcasting***

When I say up, just to be clear, it's better. It's not up in all cases, but it's better. It's significantly better than it was in 2Q.

Michael Kupinski - ***Noble Financial Group - Analyst***

You're saying that it's not up. It's just better.

David Lougee - ***Gannett Company, Inc. - President, Gannett Broadcasting***

It is better. That's right.

Michael Kupinski - ***Noble Financial Group - Analyst***

Okay, and what was political on a pro forma basis that we should look for in 2010?

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

In 2010, yes, in 2010, the Gannett stations had about $89 million in political, and the Belo stations had about $48 million, so about $136 million, $137 million. Our expectation as we said for 2014 is to be a little ahead of that. Let's not get too giddy right at this nanosecond before we get into the big months, but slightly ahead of that.

Michael Kupinski - ***Noble Financial Group - Analyst***

Does that include the London stations, too, Gracia?

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

No, and to be honest with you, London, this is a group that has $50 million in annual revenue. Political is not a big piece of their revenue picture. Obviously, they will get some political.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Thank you.

Operator

Kannan Venkateshwar, Barclays.

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

Thank you. Just one question from me on reverse retrans. When these contracts come up for negotiations, I think Belo has a bunch reverse retrans already in place, is the contract structure more as a proportion of the retrans revenues, or is it a fixed fee contract when you go out and negotiate with the broadcasters?

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Yes, Kannan, we are under very strict NDAs in all of our agreements, and so we really can't comment on that.

Kannan Venkateshwar *- Barclays - Analyst*

Okay, and overall when I look at the last year numbers, it looks like overall your reverse retrans was roughly about, if I look at the Belo numbers, they were roughly about 63% of the retrans numbers. Is that a fair benchmark to use going forward when we project out your numbers? In the outer years, especially once the --

Gracia Martore *- Gannett Company, Inc. - President & CEO*

First off, I'm not sure Belo ever reported reverse retrans, but that sounds very high to me.

Kannan Venkateshwar *- Barclays - Analyst*

Okay.

Gracia Martore *- Gannett Company, Inc. - President & CEO*

For Belo last year.

Kannan Venkateshwar *- Barclays - Analyst*

Okay. I think they reported in 2011.

Gracia Martore *- Gannett Company, Inc. - President & CEO*

They may have in 2011. In 2013, they didn't report them, and I can assure you that it wasn't anywhere near 60%. They didn't even negotiate their NBC agreements until the middle, I believe, of last year, so it was well south of that.

David Lougee *- Gannett Company, Inc. - President, Gannett Broadcasting*

Yes, it’s nowhere near that.

Kannan Venkateshwar *- Barclays - Analyst*

Okay. All right. Thank you.

Gracia Martore *- Gannett Company, Inc. - President & CEO*

You're welcome.

Operator

Edward Atorino, Benchmark.

Ed Atorino *- The Benchmark Company - Analyst*

Hi. The FCC made a lot of noise a little while ago and has been quiet. Was there any change, or is there any change in the TV acquisition market because of the previous FCC actions, or did that all calm down and, I hate to use the word "normal," but is business back to normal there?

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Yes, I think the FCC has come out with some rules around JSAs, and that certainly had an impact on those folks who relied on JSAs more significantly in their business model. But for Gannett, we only have two JSAs. That's with respect to our newspaper, television overlap. Really it's been business as usual for the Gannett Company. The London stations were fantastic stations. There were no overlaps in any way. We continue to see opportunities that are attractive that aren't impacted in any way by those new JSA rules, but I suspect that's probably a bigger issue for others in the industry.

Ed Atorino - ***The Benchmark Company - Analyst***

Got you. Could you review your pricing strategy with regard to newspapers, subscription prices, cover prices, discounts, package deals, et cetera?

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Good news is I have Bob Dickey here with me. I'm sure he'll be happy to talk about the great success we're seeing with both the USA TODAY content insertion as well as some other pricing strategies.

