

WELLS FARGO SECURITIES TECHNOLOGY, MEDIA & TELECOM CONFERENCE

Eric Katz: Good morning, everyone. My name is [Eric Katz] from Wells Fargo, and I'm happy to have Tribune Publishing CEO Jack Griffin and CFO John Bode with us today, and they're going to tell us a little bit more about the story.

But just to make sure we're all up to speed, Tribune Publishing was spun off from Tribune Media on August 4th under the ticker TPUB. Tribune Publishing has ten leading daily newspapers in eight major markets, including the numbers two and three markets in L.A. and Chicago, in addition to leading digital prosperities in their respective markets and 180 niche publications. So, thank you both for being here.

First, I was hoping you could briefly tell us a little bit about Tribune's brands relative to the industry, and the potential you see for further monetizing these assets now that you have a separate entity?

Jack Griffin: Thank you for having us. It's an honor and a pleasure to be here. So, Tribune Publishing Company is a brand new company, a little over three months old, and we're at a very exciting time in our transformation. We are very early in our transformation. And I think to understand what we are as a company and where we're going as a company – and if you own stock, what you own stock in – I should probably just give a little bit of history.

Many of you may know this, but it bears on the strategy and the go-forward, which is that Tribune Company was in bankruptcy for four years. And then coming out of bankruptcy in early 2013, the parent company went through a process to put the newspapers on the block, and then around July 2013 announced that it would spin the company, and the publishing company actually spun in August.

So, if you think about that, you had four years of bankruptcy, you had six or seven months of being on the block, and then you had 12 or 13 months of going

through a spin. And for any of you who have ever gone through a spin, it is a complex process to a factor of ten. We had to stand up a corporate structure, we had to separate TV companies from newspaper companies, and so you had a tremendous amount of managerial attention and focus aimed on executing that separation, which was successful. I'm finding myself now six months into my job as the CEO of Tribune Publishing, and so I think that underscores again the fact that we're a new company.

Since the 4th of August, we've released a set of quarterly results. We've done by our count almost 200 individual investor meetings over that period of time, and what we've been doing is telling investors and potential investors our story and our thesis. I try to summarize it this way. I talked about being in the early stages of a transformation, and in direct answer to your question, we have these amazing brands, The Los Angeles Times, The Chicago Tribune, the second and third largest newspaper brands in the country after The New York Times – that leaves out USA Today and The Wall Street Journal.

And the backbone of our company, and the investment thesis, is that in these important markets – not only there, but places like Baltimore and South Florida – we have the number one brand in terms of local news and information across print and digital platforms. But as you know, one of the things that happens or doesn't happen in bankruptcy is that you don't make the long-term kind of investments that you need to get yourself ready for a transformation. I call it, "Chop wood, carry water, make the quarter," so you can get out of bankruptcy.

The company did that very successfully, and during that time kept EBITDA essentially flat year-over-year for four years while revenue declined a step function every year. So, where does that leave us now? This year over the past six months – and we have some of it to show you if we get to it – we've launched all of our websites across this platform called the Next Generation User Experience, which was designed for mobile in mind. It's device-agnostic and it's a tremendous product, and so that's done across every one of our properties.

We're in the process now of launching all of our native apps. We launched The Chicago Tribune in the Apple Store just last week, and by year-end every one of our properties will have a brand new native app. And what that does is, it sets us up for digital monetization in a way that the company has not been able to do. In that stage we're in the very early game, we're in the first inning, but given the strength and the penetration of our brands and the quality of the products, we think it's a tremendous long-term grow opportunity for a company of our scale and size.

Digital monetization is key, but the brands are, as I said, the backbone of it. You have The Los Angeles Times, which has Sunday print circulation of just around 680,000. You have The Chicago Tribune, 625,000. And just a couple of weeks ago we executed on a very significant transaction in Chicago, where we acquired a whole string of suburban dailies and weeklies that give us a footprint in the third largest market in the country that is absolutely tremendous. We picked up in that transaction over 9,000 new merchants who are our customers that we can cross-sell all sorts of products and services to, and it takes our penetration of the market up by a very significant margin.

