Tribune Publishing

Third Quarter 2014 Earnings Conference Call

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CORPORATE PARTICIPANTS

Jack Griffin, *Chief Executive Officer*

John Bode, *Chief Financial Officer*

Sandy Martin, *Vice President of Corporate Finance and Investor Relations*

PRESENTATION

Operator
Good morning, and welcome to the Tribune Publishing third quarter 2014 earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on your telephone keypad. To withdraw your question, please press star, then 2. Please note this event is being recorded.

I would now like to turn the conference over to Sandy Martin, Vice President of Corporate Finance and Investor Relations. Please go ahead.

Sandy Martin
Thank you, Laura, and welcome to our third quarter earnings conference call. Joining me today to discuss our results are Jack Griffin, Chief Executive Officer, and John Bode, Chief Financial Officer.

As a reminder, this is our first earnings call as a publicly traded company. On this call, we will talk about the state of our business up through the end of the third quarter, and we do not intend to provide guidance for the fourth quarter.

Before we begin, I want to remind you that management will make forward-looking statements during the call, and our actual results could differ materially. Segments containing words such as “may,” “believe,” “anticipate,” “expect,” “intend,” “plan,” “will,” “continue,” “estimate,” or similar expressions are forward-looking statements. Differences in our actual results from those described in these forward-looking statements may result from actions taken by the company as well as from risks and uncertainties beyond the company's control. Some of the risk and uncertainties that could impact our business are included in publicly filed documents, including our Quarterly Report on Form 10-Q and our Registration Statement on Form 10 as amended, effective July 21, 2014, filed with the SEC.

I should also mention that our remarks today will include references to non-GAAP financial measures, including adjusted EBITDA, proforma adjusted EBITDA, and free cash flow, and to the extent not provided on the call, we have provided reconciliations to the most comparable GAAP measures in our earnings press release, which is available on our website at Investor.tribpub.com.

With that, I will now turn the call over to Jack Griffin. Jack?

Jack Griffin
Thank you, Sandy, and good morning, everyone. As Sandy mentioned, this is the first quarterly earnings call for Tribune Publishing. We thank you for joining us today and for your interest in our company.

Tribune Publishing Company successfully separated from Tribune Media on August 4. We are proud of the commitment and hard work by our employees and thank them for their continued focus. The third quarter results that we will discuss today represent a hybrid quarter comprised of one month as a division of Tribune Media and two months as a standalone company. The third quarter was a period of transition as we completed the spin and commenced operations as a standalone public company. The remaining restructuring activities associated with the spin continued into the fourth quarter.

Since the separation, in addition to executing on our business strategies, we have been actively putting in place the management team and structure that will drive our business forward. We are in the early stages of business transformation, and our focus now is on budgeting for 2015 and establishing our plans for growth and margin enhancement. We are also intensely focused on business execution in the important fourth quarter.

As noted in our press release, we executed on several strategic initiatives immediately after our spin. Most recently, as John will discuss in more detail, our board approved the company's first quarterly dividend. We also made several key leadership appointments, completed an important acquisition, and extended a critical commercial print and delivery agreement with the *Chicago Sun Times*.

Additionally, we launched numerous digital products and signed a new five-year agreement with Cars.com. This modified affiliate agreement ensures our continued exclusive selling of Cars.com products and services in our eight key markets. Combined with our modified affiliate agreement with CareerBuilder, which went into effect September 1, we are well positioned to continue generating meaningful revenue from these key digital vertical marketplaces in automotive and employment.

Today Tribune Publishing represents a $1.7 billion annual revenue business, known for our portfolio of premium brands, products, and services. We are a pure-play news and information company with a portfolio of high quality assets in geographically diverse and economically healthy markets. We occupy strong positions in our local communities across print, digital, video, and other platforms. Virtually everywhere we operate, Tribune Publishing brands are the number one source of local news and information. Each of our papers is profitable, and we are executing on an ambitious digital strategy as we optimize our legacy print products and expand our local footprints. I will go into further detail on our strategy and execution a bit later after discussing financial results for our third quarter.

