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Q2 2023 Dallasnews Corp Earnings Call

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CORPORATE PARTICIPANTS

Gary Cobleigh *DallasNews Corporation - VP & Controller*
Grant S. Moise *DallasNews Corporation - CEO & Director*
Mary Kathryn Murray *DallasNews Corporation - President, CFO, Treasurer & Secretary*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Second Quarter 2023 DallasNews Corporation Investor Conference Call. (Operator Instructions)

Later, we will conduct a question-and-answer session. Instructions will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Mr. Gary Cobleigh. Please go ahead.

Gary Cobleigh ***DallasNews Corporation - VP & Controller***

Good morning, everyone. This is Gary Cobleigh, Vice President and Controller of DallasNews Corporation. Welcome to our second quarter 2023 investor call. I'm joined by Katy Murray, President and Chief Financial Officer, who will be reviewing financial results; and Grant Moise, Chief Executive Officer, who will provide brief business remarks.

Yesterday afternoon, we issued a press release announcing second quarter 2023 results and filed our Q2 2023 10-Q. Both of these are posted on our website, dallasnewscorporation.com, under the Investor Relations section. Unless otherwise specified, comparisons used on today's call measure second quarter 2023 performance against second quarter 2022 performance.

Our discussion today will include forward-looking statements. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those statements. The company assumes no obligation to update the information in this communication except as otherwise required by law. Additional information about these factors is detailed in the company's press releases and publicly available filings with the SEC.

Today's discussion will include non-GAAP financial measures. We believe that non-GAAP financial measures provide useful, supplemental information to assist investors in determining performance comparisons to our peers. A reconciliation of GAAP to non-GAAP financial measures is included with our press release.

I'll now turn the call over to Katy.

Mary Kathryn Murray ***DallasNews Corporation - President, CFO, Treasurer & Secretary***

Good morning, everyone, and thank you for joining today's call. On a GAAP basis, for the quarter DallasNews Corporation reported a net loss of $900,000 or $0.16 per share and an operating loss of $1.2 million. In Q2 last year, we reported a net loss of $2.4 million and an operating loss of $2.3 million. On a non-GAAP basis for the quarter, we reported an adjusted operating loss of $300,000, an improvement of $800,000 when compared to the adjusted operating loss of $1 million for the same period last year. This improvement is primarily due to expense savings of $2.3 million, partially offset by a total revenue decline of $1.6 million.

We reported $36 million of total revenue for the quarter compared to $37.6 million last year. The year-over-year decline is primarily due to an $800,000 or 17.3% reduction in preprint advertising revenue. The decline in preprints is consistent with the decline we reported in the first quarter of this year and the decline we expect to see going forward. Last month, we announced our decision to exit a shared mail and delivery partnership for delivering weekly preprints and inserts on August 31 of this year. After the elimination of associated expenses, including employee-related expenses, we expect the impact to the bottom line to be net neutral.

Digital advertising and marketing services revenue was down $100,000 or 1.9% year-over-year. Circulation revenue decreased $300,000 compared to Q2 of last year. The print circulation revenue decline of $900,000 or 6.6% was partially offset by a digital-only subscription revenue increase of $600,000 or 18.5%.

As of June 30, The News had 68,846 digital-only subscribers, which is a 6,158 or 9.8% year-over-year improvement. However, we did have a slight sequential decline in our digital-only subscribers. Grant will provide some additional comments on overall digital subscriber trends. Total subscribers, including both home delivery and digital, was 142,436 as of June 30 compared to 146,065 as of Q2 of last year and 145,369 as of March 31.

On a non-GAAP basis, total adjusted operating expense for the quarter was $36.3 million, an improvement of $2.3 million or 6.1% when compared to last year. This was driven by expense savings of $1.2 million in distribution, $600,000 related to a nonrecurring lease cost benefit we recognized this quarter, $500,000 in outside services and $200,000 in newsprint. Regarding distribution expense, the year-over-year decrease was driven by our decision to eliminate The Bulldog and Briefing Saturday print editions. In addition, with the recent announcement of the discontinuation of the Briefing and Al Dia publications at the end of August, the company will experience additional savings for the remainder of the year.

