The New York Times Company
Second Quarter 2023 Earnings Conference Call
August 8, 2023

Mike Brown

Thank you, and welcome to The New York Times Company's second quarter 2023 earnings conference call.

On the call today, we have:

- Meredith Kopit Levien, president and chief executive officer and
- Will Bardeen, executive vice president and chief financial officer

Before we begin, I would like to remind you that management will make forward-looking statements during the course of this call. These statements are based on our current expectations and assumptions, which may change over time. Our actual results could differ materially due to a number of risks and uncertainties that are described in the Company's 2022 10-K and subsequent SEC filings.

In addition, our presentation will include non-GAAP financial measures and we have provided reconciliations to the most comparable GAAP measures in our earnings press release, which is available on our website at investors.nytco.com.

And finally, please note that a copy of the prepared remarks from this morning's call will be posted to our investor website shortly after we conclude.

With that, I will turn the call over to Meredith Kopit Levien.

Meredith Kopit Levien

Thanks Mike, and good morning, everyone.

For more than a year, we've been executing on our strategy to become the essential subscription for every curious, English-speaking person seeking to understand and engage with the world. Our strong results this quarter demonstrate that the strategy is working as designed.

Let me share the highlights:

- Digital subscription revenue is growing thanks to gains in both subscriber volume and ARPU;
- Subscriber engagement remains high, and is fueling growth in all of our major revenue streams, including digital subscriptions, digital advertising, and affiliate;
- And we've continued to exercise cost discipline even while investing into — and enhancing — the value of our products and bundle.

We owe these results, in large part, to getting more people to experience the full and unmatched breadth of The Times, which they are increasingly buying as a bundle. As we've said, uptake of the bundle is an essential part of our ability to drive sustainable value creation, including AOP growth, free cash flow growth, and margin expansion. On that note, we are on track to deliver all three this year, despite ongoing market challenges.

I'll now turn to the major contributors to our second-quarter results.

We added 180,000 net new digital subscribers, with more than half of our digital starts taking the bundle for the second quarter in a row. More than a third of our nearly 10 million subscribers are now bundle or multiproduct subscribers, which supports our belief that over the next few years we can get to 50 percent or more of our total subscribers on the bundle.

We also grew digital ARPU for the fourth consecutive quarter. And, for the first time since our acquisition of The Athletic, we grew digital ARPU year-on-year. That growth is a direct result of our value-based pricing strategy, which combines attractive promotional pricing, multiple subscription options, and a proven ability to step up subscribers to higher prices and more products over time as they come to experience how valuable our products are in their lives. We saw all of those elements of our pricing strategy on display in the second quarter, and I'll note particularly that our ongoing deployment of price increases for tenured subscribers to News and Games is going well as we continue to enrich both of these products.

We view the quarter's subscriber results as a testament to our broad and valuable product portfolio, which continues to attract a large, engaged audience despite the ongoing reality of less traffic from the platforms and a newscycle less dominated by singular stories that capture unprecedented attention.

Consistent with the pattern we saw last quarter, subscriber engagement was strong across products and subscriber types. We were especially encouraged to see engagement for early-tenure subscribers, many of whom bought the bundle, even higher than last quarter or last year. As we've said before, this strong subscriber engagement is a leading indicator for healthy retention and long-term pricing power. It's also an outcome of the inherent appeal of our offering, and our ability to regularly deliver compelling new product features.

Let me give a few examples.

In news, we added a new data journalism feature that tracks extreme weather across the U.S. in a personalized way, and includes a tool to monitor the places you care about most in near-real time. We also expanded our newest daily morning audio show called The Headlines, which can be found in our subscriber-only audio app which we made available widely in the second quarter. New features like these supplement the strong engagement we continue to have for our unparallelled coverage of big, important stories like the war in Ukraine, the global economy, and the forthcoming presidential election.

In Games, we launched a new word-matching puzzle in beta called Connections which is already attracting millions of users. We also added two more popular puzzles to the Games app — Letter Boxed and Tiles — and introduced Spelling Bee past puzzles as a new subscriber-only benefit. We made these enhancements even as tens of millions of people continue to play Wordle every week, which gives us a huge audience to whom we can introduce other games, news, sports, recipes and shopping advice. I'll note that while Wordle is a hit like no other, our audience of people playing games other than Wordle has experienced record growth over the last year. And, the giant audience we now have for Games continues to power starts for both our Games subscription and the bundle.