So, our strategy is this. It's a three-fold strategy. At the core business level we intend to manage the cost side in a way that the reductions offset the secular decline in print revenue. I will say, at the same time we're taking steps to moderate the rate of secular print decline. We have a tremendous focus on top line revenue in the advertising category. We'll do about a billion dollars this year in total ad revenue, and we made a number of recent announcements – including the appointment of a new Chief Revenue Officer, a very distinguished gentleman named Michael Rooney – and so we're laser-focused on managing the top line in a way that we'll start to see results in 2015.

We'll be growing digital monetization on both the advertising side and the consumer side, and that will be new to the company. Our levels of revenue in those areas are what we call de minimis. So, that's a growth strategy.

And then the third part of the strategy is completing these accretive acquisitions. My colleague John Bode comes from Missouri, which is the “Show Me” state, and we were talking on our road show about accretive acquisitions. We had done one in Baltimore previously in the year, and then immediately out of the gate after being public we execute this very important Chicago transaction. We think we’ve put points on the board on all those scores, and we’re getting ready now for a 2015 which will be our first year as a standalone company to be able to position the company from both a cost standpoint and a revenue generation standpoint, that we think will set us up for the long haul in a way that will be very attractive to long-term consumers.

Eric Katz: I want to talk about advertising at a high level, and then maybe decompose the print and digital since you were talking about that. On the advertising side, it's been sort of a hot topic as we've seen the television industry come under increasing pressure. There's been a shift of ad dollars to digital. It's no secret, print has felt this for a while. You guys are not in denial about it.

There's an argument to be made that most of the pain in the shift has already happened in print. Do you think there's an inflection point in the near future where the decline in newspaper advertising slows, maybe stabilizes a bit, or maybe even growth?

Jack Griffin: Great question. I do think that will come. I don't presume to have the crystal ball to say when that inflection point is, but if you go back ten years – as you know – the falling knife left the docket in 2006, and from 2006 to the current day on the ad side the industry has lost over half its revenue. And a huge portion of that in classifieds, which as you know was all margin. We used to call it the “golden river.”

And so, very painful. And you've seen newspaper companies adjust to that largely by taking huge amounts of cost out of the business. I think it took a few years for the industry to realize that this was not some cyclical downturn, but this was a real seismic structural realignment. And so if you take kind of 2009 to the current day there's

been a tremendous amount of cost reduction, but I would argue that too much of that cost reduction has been in the areas where it negatively impacted the product, which is the bedrock of the business, and the ability to generate revenue.

And so when we think about plans and our long-term future – and we're in this for the long-term – we want to make the decisions judiciously in the business that allow us to be in the right position when that inflection point does come. Because I think it will come, and then I think that revenue will accrue disproportionately to market leaders and market laggards. The position we want to be in, that we want to be in in this business, is number one in every one of our markets, and so that's what we're setting ourselves up for while we are judicious about managing the short-term realities of being a public company and having to report quarters and satisfy our investors.

Eric Katz: You mentioned classifieds. I was wondering, if you look within the different categories of the print side, which categories are doing okay – I know classified is obviously not doing well – and which ones maybe have more wood to chop?

Jack Griffin: Sure, great question. It's a little episodic. When we look at this year, we like what's happening in healthcare. There's been a reasonable amount of business that's come our way, particularly in Florida, from the Obamacare initiatives. Food and drug - retail food and drug has held up pretty nicely.

I haven't seen the industry numbers, but when you think about our company, Tribune, out of our roughly \$1 billion of advertising – our forecast for this year is a little bit shy of that, but let's use it as a round number – about a third of that comes in the pre-print category. It's the inserts in the paper on Sunday and usually one other day of the week, that's a remarkably resilient business.

And so our strength in places like Chicago and Baltimore, where we dominate the grocery business and we dominate the pre-print business, we think will be stable over time. And we're seeing some nice things happen in the legal advertising category

as the housing market comes back and inventory gets cleaned up. When we look across categories, that's where we see some bright spots.

