SOUTHWEST IDEAS INVESTOR CONFERENCE 2014

Matt: Up next we have the Tribune Publish Company, traded on the New York Stock Exchange (TPUB). Joe Cornell from Spinoff Research, who is part of our independent research network, recently has featured Tribune Publishing in one of his write-ups, and he recommended them for our conference. We are happy to have the CEO Jack Griffin and the CFO John Bode here with us today.

On August 4th spinoff happened. Tribune Publishing spun off from Tribune Media. Tribune Publishing is a diverse collection of iconic news and information brands, including ten leading daily titles in eight major markets across the United States. In addition to that, Tribune Publishing operates leading digital properties in their respective markets and 180 niche publications. With that, I will introduce Jack Griffin.

Jack Griffin: Thank you, Matt, and good morning everyone. I believe that we’re Webcasting this conference this morning. John Bode, our CFO, will follow me with some financial remarks, and Sandy Martin, our Head of Investor Relations, is in the audience. We appreciate your joining us this morning and for your interest in our company.

I have a couple of obligatory slides here. You've seen these before. I promise I won’t read them, but obviously are disclosures regarding cautionary statements and forward-looking statements. We will be discussing non-GAAP financial measures.

So, this is a very exciting time for us at Tribune Publishing. As you know, we spun off from Tribune Media on August 4th. It was a successful spinoff a year in the making. We are in the early stages of an exciting transformation. To put it in some context, to think about the pace of the transformation, Tribune Media - the parent - spent the better part of four years in bankruptcy. That bankruptcy ended in January of 2013, and the company went through 18 months of reckoning with the newspaper business and finally spinning it. So, it's a new management team, it's a new corporate structure, and we're doing some very exciting things that we're here to tell you about this morning.

These are our brands. I think what you'll notice is, we have the leading brands in very important markets in the country like Los Angeles and Chicago, the number two and number three markets in the United States. Virtually everywhere we operate in print and digital, we're the number one source of local news and information. When we think about legacy media today, whether it's newspapers, television, or magazines, I think that it's important to think about being a market leader, because there's a clear bifurcation going in markets about where the money is going, and market leaders are increasingly taking a disproportionate share.

Our key investment highlights as a public company - why you would want to own stock in Tribune Publishing - we're a leader in multimedia local news and information. I'm not going to tread through all of these for you here this morning because of the time pressure, but we think that this combination of assets predicated on our trusted, award-winning premium content and our ability to monetize across all the platforms, is what makes for a compelling investment case.

When I got to the company, which was about seven months ago, we articulated broadly both to the lender community, to the equity community, and to our employees, seven key strategic principles, and these are the bedrock of the way we run the business. We think about building on our leading local market presence that I just showed you, and making that presence even stronger. I'll give you I think a very good example of how we've executed on that already. We're very aware we have to strategically manage our core print business and the secular declines that go with being in a company like ours, and we'll talk to you about that, and John will talk to you about how we manage costs in that respect.

We've done a tremendous amount in a short period of time on innovation and the digital transition, and if you think about what I said earlier, the four years of the company's bankruptcy were not a time when the investments in digital would be made. So, we've been making them recently and we're very excited about the possibilities and the results.

We have a significant focus on monetizing our content with consumers. The company's done a pretty good job monetizing content with advertisers digitally. We are in the very early stages of monetizing our content with consumers on digital platforms. We have a diversified revenue base, so in addition to being in the advertising business and the circulation business, we have a very large commercial print and delivery business where we print and deliver newspapers like The New York Times, The Wall Street Journal, USA Today, and others in our big markets like Los Angeles and Chicago.

And then what we're doing, I think very successfully already, is leveraging our scale and our footprint for opportunistic consolidation. We've done it this year in Baltimore. We recently did it in Chicago, and we'll show you a little bit about what that means and how it translates into results. And then finally, what Tribune I think is well known for is disciplined cost management and financial policies.