We expect The Athletic to play a similar role in our funnel over time, and made a number of technical and journalistic enhancements to its product in the quarter to drive engagement. Those enhancements helped propel its audience to substantial growth for the second quarter in a row, and we continue to make good progress towards our goal of Athletic profitability.

Advertising performed better than we expected in the quarter with digital advertising up 6.5 percent. We attribute our strength to growth in our core offering — a combination of proprietary, premium ad canvases and first-party data. We also saw the benefit in the quarter of our effort to extend our ad products across the bundle and in particular into Games and The Athletic. Advertising revenue for The Athletic more than doubled year-on-year for the second quarter in a row, and The Athletic is driving new advertisers not just on its own destination but across The Times.

Print advertising declined in line with our expectations.

I'll close on advertising by noting that while visibility from quarter to quarter remains limited, we continue to believe the fundamentals of our business position us well for long-term growth in digital advertising.

Our "other" revenue category was up 16 percent in the quarter, anchored by Wirecutter, which had its best non-holiday quarter ever. This momentum continues in the current quarter, with Wirecutter having its best-ever sales around Amazon Prime day.

I'll turn briefly now to costs. In Q2 we continued to exercise cost discipline, with moderation of cost growth coming earlier in the year than planned. We feel really good about where we are on costs, and plan to maintain our active management of cost growth even while continuing to invest strategically to build our moat.

I'll wrap up by noting that these results showcase the resiliency of our model, and the multiple levers we have for growth. This is particularly important given the context in which we are

operating, which includes an uncertain economy, audience headwinds and an information ecosystem that continues to evolve. We are confident that our clear strategy and continued strong execution position us well against this backdrop.

We view our essential subscription strategy as a real success story thus far — driving subscriber volume and ARPU increases; building engagement that fuels growth across multiple revenue streams; and creating leverage that allows us to control our costs. All of that enables us to build a larger and more profitable company, which in turn allows us to continue to do the most ambitious, high quality journalism across an ever broadening range of topics and formats.

Before I close, I'd like to officially welcome Will Bardeen on his first earnings call as CFO. I'll turn it over to Will now to walk through our financials in more detail, including an update about changes we've made to our disclosures to more clearly communicate our progress to investors.

Will Bardeen

Thanks Meredith. Good morning everyone.

It's a truly exciting moment to step into the CFO role at The New York Times Company. I view us as a global market leader with a large opportunity in front of us. I see us clearly demonstrating a virtuous cycle between the pursuit of our journalistic mission and the success of our business. I believe the strategy that Meredith described, positions us to deliver sustainable digital revenue growth, AOP growth, free cash flow growth and margin expansion, in what continues to be a challenging market.

Today, I'll start with this quarter's key results, followed by our financial outlook for next quarter. I'll conclude by discussing the enhanced disclosures we've made to help investors better track our strategic progress.

Please note that all comparisons are to the prior year period unless otherwise specified.

I'll first turn to subscription revenue and its drivers, which are at the core of our business model.

Total subscription revenues increased approximately seven percent in the quarter, with digital-only subscription revenue growing 13 percent, to approximately $270 million dollars. Digital subscription revenue growth was driven by large numbers of subscribers paying higher prices, as well as the net new digital subscribers we added over the last year — 180,000 of which we added in the second quarter.

Meredith highlighted that bundle adoption for both new and existing subscribers continued to be strong. We now have well over 3 million digital-only bundle and multiproduct subscribers after adding 280,000 this quarter. This is approximately double the number we added in the same quarter last year.

Digital subscription revenue growth was also driven by higher total digital-only ARPU. This quarter's total digital-only ARPU of $9 dollars and 15 cents increased approximately 1.2 percent sequentially and 3.6 percent compared to the same quarter last year. The growth in digital-only ARPU was driven primarily by our price increases on tenured single-product subscribers.

We are pleased with the results of the price increase rollout so far, which reflects the significant value we've been adding to our products over multiple years. In total, over 1 million subscribers began paying higher rates from price increases within the second quarter. As a reminder, by the end of the year, we expect to have notified at least 1.5 million total subscribers of price increases for single-product subscriptions.

Moving on to advertising and our other revenue streams.