Turning to financial performance, during the third quarter Tribune Publishing generated total revenues of $404 million and adjusted EBITDA of $34 million. Including proforma adjustments for a variety of spin-related items, proforma adjusted EBITDA was $26 million. John Bode will provide more details on our financial performance in his section of our call today. I will spend a bit more time now on our revenue performance.

Like many of our peers, we are experiencing a volatile advertising environment with limited revenue visibility. Nevertheless, I would like to say upfront that we are not satisfied with the company's advertising performance in the third quarter, and we are taking significant steps to address ad revenue performance going forward.

For the third quarter, total advertising revenue was $221 million, down 9.5 percent from the prior year. This compares to being down year over year by 7.1 percent in the first quarter and 7.5 percent in the second quarter. Like many of our peers, we experienced declines in national ad revenue. At our company, national ad revenue was down 17 percent in the third quarter versus a year ago. Retail advertising was down 9.3 percent in the third quarter versus the prior year. Classified advertising was down as well, although adjustments for the sale of Apartments.com and the impact of the modified affiliate agreement with CareerBuilder explained the 5 percent decline in classified ad revenue.

Looking at advertising revenue with a different cut of the numbers, ROP advertising was down 10.7 percent, and pre-print advertising revenue was down 9 percent. In the important pre-print category, most of the $7 million year-over-year decline in revenue took place in Chicago, where Dominick's, a major grocer, left the market in 2014 and where we ceased producing an unprofitable weekend TMC product.

Digital advertising revenue for the quarter was $44.5 million, down $3.5 million, or 7.4 percent, from prior year. After adjusting for the previously discussed impacts of Apartments.com and CareerBuilder, digital advertising revenue would have been up slightly for the third quarter.

As I mentioned, we are taking steps to address advertising revenue declines. Foremost among these is the appointment of Michael Rooney as the company's first ever Chief Revenue Officer. Many of you may know Michael personally or by way of reputation. He is a highly accomplished advertising and marketing executive with a strong track record of success, leading sales in large, multi-platform news and information companies, including *The Wall Street Journal* and ESPN. Michael will be responsible for all national advertising revenue, print and digital, and will play a key role along with our publishers in leading and coordinating local sales teams. Michael starts next week and will be based in our New York office.

As part of his charge, Michael will focus on capitalizing on our geographic footprint for national advertisers across our print and digital properties. With the number two and number three U.S. markets, we are confident we can do better in this area, and Michael brings the right skills and experience. Michael will also be responsible for accelerating growth in digital marketing services, a new activity for Tribune Publishing.

Our recently launched 435 Digital brand, which is offered nationally and by each of our local media groups, provides marketers with a full spectrum of services, including custom content creation, native advertising, website and app development, and original video. We believe the trust and unrivaled reputation of each of our brands creates a distinct competitive advantage for us. In Chicago for example, Jewel Osco, the area's dominant grocer, retained us to create an original video series across our branded platforms as well as others, including Taxi TV, YouTube, Facebook, and others. Although digital marketing services is a small revenue business today, roughly $6 million in the third quarter and $17 million year to date, we believe there is a significant growth potential in this arena.

In addition to appointing Michael Rooney as Chief Revenue Officer, we made other important personnel moves in the third quarter. In August, Austin Beutner joined us as Publisher and CEO of the Los Angeles Times Media Group, replacing Eddy Hartenstein, who is now our Non-Executive Chairman of the Board. Austin's business accomplishments, philanthropic endeavors, and public service leadership make him the ideal choice to lead our operations in Los Angeles and California. Austin already is putting his stamp on the *Times*, bringing back the important "California" section to the franchise.

In October, we announced that Nancy Meyer, the publisher of the *Hartford Courant*, is relocating to our larger property in Orlando, where she will become Publisher and CEO. Nancy has demonstrated outstanding leadership and revenue generation skills. Orlando is one of the fastest growing markets in the country, and we are excited about what Nancy brings to that business. And replacing Nancy in Hartford as Publisher and CEO is Rich Daniels, a veteran of *The Boston Globe* and Gatehouse Media New England. Rick is extremely knowledgeable about the New England market, and we are fortunate to have him on our team.