In our first 90 days we believe we've accomplished a lot. We signed a new five-year affiliation agreement with Cars.com, which as you know was sold to Gannett recently, and think about Los Angeles, Chicago, and South Florida, as some of the largest and most important automotive markets in the country. So, this is critical for us. We completed the acquisition of a very large group of suburban dailies and weekly newspapers and digital platforms from our competitor the Chicago Sun Times in Chicago, and I'll show you in a second what that does for our penetration. But when you think about the benefits of acquisition around our flagship Chicago Tribune Media Group, with this acquisition we acquired relationships with over 9,000 merchants and advertisers that we can cross-sell and upsell our other products to.

Additionally, we secured a new long-term commercial print and delivery relationship with the Chicago Sun Times. And if you looked at our Form 10 around the spin, this was one of the major issues to be remedied in our company. This is secured now for quite a long time, and takes out a large element of uncertainty when you think about the future financials of the company.

The board recently declared our first quarterly dividend at 17.5 cents per share. John Bode is going to talk more about or ability to generate cash flow and free cash flow, and I think you'll like what you see.

We've made several key leadership appointments and new publishers in places like Los Angeles, Hartford, and our very important market in Orlando. We think we've got a first-rate team to start to execute aggressively on our strategy in 2015.

I think finally, we appointed the company's first ever Chief Revenue Officer, and so we have an assiduous focus on topline growth. This gentleman's name is Michael Rooney. He came to us most recently as the Chief Revenue Officer of The Wall Street Journal, and he will lead our advertising and marketing revenue development across the company, based out of New York City.

The bedrock of our business, as I said earlier, is our trusted, award-winning premium content. This is what distinguishes our company from all of our competitors in the market. So, newspapers in places like Los Angeles and Chicago are essentially the last ones standing that do premium original content, that do investigative journalism, that do sports and opinion columns that matter and that help resonate the brands in the communities. When you think about content today, you think about how much of the content that you read comes from other original sources. Well, increasingly in our markets we're the original source.

I think what I'm going to show you here in a second is how we're taking this premium original content across all platforms, print and digital, quickly and aggressively with a clear plan for consumer monetization.

Before I get to that, just a bit more about our M&A strategy. We call it a "bolt-on" strategy. This gets to leveraging the physical infrastructure in our flagship property. So, back in the spring we executed on a transaction in Maryland where of course we own the Baltimore Sun. We acquired neighboring papers in Annapolis and the affluent suburbs north of Baltimore in Carroll County, and were able to generate significant cost-side synergies as a function of our physical plant, closing down their printing plants, consolidating their distribution into ours, generating incremental revenue with our sales forces, and leveraging our very large back office infrastructure. John will talk to you a little bit more about what this looks like from a multiple standpoint.

Then most recently as I said, we executed on the same logic in Chicago. Here's what it translates to in our ability to do business, and gain, going back to the concept of market leadership in a local market. You can see the Baltimore Sun with the acquisition I mentioned goes from a 44% penetration of the market to 50%, Chicago similarly from 40% to 51%. And when we look around the rest of our markets, we think that there are similar kinds of opportunities to execute these very attractive and highly accretive kinds of transactions.

As I said before, we're in the early stages of transformation. We are in the early stages of digital transformation. However, in the past six months, we've done a tremendous amount. We launched a state-of-the-art responsive design website platform. We call it NGUX, which stands for Next Generation User Experience. If you look at any of our sites, be it latimes.com or The Chicago Tribune, you'll see that this is a highly responsive, device-agnostic Web tool that will now put is in the position, along with the relaunch of our applications - that I'll talk to you about in a second - to start to monetize the consumer relationship on digital platforms.

To give a couple of points of reference, our company Tribune Publishing, we have paid Sunday print circulation across all of our titles of just north of 2 million and we have a base of digital-only subscribers of around 50,000. So, that 50,000 is a very small number relative to the scale of our company. Conversely, when you look at other industry benchmarks - if you look at The New York Times, for example, who have essentially written the code on this matter - that Sunday print circulation is around 2 million, 2.1 million, and The New York Times has about 800,000 digital-only subscribers.