Total advertising revenue for the quarter was approximately flat, with digital advertising revenue increasing 6.5 percent, to approximately $74 million dollars. The digital increase was primarily due to first-party data products at both The Athletic and The New York Times Group, partially offset by continued weakness in podcast advertising. Print advertising was lower by approximately nine percent, driven by declines in most categories other than luxury. While we

were pleased to have exceeded advertising guidance this quarter, it's clear that market visibility remains a challenge.

We also exceeded our guidance in Other revenues, which increased approximately 16 percent, to approximately $64 million dollars. The outperformance was primarily the result of higher-than-expected Wirecutter affiliate revenue and TV and film revenue.

Turning now to costs and the progress we are making in driving AOP growth and free cash flow growth.

Adjusted operating cost growth moderated in the quarter to approximately four percent. Consistent with our strategy, this growth was driven primarily by investments in journalism and product development. Marketing costs were down in the quarter, but still at a level that reflects relatively stable marketing investments for several quarters now. And we continued to slow headcount growth in areas of the business where we believe we can operate more efficiently.

Costs overall in the quarter came in lower than guidance, due primarily to the timing of contractual agreements, as well as the deferral of some discretionary expenses to the second half.

We reported AOP of $92 million dollars in the quarter, higher than the same period in 2022 by approximately $16 million dollars. AOP at The New York Times Group was approximately $100 million dollars, an increase of approximately $11 million dollars. The Athletic had adjusted operating losses of approximately $8 million dollars, an improvement of $5 million dollars.

Our business model generates strong free cash flow — almost $109 million dollars in the first half of the year. This compared with negative free cash flow of approximately $3 million dollars in the same period of 2022, which was anomalous due to the impact of the acquisition costs for The Athletic. The $109 million dollars of free cash flow year-to-date consisted of approximately $120 million dollars of operating cash flow less approximately $11 million dollars of capital expenditures.

We have a balanced approach to capital allocation, which includes both ongoing investment and disciplined return of capital. We have returned almost $77 million dollars year-to-date, through a combination of $44 million dollars in stock repurchases and $33 million dollars in dividends. As we have previously stated, we expect to return at least 50 percent of free cash flow going forward.

We had one special item in the quarter, a $13 million dollar impairment charge related to excess leased satellite office space that is being marketed for sublet.

I'll now look ahead to Q3 for the consolidated New York Times Company.

Total subscription revenues are expected to increase 8 to 10 percent compared with the third quarter of 2022, with digital-only subscription revenue expected to increase approximately 14 to 17 percent.

Overall advertising revenues are expected to be approximately flat. Digital advertising revenues are expected to increase mid-single digits.

Other revenues are expected to increase 13 to 16 percent.

Operating costs are expected to increase by approximately 5 to 7 percent while adjusted operating costs are expected to increase by approximately 5 to 8 percent. Our general expectation of cost growth moderation over the course of 2023 has not changed, and we currently expect cost growth in Q4 to be closer to what we experienced in Q2 after adjusting for the extra week in Q4 2022.

With half the year behind us, we believe we are on track for the modest margin expansion we've been aiming to deliver beginning this year.

Finally, some remarks about our enhanced disclosures designed to help communicate progress on our strategy to investors.

A central aim of our strategy is to maximize the profitable growth of digital subscription revenue over the long term — in other words the lifetime value of our current and future subscriber base.

We believe the three best signposts for tracking success here are:

- The growth in our total number of subscribers
- The mix shift of our subscriber base to the bundle; and
- The growth in total digital-only ARPU

To make it easier for investors to understand the key dynamics that are driving changes in total ARPU, we are breaking out digital subscribers and ARPU into three mutually exclusive categories:

- Bundle and multiproduct subscribers;
- News-only subscribers; and
- Other single-product subscribers

The enhanced disclosure will illuminate our progress as we aim for the bundle and multiproduct subscriber category to surpass 50 percent of our total base over the next few years, up from 33% at the end of the second quarter and 22% at the same time last year. It will also help investors better understand the impact of subscriber mix shifts and our value-based pricing strategy on ARPU. As we grow our total subscriber base, we continue to aim for modest expansion in total digital-only ARPU.

With this change, we will no longer report digital-only subscribers with news as a separate metric. We are now disclosing News-only subscribers. And all of our bundle subscribers — as well as the vast majority of our multiproduct subscribers — pay for access to the news product. So the sum of subscribers in these two categories serves as a good proxy.

With that, we'd be happy to take your questions.

Mike Brown

Thank you for joining us this morning. We look forward to talking to you again next quarter.