

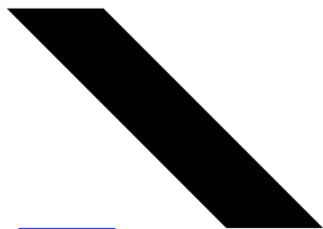


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# EDITED TRANSCRIPT

Q2 2024 DALLASNEWS CORP EARNINGS CALL

EVENT DATE/TIME: July 31, 2024 / 2:00PM UTC



## CORPORATE PARTICIPANTS

- **Gary Cobleigh** *DallasNews Corp - Vice President, Controller*
- **Cathy Collins** *DallasNews Corp - Chief Financial Officer*
- **Mary Murray** *DallasNews Corp - President, Treasurer, Corporate Secretary*
- **Grant Moise** *DallasNews Corp - Chief Executive Officer*

## CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Rohan Gilmore**
- **John Wagner**
- **Barry Blank**

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the DallasNews Corporation investor Q2 earnings call. This call is being recorded, and a replay will be available starting at 11:00 AM Central time today through midnight on August 7.

To access the replay, dial 8662071041 and enter access code 4993908. Once again, a replay will be available starting at 11:00 AM Central Time today through midnight on August 7, and the number to call is 8662071041 and the access code to enter is 4993908 (Operator Instructions)

At this time, I would like to turn the conference call over to your host, Vice President and Controller DallasNews Corporation, Gary Cobleigh. Please go ahead, sir.

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### **Gary Cobleigh** *DallasNews Corp - Vice President, Controller*

Good morning, everyone. This Gary Cobleigh, Vice President and Controller of DallasNews Corporation. Welcome to our second quarter 2024 investor call. I'm joined by Cathy Collins, DallasNews' Chief Financial Officer, who will be reviewing financial results; Katy Murray, President of DallasNews; and Grant Moise, Chief Executive Officer, who will provide brief business remarks.

Yesterday afternoon, we issued a press release announcing second quarter 2024 results, and we filed our second quarter 10-Q. All 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 2024 performance against second quarter 2023 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 Cathy.

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### **Cathy Collins DallasNews Corp - Chief Financial Officer**

Good morning, everyone, and thank you for joining today's call. On a GAAP basis for the quarter, DallasNews Corporation reported net income of \$1.5 million or \$0.27 per share and operating income of \$600,000. In Q2 last year, we reported a net loss of \$900,000 and an operating loss of \$1.2 million.

On a non-GAAP basis. For the quarter, we reported adjusted operating income of \$1.2 million, an improvement of \$1.4 million when compared to an adjusted operating loss of \$250,000 reported for the same period last year.

The improvement is primarily due to expense savings of \$2.3 million in distribution, \$2.1 million in employee compensation and benefits and \$1 million in newsprint, partially offset by a total revenue decline of \$4 million, that is primarily due to the decision in the third quarter of 2023 to end the shared mail program to deliver weekly preprints and print only editions of niche publications.

All other advertising and marketing services revenue, excluding the discontinued products I just mentioned, increased \$400,000 or 3.5% when compared to the second quarter of 2023. This is primarily due to classified advertising that continues to be a steady source of revenue for us. Circulation revenue increased \$200,000 or 1.2%, driven by our focus on pricing, specifically in digital subscriptions. Moving forward, the company will adjust its focus to find the optimal balance between volume and price with the ultimate goal of generating the most digital subscription revenue. Digital-only subscriptions decreased 7,704 or 11.2% compared to Q2 last year.

Total subscribers, including both home delivery and digital subscribers was 126,405 as of June 30 compared to 132,694 at December 31 and 142,436 as of June of last year.

Other revenue decreased \$700,000, primarily due to declines in commercial printing and distribution revenue.

On a non-GAAP basis, total adjusted operating expenses for the quarter improved \$5.4 million, driven by expense savings of \$2.3 million in distribution and \$1 million in newsprint, primarily resulting from the discontinued products and a decline in the cost of newsprint, which was down 13.9% compared to prior year. In addition, employee compensation improved \$2.1 million.

As of June 30th, headcount was 533, down 111 compared to last year, resulting from the voluntary severance program offered in the fall of 2023 and additional first quarter headcount reductions within Medium Giant.

Consistent with interim periods, the company used the estimated annual effective tax rate method, which when applied to the Q2 year-to-date income resulted in a tax benefit of \$240,000. We do expect Texas franchise tax expense later this year. We paid approximately \$540,000 of Texas franchise tax for fiscal year 2023 in the second quarter. We continue to have a strong balance sheet with no debt. And as of the end of June, cash and short-term investments were \$17.1 million. And as of July 26, we had \$19.1 million in cash and cash equivalent.