For anybody who listened to our earnings call, we're seeing softness in movies and entertainment, which is episodic year-over-year. It primarily happens for us in Los Angeles, and the summer box office was a bust. Last year the summer box office was a boon. So, we have to ride that wave. And then I think the packaged goods category is softer than we would like to see, but again, I think it's all just a sine wave. One quarter doesn't tell you where's going to happen in the next quarter.

Eric Katz: I'm going to assume that wasn't an endorsement of Obamacare at the beginning there. I think sometime that gets a bit lost in the talk about a shift in advertising to digital is that, many traditional forms of media have digital themselves and it's not just the Facebooks and Twitters of the world. Can you talk about what Tribune is doing to capitalize on this shift and how your brand equity helps there?

Jack Griffin: Yeah, absolutely. A great question. When you look across the digital landscape and you look at all the money moving into programmatic, exchanges, and networks at really low CPMs – I call it “blind money” – because it's computers buying random inventory with no placement of any guarantee and no guarantee that there's actually a consumer behind it.

So, think about how much traffic in the Internet comes from bots, right? Just computer clicks. Our proposition is increasingly this. When we look at our digital platforms, whether it be apps or the websites, our goal is to get a user to register – log in and register. And that registered user we can monetize in lots of ways, but most significantly it says to the advertiser, there's a real person who took a step to opt in to this premium product, and we can track that behavior. We can track where that person goes.

And then that registration ultimately leads us down the path to the paid user. And so when you think about the CPMs and digital advertising – whether they be video, branded content, or display – the CPMs on a logged in, registered user on your site are better than the programmatic by a factor of ten. And so what our simple proposition is in digital, from a traffic standpoint, is that we're selling real people who are subscribers to our products. They live somewhere. We know they exist, because they pay us or they register with us, and that's entirely different from going – if you're an advertiser, buying "blind" advertising through an exchange.

Eric Katz: So, the shift to digital hasn't only impacted advertising but also circulation. Can you break down your circulation revenue between traditional subscribers, i.e. through the mail, and digital, and how both are trending and what your expectations are going forward?

Jack Griffin: Sure. We are early days. It goes back to my chronology of, when Tribune was in bankruptcy it was not investing in these tools or in this strategy. In the past six months we've re-launched all the websites and now all the apps, but we've made tremendous improvements to our landing pages and our commerce engines. There are lots of good examples out there about what it takes to build that kind of a business, and it's a specialty sport. So, we've made investments not only in the technology but in the people, to start to build a meaningful digital subscription business over time.

Today, it's very small. We denoted on our earnings call that right now our number of paid digital subscribers – digital-only subscribers – is fewer than 50,000. At a company our size, that's a really small number. There are lots of markers out there. The New York Times Company – The New York Times newspaper being the most significant, and obviously that's a unique product – but The New York Times is about 800,000. Even papers like The Boston Globe are in the 50,000 to 60,000 neighborhood. By Sunday circulation we're the second biggest newspaper company in the country, and so we need to really well on that score. So, we see 2015 as our bellwether year, to start to show demonstrable progress on that.

But I also wanted to show one thing here, which is what digital means to the core business. Here I talked about our NGUX Web product, I talked about our mobile and apps products. Those allow us to develop a vertical of digital-only customers, and the beauty of these products is that you can sell a subscriber to The Chicago Tribune who may have moved to Florida.

But over to our core print products, we're implementing the all-access model. Our best print customers get access to these digital tools at no incremental cost. But what it does is, it adds value to the package and gives us the leverage to increase circulation pricing for the print customer over time. It's not just a digital-only proposition, but it's the totality of the consumer experience that we think has meaningful economic leverage over time as we build scale.

Eric Katz: It sounds like a lot of low-hanging fruit there on the digital side. I'd like to jump to the cost side. Can you tell us about some of the restructuring you've undertaken and how much annual cost savings that translate to, or even what percent of costs have been taken out already?