So, we don't intend to mirror The New York Times, but we intend to mimic The New York Times in terms of building a highly profitable digital-only subscription base as we relaunch our tools and our strategy. I won't read the rest of it here, but you can see that we're moving aggressively in video. We're very attentive to the mobile opportunity and challenge, which speaks to our product lineup. In a market like Los Angeles, more than 50% of the online traffic now is coming from tablets and phones, and so our products are optimized for those devices as is the monetization.

And then we have now a unique and distinctive opportunity to take these digital products - so, you see NGUX, the Web platform in the middle there - and then over on the right, the mobile products and the apps, which are launching as we speak. The Chicago Tribune launched a couple of weeks ago, The L.A. Times app launches later this week, and by the end of the year we'll have these very innovative, built-for-mobile native applications launched in the Apple Store and the Android Store for all of our products. It closes the circle in terms of the way we think about building the digital business.

As important as building a digital-only consumer business, these digital tools allow us to offer to our best print customers, those two million Sunday print subscribers that I talked about, access to the full digital products suite and not charge them extra for it. So, it has very powerful implications and impact in terms of consumer loyalty, consumer usage, and the way that consumers use our products throughout the day and throughout the week. So, we’re very enthusiastic about this, and this has worked really wonderfully other places in the industry.

And then just a little bit about our paid consumer digital strategy. It's a bit of an eye chart, but you can see that we’re quite focused on this. It's quite specific. It's a specialty sport we have acquired, and the right tools to do it. We’ve built a team of first-class professionals to make this model work, and you can see what we’re doing to move consumers through the funnel to register and ultimately to pay and become paying subscribers.

What this does, in addition to giving us obviously a transactional relationship with people who find us digitally, it gives us the opportunity to upsell other products, to serve them paid email newsletters. And for those who are print and digital subscribers at the moment in time when a consumer decides, perhaps I don't want the print product anymore, we have the established digital relationship.

And then one final point about it, it gives us the opportunity to market significantly to consumers who are out-of-market. In Chicago, for example, there's a very large contingent of people from Illinois who now live in South Florida, and they can’t buy the Chicago Tribune on the newsstand but they can subscribe to our applications and our digital products. We think that this has many ways to benefit the business and monetize the tools.

It's been a year of building and transition in 2014. We’re very focused on 2015, when we intend to start to execute on our strategy in full bloom. I’m going to turn it over here in a second to John, and he’s going to talk about what that looks like. I’m just going to end here with showing you the way we can take product like NGUX, which we spent over $15 million of investment in. We launched in LA, and over a six-month period we launched it in every single one of our markets at minimal incremental cost. For the smaller markets we call this the “unfair advantage,” but it's reflective of our ability as a scale company, a platform company, to do this not just with digital but with all of the strategies and tactics that we're able to perfect and then scale them for meaningful monetization. With that, I'm going to turn it over to John Bode.

John Bode: Thank you, Jack. Before I jump into the financial profile of the company, I want to spend a brief moment talking about some of the things we're doing in the digital vertical space. Tribune Publishing has a legacy of building extremely valuable digital verticals off of its main sites. If you think of Cars.com, CareerBuilder.com, and Apartments.com, those businesses were built off of the backbone of ours and other newspapers' digital sites and local sellers. That's sometime we're interested in continuing. We think we're uniquely positioned to do that in other digital verticals.

ForSaleByOwner.com, we own 100% of. This is an example of a digital business that we've incubated for a while inside of Tribune Publishing. We're talking about it today because obviously the real estate sector digitally is extremely hot with the Trulia and Zillow merger and Murdoch's purchase of Move.com. ForSaleByOwner.com monetizes by allowing and providing toolkits to homeowners to allow them to sell their homes outside of the traditional agent/broker model. It's a growing segment of the real estate space and one we're very focused on building in the near-term.

I'll talk a little bit about capital allocation. As Jack mentioned, we have a robust M&A strategy. We clearly see the industry consolidating over the next few years. Historically we have been able to buy bolt-on acquisitions for multiples in the 3x to 4x, and post-cost synergies it ends up being closer to 2x for us. That's a very attractive acquisition strategy. People talk a lot about the secular headwinds of the business. In the smaller community newspapers, clearly those have abated to a greater extent and so you don't see the type of revenue declines in these acquired businesses that you would in the major metros in our business, which includes L.A. and Chicago. I think these are great businesses, great brands, great community newspapers, and most importantly we think they are relatively cheap. That's one of the primary uses of cash above and beyond the free cash flow of the business.