I was pleased to see the financial progress we made in the second quarter. As we look to the second half of the year, we will continue our disciplined expense management, but the transition to the new printing facility will require incurring capital and operating costs this year, which Katy will elaborate on.

I will now turn the call over to Katy.

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### **Mary Murray DallasNews Corp - President, Treasurer, Corporate Secretary**

Good morning, everyone. I want to provide an update on our print operation transition we announced in May and plans for the existing print facility. As a reminder, the transition of the company's print operations to a smaller facility is a pivotal element of our return to growth plan. Once the transition is completed, we expect to benefit from annual expense savings of approximately \$5 million.

On June 28, we entered into a year lease for the future printing and production plant in Carrollton, Texas. Modifications have begun to prepare the location for the new press and other equipment so we can transition printing operations around the beginning of next

year as planned.

In Q2, we spent \$2.9 million in capital for this transition and expect to spend an additional \$5 million for the remaining capital needed for the facility. In addition to the news, we will also continue to print and deliver our national partners, including The New York Times, Wall Street Journal and USA Today. I am very pleased to say that this transition is currently on schedule and is again planned for completion in early 2025.

Turning to the current print facility. As a reminder, we own approximately 29 acres and a 620,000 square foot building located in Plano, Texas. We recently hired Holt Lunsford and Foundry to represent us, and they are already actively marketing the property for sale. The property is zoned for light industrial, which includes industrial development and data centers.

We have had a great deal of interest in the property, but it is too early to speculate on when the property could sell and the value of the transaction. However, I want to remind everyone that as of December 31, we have approximately \$54 million in total net operating loss carryforwards with \$17 million that expires in 2037 and \$37 million that does not have an expiration date. These NOLs will offset a significant amount of the gain leading to greater gross proceeds to the company.

I will now turn the call over to Grant, who will provide additional insights on the quarter.

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### **Grant Moise *DallasNews Corp* - Chief Executive Officer**

Thanks, Katy, and good morning, everyone. As Cathy noted earlier, we're reporting strong second quarter financial results generated from planned expense savings and revenue growth in key areas.

The natural question from investors is if we've reached sustainable operating profitability. The answer is not yet, but we are making progress. The signs of progress that stand out most our ability to grow revenue from continued operations at Medium Giant and to grow Circulation revenue at The Dallas Morning News.

Medium Giant and Circulation revenue are the two largest revenue areas in the Company and having both sources grow is essential to our success. I would also like to address the decline in the volume of our digital subscriptions.

As I've discussed on previous earnings calls, we have chosen a premium pricing strategy for digital subscriptions. We know through our industry benchmarking, we are in the top 10% in digital subscription pricing for local news. And while that has contributed to volume declines over the past year, it has also generated a strong foundation of revenue for the news, which will cover the costs of our newsroom and editorial operations this year.

However, while we have grown Circulation revenue year-over-year, we realize we cannot overlook the need for growing volume. And that's a focus of ours going into the second half of 2024. This focus will include enhancing our digital products and technology and testing new price points to find the inflection point where digital subscription base will return to growth.

Finally, this quarter, we introduced segment reporting, which breaks up the agency operating segment under Medium Giant and reports on all of The Dallas Morning News as a separate operating segment.

We understand the margin profile of each of these operating segments is different and reporting of them separately, helps investors better understand the component parts of our company and allows Katy and me to manage the business more effectively.

A year ago, we hired John Kiker, an agency veteran with 30 years in the ad agency business to help us better understand how to separate the agency from our traditional media business. Over the past year, John has effectively reorganized the business in a way that streamlines their operations while maintaining their synergies.

Year-to-date, we've added \$573,000 in operating income from the agency segment and while we know there's still significant room for financial growth, we now have a clearer foundation from which we can build. The agency will grow by continuing to win new business, driven by larger retainer-based clients and retaining the current clients that fit our ultimate -- fit our ideal client profile.

In closing, we've made meaningful progress from this time last year, and I'm proud of our team who has made this happen. We have more work to do to become a sustainably profitable company. But I'm confident we're on the right path, which is evidenced by our financial results in the second quarter.

John, we are now ready for questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Rohan Gilmore.

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### Rohan Gilmore

First of all, congratulations on a really strong quarter. I just have a -- my question is centered around the new digital products. Is there any timeline that can be shared around that? And would it be fair to say that management hopes that the majority of future digital growth will be from these new digital products?

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### Grant Moise *DallasNews Corp - Chief Executive Officer*

Yeah. Rohan, it's Grant. Good to talk to you. Thanks for calling in. Right now, we are doing extreme scrutinizing of pro formas on these future products. People know whenever you're trying to build something new, you can get married to a pro forma that you can hope is realistic.