With these leadership changes, we have able and experienced management teams in place at all our core properties and business units as we head into the important holiday period and prepare for 2015.

In addition to implementing these leadership changes, we were active on the acquisition front during the third quarter to continue our strategy of leveraging our existing infrastructure, resources, and management teams to drive growth. As you may have read, last week our Chicago Tribune Media Group acquired a portfolio of newspapers and digital properties in Suburban Chicago from Wrapports LLC, owner of *The Sun Times*. These suburban publications are important local brands within their respective communities, with collective circulations of 72,000 daily, 87,000 Sunday, and 52,000 weekly. Through this transaction, the Chicago Tribune Media Group extends its reach from 2.9 million to 3.7 million consumers in the nation's third largest market.

In addition to acquiring the suburban newspapers, the Chicago Tribune Media Group announced a long-term agreement to continue printing and distributing *The Sun Times*. While this new agreement will result in modestly lower profit contribution beginning in 2015, it solidifies a critical commercial agreement for the Chicago Tribune Media Group. The suburban Chicago transaction comes on the heels of an acquisition we made earlier this year on May 1, of two newspapers, the *Capital Gazette* in Annapolis and the *Carroll County Times*, that are adjacent to our flagship *Baltimore Sun*. With the new Annapolis and Carroll County properties, we are able to leverage our resources in digital, content, advertising sales, and back office support to create value.

Similar to the Chicago acquisition, the addition of these Maryland titles significantly increased the penetration of the Baltimore Sun Media Group. As we discussed during our spin process, we view these types of bolt-on acquisitions as important elements of our growth strategy. In both instances, in Maryland and Chicago, we are able to create meaningful cost synergies that allow us to pay a reasonable multiple of EBITDA to the seller, while achieving an attractive multiple of EBITDA for Tribune Publishing. In 2015, we expect the Maryland acquisition to deliver full-year EBITDA of roughly $13 million to $14 million, which would reflect a buyer purchase price multiple of just over 2 times.

In Chicago, we acquired the suburban assets for $23.5 million at a seller's multiple of 3.3 times EBITDA. After expense synergies, our buyer's multiple is expected to be closer to 2 times EBITDA, combined with the renegotiation and extension of the print-and-delivery agreement with *The Sun Times*, we expect the combined Chicago transactions to be slightly accretive to our 2015 results.

We continue to accelerate our digital transformation with significant new product offerings and an aggressive strategy for customer acquisition. At the centerpiece of our efforts is our new Next Generation User Experience, a digital product that has now been fully launched in all our markets. This responsive design platform renders our content and that of our advertisers seamlessly across all devices and screen sizes. We are seeing encouraging metrics since introducing this product. Like most publishers, we continue to see significant increases in traffic from mobile devices. Our NGUX platform was created with mobile in mind and is device agnostic.

To complement NGUX and further build on the mobile opportunity, we are in the process of launching new native apps in all our markets. The first launch occurred last week at the *Chicago*

Tribune and is being followed by similar launches in all our markets over the next few months. The new *Chicago Tribune* app has met with early acclaim, and Apple is prominently promoting it in the App Store.

Our new digital products suite is central not only to digital monetization with advertisers and marketers but also with consumers. Like many publishers, we have an acute focus on monetizing our digital relationships with new consumers and existing print subscribers. New products, tools, and deeper consumer engagement are helping us grow our digital-only subscriber base and to sell digital upgrades to print customers. While our digital-only customer base is small today at fewer than 50,000 subscribers, we are confident that the full implementation of our paid digital strategy and our new products will allow us to grow this customer base and revenue significantly over time. To lead this critical initiative, we recently appointed a Senior Vice President of Digital Acquisition, and we continue to make important improvements to our registration systems and user interfaces to build a robust paying digital audience.

