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Q3 2023 Dallasnews Corp Earnings Call

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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Chris Mooney *Wedbush Securities Inc., Research Division - Financial Advisor*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the DallasNews Corporation Third Quarter 2023 Investor Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, 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 third 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'll provide brief business remarks.

Yesterday afternoon, we issued a press release announcing third quarter 2023 results and filed our Q3 2023 10-Q. Both of these are posted on our website, dallasnews.com under the Investor Relations section. Unless otherwise specified, comparisons used on today's call measure third quarter 2023 performance against third 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 \$1.4 million or \$0.26 per share and an operating loss of \$1.6 million. In Q3 of last year, we reported a net loss of \$2.6 million and an operating loss of \$2.3 million.

On a non-GAAP basis for the quarter, we reported an adjusted operating loss of \$900,000, an improvement of \$700,000 when compared to an adjusted operating loss of \$1.6 million reported for the same period last year. The improvement is primarily due to expense savings of \$3.9 million, partially offset by a total revenue decline of \$3.2 million.

We reported \$34.5 million of total revenue for the quarter compared to \$37.7 million last year. The decline is primarily due to a \$2 million or 18% decrease in print advertising revenue, which was driven by the company's strategic decision to exit its shared mail program to deliver weekly preprints and inserts. After accounting for this decline, core print advertising was flat year-over-year. Digital advertising and marketing services revenue was down \$800,000 or 13% year-over-year, primarily due to a decline in marketing services revenue resulting from some contracts ending, partially offset by an increase in digital advertising on dallasnews.com primarily related to financial services clients.

Circulation revenue was flat compared to last year. The digital-only subscription revenue increase of \$700,000 or 21.4% mostly offset the print circulation revenue decline of \$800,000 or 6.1%.

As of September 30, The News had 66,563 digital-only subscribers, which is a 2,391 or 3.7% year-over-year improvement. However, we did have a sequential decline in our digital-only subscribers. Grant is going to provide some additional comments on overall digital subscriber trends in a moment. Total subscribers, including both home delivery and digital subscribers, was 137,493 as of September 30 compared to 144,631 as of Q3 last year and 142,436 as of June 30.

Printing, distribution and other revenue was \$3.6 million, a decrease of \$300,000 or 8.3% when compared to the third quarter of 2022, primarily due to a decline in commercial printing revenue.

On a non-GAAP basis, total adjusted operating expense for the quarter was \$35.4 million, an improvement of \$3.9 million or 9.9% when compared to the same period of last year, driven by expense savings of \$1.7 million in distribution, \$900,000 in outside services and \$800,000 in newsprint. The company will continue to experience savings in distribution expense for the remainder of the year with the recent discontinuation of the Briefing and Al Día publications.

Newsprint expense is favorable year-over-year as a result of lower circulation and fewer out-of-market preprints when compared to last year. The newsprint purchase price has continued to trend favorably down. The cost of newsprint in September was \$683 per metric ton, a decrease of \$91 or 11.8% per metric ton when compared to September of last year. We expect to continue realizing these savings in late Q4 and early next year.

As of September 30, headcount was 608, down 60 headcount compared to last year. Headcount reductions and increased severance expense are expected to continue into the fourth quarter related to the previously announced voluntary staff reduction program. Cash and short-term investments was \$24.5 million on September 30. As of October 20, we have \$23.3 million in cash, including short-term investments. For the fourth quarter, the company recorded \$100,000 of tax expense for the Texas franchise tax. I will now turn the call over to Grant.

Grant S. Moise DallasNews Corporation - CEO & Director

Thanks, Katy, and good morning, everyone. I want to start by mentioning an important event that took place in September of this year when Robert Decherd retired after 50 years of service as an employee and 47 years as a director. Robert's commitment to DallasNews Corporation and the North Texas region is hard to capture in words, but on behalf of the Board and our employees, I want to thank Robert for his commitment to journalism and for being a pillar of this institution for 5 wonderful decades.

While I'm on the topic of our commitment to journalism, I'm proud of our newsroom for the ambitious fentanyl series that was entitled Deadly Fake where we published a story per day every day for the entire month of September. We focused on fentanyl in this unique way because we -- because last year, fentanyl killed an average of 5 Texans every day and almost 500 of them lived in North Texas. Most North Texans did not know how to identify nor treat the lethal effects of fentanyl. And in the words of Katrice Hardy, our executive editor, if this series helped save 1 life, it was worth it.

Shifting topics from journalism to the financial progress at the company, we have had a year of mixed results. I've been pleased with the team's ongoing expense management Katy was just referring to, but our revenue performance has fallen short of our expectations. Many of you are familiar with the Return to Growth Plan we have in place with our Board that we've been discussing for quite some time. The goal of what we call the "RTG" Plan is to build a sustainably profitable media and marketing company. For this plan to ultimately be successful, we need to grow revenue from the core product lines of digital membership, digital advertising and marketing services. This year, we have grown in 2 of those 3 areas, but we want to see growth in all 3.

In the third quarter, we were more aggressive with the pricing of our digital subscription offering, and I'm pleased with the early returns from this change. This change will result, as we are seeing, in short-term volume declines but will improve the revenue trajectory of digital subscription revenue.

On the marketing services side of the business at Medium Giant, this year has been marked by trepidation from our current clients who are being cautious with their advertising dollars in the midst of a challenging economic environment. In order for us to return to growth

in this important area, we are focused on attracting new retainer-based clients while helping our current clients with marketing solutions to help them grow their businesses. Greg, we will now open up the line for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Well, Greg, thank you. Thank you, everyone, for joining our call. I'm sorry, Greg?

Operator

You just had 1 queue up. Would you like to take that question?

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

Absolutely.

Operator

Okay. That question comes from the line of Chris Mooney from Wedbush Securities.

Chris Mooney *Wedbush Securities Inc., Research Division - Financial Advisor*

The 608 headcount, where do you anticipate that going to by the end of the year?

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

Chris, as we announced earlier, probably about a month ago, we did have a -- we're having a voluntary severance offer. We expect probably about maybe 40 or so people to take that, give or take. We don't know yet. There was not a set target. We didn't have any kind of specific headcount number or expense number. So I expect that this number, we will probably be -- we're going to be below 600, probably maybe 580, 570, just depending on what we do with the VSO. And again, that's just to be determined.

Chris Mooney *Wedbush Securities Inc., Research Division - Financial Advisor*

Understood. And the cost of this will appear in the fourth quarter. Will it roll into the first quarter as well?

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

No, it won't. The cost of the offering in the program will be fully booked in the fourth quarter. And while there may be cash payments in 2024, the expense will be in 2023.

Chris Mooney *Wedbush Securities Inc., Research Division - Financial Advisor*

Okay. And what was the union response to this?

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

As part of our collective bargaining agreement, we have the ability to offer a voluntary severance offering whenever we would like to, so there really was no response from the guild.

Operator

(Operator Instructions) There are no further questions.

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

Greg, thank you. Everyone, thank you again for joining our third quarter call. We look forward to a great fourth quarter, and we'll have our earnings call in the first quarter of next year. And for those of you in Dallas and Texas, go Rangers.

Operator

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

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