Bob Dickey - ***Gannett Company, Inc. - President, US Community Publishing***

Sure. We've taken a much more strategic approach to our pricing over the past 9 to 12 months. We've utilized customer insights where we profile each of our customers across the marketplace. We look at things like length of service, delivery history, market demographics, et cetera. Currently across about 52, 53 of our markets, we have been able to implement price increases to somewhere between 35% to 80% of our subscribers, depending on the market and the date in which the price increase initiated. As Gracia mentioned earlier, this new approach is yielding anywhere from 3 to 6 percentage points better yield for us than our previous strategies, and what is very positive for us is our retention numbers are holding. That is because our stops are about 8% below what we had projected.

Ed Atorino - ***The Benchmark Company - Analyst***

That was sub-8% subscribers?

Bob Dickey - ***Gannett Company, Inc. - President, US Community Publishing***

Yes.

Ed Atorino - ***The Benchmark Company - Analyst***

Okay.

Bob Dickey - ***Gannett Company, Inc. - President, US Community Publishing***

We're very encouraged in period 6 in USCP. We were almost flat in total circulation revenue. We were only down 0.1%, and as Gracia pointed out, driven by some very positive home delivery results.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

The only thing I would add to what Bob said, Ed, is that last quarter we mentioned to you we were very early in the USA TODAY content additions. We'd really only had a few months of all the markets being covered, the 35 markets being covered, and at that point on the call last quarter, we indicated we thought that this would add about $15 million net to non-operating income. After reviewing it more carefully and seeing the results that Bob talked about, we're now comfortable that that number's going to be more in the $20 million plus range. We feel very good about the outperformance of that project at this point.

Ed Atorino - ***The Benchmark Company - Analyst***

Would that be for the year or an annual rate?

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

That's for 2014.

Ed Atorino - ***The Benchmark Company - Analyst***

Very good. Are you using mostly cover prices, or subscription prices, or a combination of both, or some inventive pricing?

Bob Dickey - ***Gannett Company, Inc. - President, US Community Publishing***

Depending on the market demographics and the customer profile, we price the various FODs accordingly, and we have minimized the number of FODs. Unlike in the past where we have a dozen different options, we've narrowed that down, which helped us with our yield as well.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Ed, I think really what we focused on is how consumers want to pay for content, and they want to pay for it one time across all of the various platforms we can deliver it on rather than just looking at a cover price or something else. It's really looking at pricing across the total delivery of our content on all platforms.

Ed Atorino - ***The Benchmark Company - Analyst***

Yes, one last question. You've bought a lot of broadcast business. Are newspapers for sale, and at a price, would you be interested? Of course you're not going to answer that, but I thought I'd ask the question.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Good try, Ed. Yes, there are newspapers for sale in the market. Look, what this Company is focused on, and laser focused on, as I said before is creating additional strong shareholder value. We are open to any opportunities that will do that. The board and I and the management team continue to look at ways to increase shareholder value as we have successfully done with our superior returns over the last three years.

We said last quarter that we were laser focused on Belo and now with the London Broadcasting stations, and as you can see from the results, that was precisely the right focus for us to have, but we are an incredibly shareholder-oriented Company. We are always evaluating the best ways to continue to meaningfully increase value for both the near and the long term.

Ed Atorino - ***The Benchmark Company - Analyst***

Thank you.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

That's all I'll say on that subject, Ed.

Ed Atorino - ***The Benchmark Company - Analyst***

Okay. Thank you very much.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Thanks, Ed.

Operator

Barry Lucas, Gabelli.

Barry Lucas - ***Gabelli & Company - Analyst***

Thanks, and good morning. Just two quick ones. Gracia, a number of your peers are getting involved in more in the digital marketing services, and that's newspaper publishers, broadcasters, radio broadcasters, so maybe if you could size the opportunity for G/O Digital, and what that could be presuming some success in a couple years? I'll throw the second one out there, Tribune publishing in their dog and pony show about a week ago put Classified Ventures for their business, total contribution at $71 million in revenues and $34 in op income. They have zeroed that out, suggesting at least to my mind that a deal was possible on Cars.com, and just wondering how you view that business, how strategic is it? How important is it to maintain Cars.com as part of the portfolio?