But ultimately, we are in this space where scrutinizing the pro formas and making sure these new products are truly accretive is what we're digging into. We're also looking at which areas, content areas have our best success rate.

So for example, we're looking at things like potential expansion of high school sports. We're looking at other things that look into product expansion into the suburbs with more of a hyper-local digital strategy. But right now, Rohan, we are just trying to make sure that the pro formas are really realistic and something that will be accretive before we start investing the hard costs against development.

But in terms of looking into the future of how much of that will come from new products versus enhancing our current digital products, I don't have a clear answer for that yet, and that's why we're investing in both.

For example, we've got features that need to come into our core digital product right now like additional video. Video is meaningful for engagement of current subscribers, and it also carries a premium price for advertising. So looking at those type of features are the things where we're trying to enhance the current products while also building new products. But thanks for the question.

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### Rohan Gilmore

Thank you. I just have one follow-up, if that's all right. On the advertising side of the business, are you guys able to quantify how much revenue was generated from the Eclipse? I guess I'm just trying to see how much of the advertising revenues was onetime in nature from that tailwinds versus from just a general improvement in market conditions on the business?

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### Grant Moise *DallasNews Corp - Chief Executive Officer*

Yeah. I think Rohan, it's a good question. One of the things that we're always looking out with something like the Eclipse is when it's a one-time event and it's material, we point that out. So for example, the Texas Rangers winning the World Series last year is we have -- we had publicly documented was a very meaningful advertising revenue event.

The Eclipse was -- I'm looking at Cathy. I think we don't have the number top of mind. And it's because Rohan, it was not a very material spike in advertising revenue. It was a nice -- it grew some short-term page views, but it was not financially material.

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### Rohan Gilmore

Got it. Well, those are my questions. Thank you for taking them and congratulations again to the whole team.

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**Operator**

John Wagner.

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**John Wagner**

Hi, Grant, Katy, Cathy. Congrats on a great quarter. Just one question from me today. The company put out a press release on May 14 that had mentioned a market study was being conducted to assess the future use of the Plano facility.

I know you shared a brief update on the prepared remarks, but any additional color you can share on the marketing front of that asset and the brokerage firm you guys are working with would be great to hear?

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**Mary Murray DallasNews Corp - President, Treasurer, Corporate Secretary**

Hey, John. Sure. So really what we spent time looking at is what would be the best possible uses of that property. One, it is the last significant infill property in Plano. So one is getting a lot of interest. It's hard to find 29 acres with the access to significant between the roads and highways and that.

So the other piece of that was really understanding from an industrial redevelopment perspective what benefits the property had. But then from a data center perspective, really sitting there and focusing on what were the power requirements.

As most people know, as you know, in Austin, that the data center growth in Texas is pretty significant. It is reliant on how much power you can generate to that property. We do have two lines of power going into the property. So that was a lot of the work that we were doing, was really trying to understand what kind of power requirements we were going to have to have if somebody potentially wanted to come in with a data center opportunity.

We also have an active rail spur on the property, which is unique from a lot of -- think about manufacturing industry. So John, that's really what we were doing and Holt Lunsford and Foundry, you probably know the names, significant experience in industrial redevelopment. Also on the data center side, a lot of activity in the area near us.

They've sold a lot of the properties that are up there. So really excited about partnering with them. And again, just kicked off the marketing of that. But the interest has been solid, which has been really great. Again, just don't know exactly how long it's going to take to sell the property, but very excited about the potential outcome.

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**John Wagner**

Okay, great. Thank you so much.

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**Operator**

Barry Blank.

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**Barry Blank**

Hi, good morning. I have a question regarding the letter that you received about delisting. What exactly are they asking for you to do to get the market price up to a certain level or to get the market cap up to a certain level? That was my question first question.

And my second would be, I know you paused the dividend, is there any possibility in line that the dividend may be reinstated and or stock purchases in the market?

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**Mary Murray DallasNews Corp - President, Treasurer, Corporate Secretary**

Hi, Barry. It's good to talk to you again. So on the Nasdaq listing, what that specifically means when we receive a letter in June is our stockholders' equity had fallen below the requirement of a \$2.5 million stockholder equity. The good news is when we closed June, we were back over that requirement and we're actually at \$3.3 million.

So we did file an 8-K in the middle of July, about a week or two ago, that stated that. And so, at this point, we're back in compliance with Nasdaq. There's nothing else that we need to do. We need to show consistently that we can stay in compliance.

But there's nothing we need to do from a share price perspective or from a market cap perspective. It was strictly related to the stockholders' equity balance as of March 31. And again, we remedied that at June 30.

On the dividend, great question and appreciate you bringing that up and on the stock repurchase. I think everybody -- when we talk about capital allocation and as we think about capital allocation with the amount of cash we have on the books, we have to think about really the three ways.