Our new digital products are also an important component of our print circulation business as we bundle print and digital together in an all-access consumer offering. This model, which gives our best paying print customers easy access to premium digital content, will allow us to strengthen consumer loyalty and increase circulation prices over time.

As I mentioned at the top of the call, we are in the early stages of business transformation, and we are aggressively putting in place the building blocks of our new growth strategy. We are also acutely focused on the cost side of the business. As the demands of the spin and separation process abate, our team is increasingly able to devote managerial attention to cost management. We acknowledge that we have much work to do to get our operating margins in line with our peers, and this work is well underway in our 2015 budgeting process. Each of our business units is creating zero-based cost and expense budgets for the first time. We take this very seriously.

As we look into Q4, as previously mentioned, we are making certain strategic investments in consumer marketing to support print circulation on key pre-print days and to aggressively promote our new digital apps and products as they launch. We are also incurring additional costs related to the integration of the suburban Chicago properties, and we will experience the absence of revenue and contribution from the recently terminated distribution agreement with the *Orange County Register*.

As you know, the fourth quarter is the largest advertising period of the year for newspapers. Our sales and marketing teams are laser focused on maximizing revenue during the upcoming holiday season.

Before I turn the call over to John Bode, I want to underscore our commitment to delivering value for shareholders as we pursue and execute on the transformation of Tribune Publishing. These are early days, but we have achieved much in our first three months as a standalone company. While we realize there is much work to do, we are excited about and confident in our future.

We appreciate your support of and interest in our new company and look forward to meeting many of you in the coming months and to reporting our full-year financials early next year. I thank you for your attention, and now I'll turn the call over to Chief Financial Officer, John Bode.

John Bode
Thank you, Jack. As Jack mentioned, the third quarter results we are reporting today relate to our final month as a division of Tribune Media Company, along with two months as an independent company. The operational transition associated with the spinoff required us to stand up a new corporate organization as well as separate local business operations and markets where we operated both television stations and a local newspaper. As a result, the quarter includes many operating complexities and one-time costs. We are very pleased with the progress we have made to date as we continue to put the separation activities behind us.

Today as a demonstration of our commitment to our shareholders, we are very pleased to report that our Board of Directors declared the company's first quarterly cash dividend of 17½ cents per share, payable on December 10 of this year. As we discussed during our road show meetings, primary uses of excess-free cash flow would include a return to shareholders through a cash dividend. We do not plan to accumulate cash.

The company's liquidity, including cash balances and availability on our ABL, currently totals $135 million. I'll now discuss our 2014 third quarter results, and unless I indicate otherwise, all comparisons are to the prior-year period.

Advertising revenues for the third quarter were $221 million, down 9.5 percent. The acquisition of both *Carroll County News* and *Annapolis Gazette* positively impacted revenues, offset by the sale of Apartments.com and the modified agreement with CareerBuilder. Adjusting for the impact from those items, advertising revenue declined 10.6 percent. As Jack mentioned, national advertising revenue was weak, partially attributable to the softness in the overall advertising market over the summer as well as significant weakness in the movies and entertainment category. Advertising performance in the movies and entertainment category mirrored the generally challenging domestic box office driven by a soft release schedule and no breakout hits. Movies and entertainment is a critical category for one of our flagship brands, the *LA Times*.

Classified advertising declined by 5 percent due to the sale of Apartments.com, which was completed in the first quarter, and the modified agreement with CareerBuilder that commenced September 1. Excluding those two items, classified advertising would have been flat to the prior year.

Circulation revenue in the third quarter was $107.5 million. This was up roughly 1 percent, reflecting increases in yield per subscriber and the favorable impact of acquisitions. Paid print circulation units were down roughly 8 percent, which resulted in lower costs for newsprint, ink, and distribution. Commercial print delivery revenue was down 1.7 percent. Direct mail and marketing revenue was up 1.4 percent.

Other revenues, which include digital marketing services and Tribune Content Agency, the company's content syndication business, were up $2.7 million, or 23 percent. Although the dollars are not yet significant relative to our total revenues, these revenue categories are gaining momentum and are expected to grow into a meaningful contribution to revenue and EBITDA in the years ahead. As other newspaper publishers have mentioned, the digital marketing services opportunity is meaningful, and newspapers are uniquely in a position to attack this significant market opportunity.