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Yes, that's a couple of questions. Let me start with the digital marketing services business, and then I know that both Bob and Dave will want to jump in here because they are doing a terrific job in much of the success of that business in their local markets. We see that as an extraordinary opportunity for us. We see it as an opportunity not just in our publishing markets, but also in our broadcasting markets, and potentially in markets that we are not in yet. The first thing we're doing is focusing on the very markets that we're in. We see it as an opportunity both at the local level, where we're seeing tremendous growth. We talked about a 65% year-over-year growth in those local small- to medium-size businesses, but we also see it as a national opportunity to help national advertisers activate across the scaled set of markets that we have. It is a huge opportunity for us. It's a hundreds of millions of dollar opportunity for us, not a tens of millions of dollar opportunity for us. Bob and Dave, why don't you comment about the success in your markets.

Bob Dickey - ***Gannett Company, Inc. - President, US Community Publishing***

We're very happy with the results across USCP. Our local sales teams, as you know, are cycling some very large gains of a year ago and despite that, we're up about 58%, and that exceeded our budgeted expectations. What's driving it is what Gracia spoke to earlier, both new customer acquisition, but what's really encouraging for us is that we are seeing larger transactions, and our sales team is through training and just more experience becoming very adept at selling multiple products. That is the future for us.

David Lougee - ***Gannett Company, Inc. - President, Gannett Broadcasting***

Barry, it's a unique opportunity for us in the broadcast space because, in our traditional core model, obviously we have a finite group of advertisers who can afford the price point. We have a lot of advertisers who in the market, who we have a B2C relationship with. Most of our strong stations have an 80% reach so it's pretty exciting for us to think about long tail opportunity of being able to monetize all those businesses that we currently don't have a relationship with.

Initially what we're doing is taking it to all the big and medium-sized businesses that we currently have relationships with, or are using G/O Digital to get broader relationships with. The key thing is the clients want it. I think that's maybe the most important fact, is we're bringing them a solution to a need they have, and that's a good place to be in any marketplace.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Then as to the second part of your question, Barry, with respect to Classified Ventures or Cars.com, I obviously can't comment on what Trib did or didn't put in their presentation to investors. What I can tell you is that the auto category is a very important one for our company and Cars.com is a business that obviously we know extremely well. Jack Williams has been there since the founding and has been a common thread through the history of Cars.com. It's an important category for us and a business we know very, very well.

Barry Lucas - ***Gabelli & Company - Analyst***

Thank you.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Thanks, Barry. We do have time for one more question.

Operator

Thank you. Dan Jenkins, State of Wisconsin Investment board.

Dan Jenkins - ***State of Wisconsin Investment Board - Analyst***

Hi, good morning. I was curious, the FCC in a couple years are talking about auctioning the TV spectrum for wireless providers. I was wondering what your views on that are in terms of if that's something you think you might participate in, or how you are thinking about that potential?

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

First of all, I would say that we never say never, but I think that a lot of it is going to depend on how the auction is run and the markets that are important, et cetera. Dave, why don't you fill in the blanks?

David Lougee - ***Gannett Company, Inc. - President, Gannett Broadcasting***

Yes, I think it relates to what our assets are, is that, A, most of our assets aren't in the key markets that are most impacted, and secondly, I think strategics like ourselves that have high asset value from our existing stations are more interested in making sure that the auction is done in such a way as to not impact our coverage area and not hurt incumbents. We're very focused on that through the NAB, to hold the FCC to the congressional statute to make sure that we are not harmed in the rules that are used. There are still open questions about the border states. There's a lot of open questions that I think broadcasters and even whoever they are that may be thinking of participating probably, there's a lot that has not been disclosed to them yet and will play out over the next year to year-and-a-half probably.

Dan Jenkins - ***State of Wisconsin Investment Board - Analyst***

Okay. Thank you for the color.

Gracia Martore - ***Gannett Company, Inc. - President & CEO***

Thanks, Dan. Thank you all for joining us this morning. If you have any additional questions, please feel free to give a holler to Jeff Heinz. He can be reached at 703-854-6917. Thank you again for joining us, and have a fantastic day.

Operator

This concludes our conference. Thank you for your participation.