We think about it investments back into the business. As we mentioned, even this transition, we're going to spend \$8 million transitioning our print facility, which is going to generate for us a net \$5 million of savings on annualized starting in 2025.

The other piece of that is we have to think about what do we do from a shareholder perspective. And historically, we had issued dividends. We also have had share repurchase program. There's nothing that's active right now.

The last piece of that is how do we think about capital allocation in terms of our pension obligation and our desire to really see that to completion. Our pension today is funded a little bit over 90%. But again, we feel that that's our responsibility. While it's not technically debt, we look at it that way and that we're going to honor the obligation that we have to all the former employees of this company.

So right now, Barry, there's no specific change in path that I can share right now. Again, our capital allocation decision has been to focus on this print transition, which will be completed in the beginning of the year. At that time, obviously, the Board of Directors, Grant is on the Board, had active conversations about capital allocation and with the expense savings that we should be seeing.

And then ultimately, with the sale of this property, there will be a lot of conversations around that. But again, we look at it really in kind of three ways investing in the business, how do we think about returning capital to our shareholders, and then also thinking about our pension obligation.

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## Barry Blank

One other question. I know that you can't predict what price you'll sell the property at, but could you give any guidance to what comparable per acre prices have gone for the real estate in your area?

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## Mary Murray DallasNews Corp - President, Treasurer, Corporate Secretary

Barry, that's hard. When you think about this property, if you're thinking about just pure industrial redevelopment, it could be different than a data center. What I would say I don't have a comparable price set right now. It's just a little too early to make that kind of commitment.

But again, our focus is going to be to maximize the value of that property and ensure that we're doing that as efficiently and effectively as we can.

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## Grant Moise DallasNews Corp - Chief Executive Officer

Barry, it's Grant. I think the only thing I would add to that is it's no different than I think all of us think about when we're selling our homes. There's also a difference of can that 620,000 square feet of the building be used rather than just selling it for a lot value.

And obviously, that's something where if we can't find a buyer who can use and can reduce their expenses on the other side of the transaction that obviously can impact the price. So three areas here. One is that just a development property. Two is it a data center. And three, could someone use the existing significant size of this building and that's why the ranges fluctuate widely.

## Barry Blank

I've got one last question regarding your pension liabilities. A lot of companies have used the option of purchasing an annuity which could be substantial discount, but will pay out over the period of time at your employee supposed to get payments, have you looked into that to reducing the expense that you would have to make out of cash for the future?

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## Mary Murray DallasNews Corp - President, Treasurer, Corporate Secretary

So Barry, it's a great question. And yes, we have over half of the nine years I've been here, we've done three separate de-risking offerings with our pension to reduce the pension liability. When I joined, we had over 2,600 participants in the pension. We are now down right at 1,300.

We did an annuitization back in 2016, where we took \$20 million of a contribution. And then we took \$23 million of plan assets, and we annuitized \$45 million of pension liability at that time. It's something that we think about with our advisors. We have offered cash outs. We have also offered the ability to roll the pension over into 401(k). So that's something that we look at consistently Barry, and it had a lot of success with.

The other thing right now is we are seeing favorable performance on the asset side with our investment managers. So it's a great question, and it's something that we think about on how we want to reduce that liability. But right now, focused on the market and the opportunity to close that gap between the equity return and possibly the interest rates.

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## Barry Blank

One last question, I don't mean to take up too much of your time. Have you ever thought of a possible employee stock purchase plan? It's very beneficial that the employees feel like they are owners of the company. The production gets better. They work harder and they can benefit from the appreciation hopefully of the price of the stock.

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## Mary Murray DallasNews Corp - President, Treasurer, Corporate Secretary

Barry, it's another great question. You're correct, we do not have an employee stock purchase plan. The company did have one a number of years ago and that was discontinued. It is something that again, we do talk about, but have not look to re-implement that one, given the volatility of our stock over the last several years and our focus on our return to growth plan, it might be something we consider in the future. But right now, it's not something that we're looking at putting back in place.

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## Barry Blank

Thank you very much for your time.

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## Operator

At this moment, we have no additional questions in the queue.

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## Cathy Collins DallasNews Corp - Chief Financial Officer

All right. Thank you, John, for your assistance this morning and to everyone who's joined the call. Thank you again for listening to our second quarter results, and we look forward to updating everyone on our third quarter earnings call, which will be held in the fourth quarter.

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## Operator



Ladies and gentlemen, a replay of this call will be available again from 11:00 AM Central Time today, through midnight on August 7. It's accessible by dialing 8662071041 and entering access code 4993908. Again, the number of callers 8662071041 and access code is 4993908.

And that does conclude your conference call for today. We do thank you for your participation and for using AT&T Event Conferencing, you may now disconnect.

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