Total operating expenses increased $2.6 million, or .7 percent. On a same-store basis, excluding the impact of one-time items, spin-related costs as well as acquisitions, cash operating expenses declined by approximately $13 million, or 4.8 percent.

Looking at expenses by type, compensation increased 2.3 percent based on additional head count to support the new corporate organization as well as the transfer of groups previously shared with Tribune Media, such as technology to direct expenses. The offset for these incremental costs are found under the corporate allocation lines.

Circulation and distribution, as well as newsprint and ink expenses, decreased 4.4 percent and 11.6 percent, respectively, primarily driven by volume changes in copies distributed and pages printed. Newsprint includes newsprint we purchase and sell to some of our third-party printing customers under the terms of those agreements.

Outside services increased 69.4 percent, which, like compensation, is directly related to the transfer of the shared service groups, our new corporate centers, as well as one-time spin-related costs.

Affiliate fees increased 11 percent, mainly due to the increase in revenues under the Cars.com affiliate agreement.

Occupancy increased $7.5 million related to the increased rent from the new leases with our prior parent company.

Promotion and marketing expense increased 6.6 percent as we increased certain marketing spends due to the relaunch of our digital sites in many of our markets. We expect to continue to invest in this area as we relaunch the rest of our digital sites as well as our entire suite of mobile applications in Q4.

Outside printing and distribution increased 17.1 percent, primarily due to the Baltimore market acquisitions as the Annapolis paper continues to be printed by a third party until the expiration of the agreement.

Other general and administrative expenses increased 20.3 percent due to both the incremental corporate costs as well as one-time litigation reserve from outstanding balances due under a distribution agreement. The litigation reserve relates to a third-party distribution agreement and represents the balance due for work performed prior to the expiration of the agreement. While we feel confident we will succeed on the merits of the case, collectability is uncertain, and thus we have reserved the disputed amounts.

Finally, the 39.1 percent increase in depreciation and amortization is offset by the decline in allocated depreciation as the technology capital assets were transferred to our books as of the spin date.

Adjusted EBITDA and proforma adjusted EBITDA declined $16.1 million and $3.4 million, respectively. The Baltimore acquisitions contributed approximately $1.5 million of proforma adjusted EBITDA, which was in line with our acquisition modeling. So excluding the acquisition, proforma adjusted EBITDA declined by approximately $4.9 million.

Free cash flow in the quarter was $31 million, which was calculated by subtracting capital expenditures of $8 million from cash flow from operations of $39 million.

As we emerge from the transition period where we have focused significant energies on the separation, we intend to in turn our focus to closely managing costs. Budgeting for 2015 represents the first opportunity for the business to zero base budget a full year based on spinco economics as well as the impact from the recently completed acquisitions.

Additionally, for the first time ever, we have implemented a corporate-wide strategic sourcing group that we believe can have a significant, positive impact on our cost structure. As we move ahead, we plan to more fully discuss a number of unique digital products and assets that are currently fully or partially owned by Tribune Publishing. We have exciting opportunities related to digital niche verticals and unique digital marketing offerings that we will continue to roll out in upcoming calls and presentations.

We are very interested in owning a strategic minority interest in operating partners of the business, especially ones on the cutting edge of advertising and marketing solutions like Contend or ones with unique digital verticals like HomeFinder.com. This is a continuation of a very successful strategy of the publishing division of Tribune Company that resulted in significant stakes in companies like Cars.com, Apartments.com, and CareerBuilder.com. We believe that we are uniquely positioned with our large digital properties, our significant and diverse customer base, our talented local and national sales staff, and our brand equity to participate in a major way in emerging digital markets. We are cognizant that these investments need to be done at very low levels of invested cash.

Now we would like to turn it back over to the Operator and open the line for questions. Thank you.