The free cash flow of the business - which we'll talk about the level of that here in a second - but inside of that M&A strategy we're focused on maintaining a conservative balance sheet. That was a big part of what we talked about on our roadshow, that we talked about to the lender community. The conservative balance sheet gives the operational flexibility to manage the business as we go forward.

The term loan that we have does have a 5% mandatory amortization, and so there is some natural deleveraging of the business. As Jack mentioned, we're focused on returns to shareholders. We initially are targeting a $0.70 annual dividend, and we now just announced our first quarterly divined a couple of weeks ago. The business once again obviously generates significant free cash flow above and beyond those uses of capital, and to the extent there's not an M&A activity to invest that cash in, we will not horde cash. We're focused on returning cash to shareholders.

We just announced Q3 results. We filed a 10-Q and I would encourage you to check that out. But in talking about some of the highlights today that I think are worthy of pointing out, national advertising in Q3 was soft. We pointed to two things. First, I think the overall advertising environment across all media was challenging in the late summer, and then specifically for our business, The L.A. Times still gets a significant amount of movie business - it's the newspaper of record for L.A. - and the US domestic box office was incredibly soft this summer and we were impacted by that.

Some of the other challenges you see in the quarter compared to trends, like in the classified line and in the digital line, were related to asset mix and challenges related to the spin as opposed to the core business. But we need to do better on the national line, and as Jack mentioned, for the first time ever we have a Chief Revenue Officer and that will be his first order of business.

On the expenses side, we're highly focused on managing expenses inside of the secular trends. You begin to see in the year-over-year results how the business looks as a spun company versus as a division of Tribune Company. Two of the three months of Q3 were post-spin, and one of the months was pre-spin. And so, a lot of the expenses associated with the overhead of the business were inside of a corporate allocation line, and going forward obviously we'll be directly employing those people and the other types of services you need to run a corporate business.

The typical spin type of adjustments are noted in our financial filings, but one of the things I would point out is, we think we're going to spend just under $30 million a year on corporate overhead to support the business, and that number actually is less than what we were previously being charged as an allocation from Tribune Company. Rather than having a negative impact on our numbers as a standalone company, we actually have a small pickup.

One of the things you will notice is, the rent expense number did increase significantly. As part of the spin, Tribune Company kept the real estate and we became tenants. We will have rent expense going forward for the locations that previously were owned.

Once again, this is a bit of an eye chart, but I wanted to highlight that we've provided a full reconciliation and a way to think of our business from a GAAP perspective down to adjusted EBITDA, as well as the four main pro forma entries you need to make to get the business's standalone cash flows. So, on a pro forma TTM adjusted EBITDA basis we're in the mid-$170 millions. That's significantly higher than kind of the case that we spun using, and the biggest difference is the Cars.com agreement. When we spun we had zeroed out the economics from Cars.com because we were unsure of what that relationship would look like, and going forward it will obviously contribute a significant amount of revenue and profit. Out of the $174 million of pro forma EBITDA on a TTM basis, we have three other cash use items: interest, taxes, and then an estimated CAPEX of $4 million a year. As I kind of pointed out in my earlier remarks, the business generates a significant amount of free cash flow after those activities in order to fund the dividend, the deleveraging of the business, and the M&A strategy.

With that, we will turn it over to Q&A. And I understand there's not a microphone in the room, so if you ask me a question I'll repeat it for the people on the Webcast, and then Jack or I will answer.

Male Voice: [off-mic] It looks like you took about $250 million of operating costs in 2011. At what point might this play into the [00:24:25 part] where it starts to hurt the ability to generate revenue?

John Bode: So, one of the things that the business has done is been able to take cost out without impacting the revenue-generating activities. One of the primary ways it's been able to do that is by taking the plants and the distribution centers - kind of the infrastructure of the business - and leveraging it by bringing on third party clients. So, in most of our markets - in seven of the eight - we own our printing press, and in all of those seven we actually have contracts with other newspaper publishers to print and distribute their products. So, that really helps manage the fixed infrastructure costs of the business.