Turning to newsprint expense, the newsprint purchase price has recently been trending favorably, down with our latest pricing of $715 per metric ton in June, a decrease of $7.30 per metric ton or 1% when compared to this time last year. This last month was the lowest average newsprint purchase price we've seen since April of last year, and we expect to continue to see expense favorability as newsprint is consumed.

As of June 30, headcount was 644, down 27 headcount compared to last year. Cash and short-term investments was $22.6 million on June 30. This quarter, we recorded approximately $400,000 in severance expense related to the 13 terminations announced in late June. June's ending headcount of 644 does not reflect these terminations. In addition, as of July 21, we showed $25 million in cash, including short-term investments.

For the quarter, the company recorded $26,000 of tax expense for the Texas franchise tax, lower this quarter, primarily due to the reversal of a recorded uncertain tax position which had expired. In Q2, we paid $609,000 of Texas franchise tax for fiscal year 2022.

I will now turn the call over to Grant.

Grant S. Moise ***DallasNews Corporation - CEO & Director***

Thank you, Katy, and good morning, everyone. I want to expand on our decision to exit the Wednesday preprint business. We expected to continue to see the declines in preprint advertising when we entered 2023. However, the declines have been greater than we anticipated. When the contract with our preprint partner came up for renewal in June, we made the decision to exit this line of business to allow us more visibility into our revenue.

Providing more detail, Medium Giant's revenue associated with the Wednesday preprint program declined by $2.3 million year-to-date through June, which accounted for more than the total advertising decline of all of Medium Giant, which was $2.2 million. By exiting this line of business, we can right-size our expense structure and realign the Medium Giant sales resources towards the products our clients value most. This decision was affirmed when Kroger, the nation's largest grocery store chain, announced in May that they would be exiting the preprint business in favor of digital solutions.

Medium Giant is well positioned through its digital portfolio of marketing solutions to help advertisers like Kroger well into the future with its marketing strategies that provide a return on investment for our clients. These strategic changes at Medium Giant were led by John Kiker, the new President of Medium Giant, who we announced in May. John comes to us from The Integer Group, where he spent the last 11 years and most recently was President for the agency. Integer is owned by Omnicom, one of the world's most respected agency holding companies, and a place where John learned how to run profitable and sustainable agency models. We're so happy to have him.

Shifting our focus to The Morning News. I was pleased to see our digital audiences begin to grow again, following an audience decline that occurred late in the pandemic. Our visitors to dallasnews.com have increased by 8% this year, allowing us to grow our digital membership base and our digital advertising related to the website. That said, our digital membership volume momentum slowed down in the second quarter. Two contributing factors led to this decline.

The first is the result of holiday promotions we ran in December of last year, where we had significant starts from a 6-month introductory offer. When those introductory prices expired and they began to pay full price, we had higher cancellation volumes than we had experienced with past discount offers. The second contributing factor to our digital membership decline is seasonality. Our digital traffic is always lower in the summer, and we will rebound as families return to regular routines in August when kids return to school and the Texas football season begins.

Digital memberships will remain an essential part of our business strategy moving forward, and we will continue to optimize between volume and price as we grow this important line of revenue for the company.

Greg, we will now open up the line for questions.

Operator

(Operator Instructions) And at this time, there are no questions.

Mary Kathryn Murray ***DallasNews Corporation - President, CFO, Treasurer & Secretary***

All right. Well, Greg, well, thank you. I'd like to thank everyone for joining us on our second quarter call. We hope you all have an enjoyable remainder of your summer, and we will speak with you after the end of our third quarter in late October. Thank you. Bye-bye.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T teleconference. You may now disconnect.