QUESTIONS AND ANSWERS

Operator
Thank you. At this time we will begin the question-and-answer session. To ask a question, you may press star, then 1 on your telephone keypad. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then 2. At this time we will pause momentarily to assemble our roster.

And our first question will come from Doug Arthur of Evercore.

Doug Arthur
Yeah, good morning. Jack, you talked about the impact of movie advertising on the *LA Times*. You also mentioned the strength in the Orlando markets. So I'm wondering if you could just give some broad-brush color on the regional trends you're seeing in Chicago, LA, Florida, et cetera, separate from the overall trend. Thanks.

Jack Griffin
Sure, Doug. Thanks for the question. So as you know, looking at our company, we operate basically two kinds of businesses. We operate big metros, and we operate smaller regional properties like Hartford or Baltimore. And I think the general way to characterize the trend is that in the smaller markets, the year-over-year declines are smaller than they are in the major markets at the metros. So, as John mentioned, in LA, the box office situation in the summer impacted the *LA Times* disproportionately relative to the rest of the company. Chicago, I discussed the elimination of the TMC product and the absence of Dominick's from the market create more double-digit declines than single-digit declines, so that might be a helpful way to

think about the declines. In smaller markets, you tend to see single-digit declines, and in this quarter in the bigger markets, they were double-digit declines.

Doug Arthur
And in terms of the impact of a couple of those issues in Chicago, when would you anniversary that? I mean, obviously Dominick's is gone, but when might the comparisons get easier?

Jack Griffin
We start to cycle out of those in the spring of 2015, so we'll have one more quarter in 2015 and we'll be up against those and the comps.

Doug Arthur
Okay. Thank you very much.

Jack Griffin
You bet. Thanks for the question.

Operator
And our next question will come Lance Vitanza of CRT Capital.

Lance Vitanza
Hi, guys. Thanks for taking the question. Could you repeat what you — the cash flow from operations number that you called out and for what period that was?

John Bode
Yeah, so the cash flow from operations number we provided was for the third quarter. Free cash flow in the quarter was $31 million, which was calculated by subtracting capital expenses — expenditures of $8 million from cash flow from operations of $39 million.

Lance Vitanza
Okay, so that's what I thought I heard, but, $39 million of cash flow from operations versus $26 million, I think it was, of proforma adjusted EBITDA, so it's somewhat unusual for there to be that large of a favorable variance between cash flow from operations and adjusted EBITDA. Can you sort of provide some color around that and in particular any items that you expect to reverse in subsequent periods?

John Bode
So, Lance, the cash flow from operation number is a — is a GAAP, using the two GAAP numbers' disclosure, so it has not been adjusted or proforma-ed so there are two different ways of looking at the number. If you look at our earnings release and the reconciliation we provided, you can kind of walk down the various items and determine if they would have affected operating cash flow or not. Most of them, obviously, do.

Lance Vitanza
Well, so, then, refresh my memory. The timing of the changes to your classified ventures and CareerBuilder relationships, those were at the date of the spin?

John Bode
So CareerBuilder's new agreement was effective September 1, so it would have affected one month of the period. Cars.com went in effect with the fourth quarter, so it went in effect after the sale of Cars.com to Gannett was completed, and so you'll see that impact in Q4, and, once

again, in the earnings release, we provide the proforma adjustments necessary to kind of look at the periods on an apples-to-apples basis.

Lance Vitanza
So — but simply put, then, if we take the proforma adjusted EBITDA that you reported and back out capex and interest expense, are we going to be pretty close to proforma cash flow from operations?

John Bode
Yes.

Lance Vitanza
Very good. Thanks very much.

Operator
And showing no further questions, we will conclude the question-and-answer session. I would like to turn the conference back over to Sandy Martin for any closing remarks.

CONCLUSION

Sandy Martin
We appreciate all your interest in the company and look forward to meeting many of you in the coming weeks and months, and we are available for follow-up questions from the [unintelligible] today, tomorrow, and whenever it's convenient. So thank you all for tuning in, and have a good day. Thanks.

Jack Griffin
Thank you.

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.