Jack Griffin: Over that period of time that I described earlier, the four-year period in bankruptcy when the company held EBITDA flat to stable, a lot of costs came out. But we find ourselves today – the numbers that we're using are about \$1.7 billion in pro forma TTM revenue and \$171 million in pro forma TTM EBITDA, and so that's a 10% EBITDA margin, which we know we have to do better at and we think we can do better at. And when we look at the cost opportunities, in each one of our markets save one we have a very big physical plant and infrastructure. We have plants, trucks, drivers, and depots. We think there's significant opportunity for efficiency there as the distribution patterns challenge.

Second is, we're in the process of implementing a strategic sourcing and procurement function. Under Tribune previously, if you were the publisher in Baltimore

you bought everything in Baltimore yourself save for newsprint. As we go into 2015, that's going to go through a [00:19:57 cleaning room], it's going to go through a bidding process, and there's a lot of cost to put through there for efficiencies. For example, we publish magazines. We had relationships with about 60 outside printers or sometime like that?

John Bode: Right.

Jack Griffin: And how many now?

John Bode: We lowered it to close to ten, through a national process. The outside printing business has consolidated, and so it makes sense to partner with them on a portfolio basis, not on a one-off basis, and they price portfolios different than they price single products. That was our first foray into this space, and we were able achieve savings in that area of in excess of 20%. I think the local business units did a good job, and they were as efficient as they could be as local business units, but the world has challenged. The tools have challenged, the RFP processes that now exist today didn't exist ten years ago, and so it's a real opportunity to start afresh and take a fresh look at literally every cost in the organization.

Jack Griffin: So, I spent most of my career at Meredith, and we wrote a bit of the book on this. If you look at Meredith's cost reductions year-over-year, it's best-in-class. This is one of the big levers in the business.

And then when you look further across the business, we organized the company this year. That was another thing we did, a major structural reorganization. We have group level Executive Vice-Presidents in charge of all the functions. As the CEO, if I want to get something done enterprise-wide, I can talk to six or seven people instead of 60 or 70 people. That's what we're working on now as we do our plan for 2015, and we think we'll be able to be very articulate about it when we come out next year.

Eric Katz: Great. I definitely want to open the questions up to the audience if they want to ask about anything, otherwise I can certainly keep going?

Male Voice: Hi, there. Could you just give us a little bit of a look into how you guys are thinking about your digital offering going forward? Do you currently or plan to offer a digital-only option in your markets, and if you do, could you just help us understand the difference in the price point and importantly the difference in contribution between a digital product and a print product? Thank you.

Jack Griffin: Sure, great question. The answer to the first one is, yes, we're implementing as we speak a digital-only offering in every one of our markets. And I'll show you roughly how it works. I can't read that from here, but hopefully you can. Here's how it works.

So, we attract traffic, and after a certain amount of traffic consumption the consumer hits the first wall and we say, "Please register." Which is very simple, give us your email address. And then they get more pages, and then as they consume more pages they hit a wall where we say, "We're asking you to pay." The payment model has been tremendously improved this year.

And then when we get the consumer to say yes – if you go to Chicago and the current offer now, and we do a ton of testing on this – is four weeks for \$0.99, but when you sign up for that you're automatically signing up to get up-priced after the four weeks. So, right now in Chicago you get up-priced to \$2.50 a week, which translates into on an annual basis, is that like, \$400? I'm not so good at this anymore.

John Bode: No, it's a \$10 a month, \$120.

Jack Griffin: So, it's \$120. We think that those price points are low, but that's where we're starting to build some critical mass. And with respect to your second question, I get asked that a lot. I think at this point in the trajectory of these legacy businesses, the

answer to the question, "What are the margins like?" is almost impossible to answer. The content that feeds these products, the cost of that is all borne by the legacy business.

But at some point as the digital scale grows and the print scale continues to shrink, there's going to be a reset and the cost accounting is going to have to challenge. But right now what we're focused on is, on the margin building a digital-only subscription base in all of our markets and using the digital tools to create value in the print package so that we can continue to increase print circulation prices over time.