And then we see two opportunities going forward to reduce costs significantly without doing what you just described, which we're very cautious of taking cost out of the business to accelerate the secular trends. And those two opportunities are this: One, the businesses were run as eight separate business units. A local CEO made almost all of the decisions. We've recently consolidated many of the shared functions across the organization into more of a matrix infrastructure. So, overhead comes out of the market as best practices can be implemented.

Second, for the first time ever we're implementing a central procurement function in the business. We think there's a real meaningful opportunity to take cost out of how much we pay third party vendors for various products and services, which are very similar across all eight of our markets. We think there's a significant cost-cutting opportunity here that won't have a negative impact on revenue.

Jack Griffin: Another marker to add to that. I mentioned earlier that we're in transformation, and so we've only been a spun company for about four months and change. We are doing now for the first time in the history of the company, a very aggressive zero-base budget exercise for 2015. And so, that reveals of course opportunities that a typical budgeting process doesn't.

And the way I think to put that in some perspective is, John showed you a TTM EBITDA of about $174 million. On $1.7 billion in revenue, that's still about a 10% EBITDA margin. We know that trails our peer group by a significant delta, and so we're very focused as a management team on improving the EBITDA margin, and if it's possible elsewhere in the industry we're convinced it's possible at our company.

Male Voice: [off-mic] You've [plotted] that community newspaper revenue growth had abated. Can you talk about that maybe by either citing industry trends or maybe your own community papers? You're talking about revenues going down 1% a year instead of 9% a year or sometime like that?

John Bode: Yeah. So, the question is about the trends in the small community papers, secular print advertising trends versus the major metros. Clearly we're in both businesses, L.A. and Chicago being major metros, and then on down the line. What we see in the smaller papers we own, and then also what you see reported in some of the Lees of the world or the New Medias of the world is similar to what we're seeing, which is a clear kind of abatement of the secular headwinds on those businesses. So, they are beginning to find what I think is a more natural level of demand for their advertising in the markets that they serve.

I think there's a second thing going on, too, and Warren Buffet calls it the "moat." If you look at Allentown, PA for example, which serves the Lehigh Valley which is inside of the Philadelphia DMA, if you want to reach consumers in the Lehigh Valley, Philadelphia TV and Philadelphia radio are not really affordable. And so clearly in those types of markets you just have less choice from an advertiser perspective. These are still usually the biggest, if not the second biggest, reach vehicles in those markets. If you're familiar with Chicago - and in Naperville, IL, a town like that, the local paper is probably the best way to reach consumers in that marketplace. And so if you're a local merchant doing business in that marketplace, that's who you advertise with.

And so it's less about I think what we're doing, and more about just the market dynamics at this point. We're clearly focused, as Jack said, on managing the core business. What we need to do is, we need to start bending that curve in L.A. and Chicago as well. We need to see those secular trends move from the high single digits to the mid single digits, and we think we can do that over time.

A lot of people focus on the advertising trends. Advertising is about half what it was at its peak in the newspaper industry, but circulation dropping 8%, 9%, or 10% a year is part of that story as well. As the audience has shrunk, the advertising dollars have shrunk. You're also seeing smaller declines in circulation levels in the small markets particularly, and so that all kind of leans to that story as well. I think we have time for one more question?

Male Voice: [off-mic] What are you doing about decreasing the [00:30:00 subscriptions]?

John Bode: The question is about subscription pricing. Over the last three or four years, what has happened in the industry is that we've aggressively raised price, which has more than offset the decline in units. If you look at our Q3 results and our historical numbers, circulation revenue is actually growing. It's still a very small out-of-pocket. $4 a week for a home-delivered product is a pretty low price. I think the key there is the one Jack mentioned, which is bundling the digital products with the print products under an all-access model really allows you to improve retention and over time raise price. There are some great examples of that. Gannett maybe is doing the best of that in the marketplace. There is we think real opportunity to raise price over time. Thank you very much. We appreciate your interest.

End of recording.