Eric Katz: Any other questions? Okay, so I do have another one. You spoke about M&A a little bit earlier. You mentioned the acquisition. I believe it was [in the] reports that you made. Regarding the spin, you have a new capital structure. I don't know if you have a target leverage ratio you'd like to provide, or how you think about M&A and the balance sheet?

One other thing that has come up when we talk to investors is cross-ownership, and now that you're a separate entity how that plays into it. Anything you can talk about as far as the balance sheet relative to M&A or how you're thinking about it?

Jack Griffin: I'll take just the last piece, and ask John to take the rest. One of the great outcomes of the spin was that we are now untethered from cross-ownership rules. We can look at any market and say, we're not restricted. It helped us tremendously in Chicago to do this acquisition, because Tribune Media owned the television station there and there was some grandfathering for the Tribune. But absent that we just had a free pass.

So, we did that acquisition at really attractive multiples for the buyer, which is us, and sufficiently attractive for the seller to get them to do the deal. And then I'll ask John to take on the larger topic.

John Bode: We felt when we spun that we had the right capital structure in place from a leverage perspective, given the trends in the industry and all the conversations we'd had, including with ratings agencies and debt investors. And so the leverage ratio feels right, it feels appropriate. We haven't announced a specific target, but obviously we put it in place and so we felt this was the right space to be.

The capital structure gives us a ton of flexibility to execute an M&A strategy. There's a lot of cash flow the business generates, even after the dividend and the mandatory debt repayments, which are fairly high, 5% a year. But the term loan does have an accordion feature we can access if we want to do something bigger. And I think as Jack just described, kind of how we look at buying and selling businesses and the multiples we want to pay, if there was a real opportunity that required significant capital I think we could go out to the markets and raise the appropriate leverage to do that.

And that's a good, kind of conservative model to put on management. We're not going to hoard cash. We carry around \$50 million in cash. As we build cash, we've used it to fund some acquisitions, and we've just announced – and we'll be paying our first dividend, and at the end of this year we'll pay our first mandatory debt payment. So, the capital structure feels right, and I don't view it in any way as restricting our ability to execute an M&A strategy.

If you look at the industry, I know there are a lot of companies out there in our space that are talking about M&A. I think arguably we've done more than anybody else so far, but don't get a lot of credit for our ability to execute. And that's business, like Jack said, that hasn't shown up in the numbers yet. I think when it shows up in the numbers, people will say, hey, I get it. This makes sense.

The last thing I would say about it is, we're buying great brands. We've had an opportunity to buy not-as-great brands and we've decided not to participate. So, it's not just financial metrics for us. We're not just trying to accumulate revenue and EBITDA as fast as possible in unstable marketplaces for the short-term. We're trying to buy great

brands in great towns like Annapolis and Naperville, IL, that we think will be excellent long-term assets.

Jack Griffin: I see that clock ticking down, but one point I'd like to make about the slide I put up here, which is a visual of what we've done – we've done three transactions. We started actually in Hartford, where we bought some weeklies, and we're finding those are really good baselines to build the paid circulation of the Hartford Courant, which is a great newspaper town. Then we did Baltimore, as I talked about. That was Annapolis and Carroll County, immediately adjacent to Baltimore. We were able to leverage the fixed infrastructure of the Baltimore Sun, and then in Chicago we acquired the six daily weeklies.

What I want to make sure is sort of clear in this is, when we think about acquisitions, we think about it first strategically. What does it do to our existing business? And then second, we think about – as we do in everything – discipline, doing disciplined transactions where we're modeling cost synergies that we know we can deliver on to get to the buyer's multiple, and where we know there's upside from revenue. But we don't model it, because that's where people run away with themselves.

And so, we think that the industry is going to go through a significant consolidation in the years ahead. With our capital structure, with our management team, and with our stability we think that we're in a great position to be a consolidator on the kinds of terms that are reflected here, disciplined and strategic.

Eric Katz: Great. That's encouraging to hear. Well, thank you very much for coming here.

John Bode: Thanks, Eric.

Eric Katz: I'm sure you have a lot of meetings to get to.

Jack Griffin: Thank you very much.

End of recording.