

GANNETT CO INC /DE/
Form 10-Q
May 02, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended March 25, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

Commission file number 1-6961

GANNETT CO., INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)
7950 Jones Branch Drive,
McLean, Virginia
(Address of principal executive offices)
16-0442930
(I.R.S. Employer
Identification No.)
22107-0910
(Zip Code)
Registrant's telephone number, including area code: (703) 854-6000.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

The total number of shares of the registrant's Common Stock, \$1.00 par value outstanding as of March 25, 2012 was 234,955,956.

PART I. FINANCIAL INFORMATION**Items 1 and 2. Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations****MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS****Results from Operations**

Gannett Co., Inc. (the Company) reported 2012 first quarter earnings per diluted share, on a GAAP (generally accepted accounting principles) basis of \$0.28 compared to \$0.37 for the first quarter of 2011.

Results for the first quarter of 2012 include \$16 million in costs due to workforce restructuring (\$10 million after-tax or \$0.04 per share) and non-cash facility consolidation charges of \$5 million (\$3 million after-tax or \$0.01 per share). In addition, the Company completed approximately \$20 million of the \$65 million of planned 2012 strategic investments. Results for the first quarter of 2011 included \$8 million of non-cash charges associated primarily with facility consolidations (\$5 million after-tax or \$0.02 per share) and \$6 million in costs due to workforce restructuring (\$4 million after-tax or \$0.02 per share).

A consolidated summary of the Company's results is presented below.

In thousands of dollars, except per share amounts

First Quarter

| | 2012 | 2011 | Change |
|--|--------------|--------------|--------|
| Operating revenues | \$ 1,218,587 | \$ 1,251,261 | (3%) |
| Operating expenses | 1,082,929 | 1,072,645 | 1% |
| Operating income | \$ 135,658 | \$ 178,616 | (24%) |
| Non-operating expense | \$ 33,224 | \$ 41,874 | (21%) |
| Net income attributable to Gannett Co., Inc. | \$ 68,223 | \$ 90,493 | (25%) |
| Per share - basic | \$ 0.29 | \$ 0.38 | (24%) |
| Per share - diluted | \$ 0.28 | \$ 0.37 | (24%) |

Operating Revenues

Operating revenues declined 3% to \$1.2 billion for the first quarter of 2012. Digital segment revenues were almost 7% higher primarily reflecting solid revenue growth at CareerBuilder. A 7% increase in Broadcasting segment revenues was driven by stronger advertising demand and growth in retransmission revenue. Publishing segment revenues declined 6% reflecting, in part, the impact of sluggish economic growth on advertising demand early in the quarter.

As further discussed in the sections below, first quarter 2012 company-wide digital revenues, which include Digital segment revenues and all digital revenues generated and reported by the other business segments, were \$273 million, 8% higher compared to the first quarter in 2011 and were approximately 22% of the Company's total operating revenues.

Operating Expenses

Operating expenses for the quarter, which include facility consolidation as well as workforce restructuring costs, were up 1% for the quarter. Continuing cost control and efficiency efforts company-wide were offset in part by \$20 million of strategic initiative expenses that impacted the Publishing segment primarily and an increase of approximately \$6 million in pension expense. Publishing segment expenses were flat for the quarter reflecting the impact of continuing efficiency efforts and lower newsprint expense, offset by higher workforce restructuring charges, strategic initiative expenses and increased pension expense. Newsprint expense was 6% lower in the quarter as a 7% decline in consumption was partially offset by a 1% increase in newsprint usage prices. Broadcasting segment operating expenses were higher in the quarter due, in part, to sales costs associated with higher revenue and strategic initiative expenses. The increase in Digital segment expenses related to higher technology support costs associated with new business initiatives, and higher sales costs at CareerBuilder as well as product development costs at other Digital segment businesses.

Operating Income

Operating income was \$136 million for the first quarter of 2012, a decrease of \$43 million or 24% compared to the first quarter last year, reflecting the impact of the economy on advertising demand in the Company's Publishing segment as well as the continuing shift of advertising to alternate forms of media, particularly electronic media. Publishing segment operating income was \$62 million for the quarter, down 47% from last year as a result of increased workforce restructuring charges and strategic initiative expenses as well as advertising softness, particularly in January. Broadcasting segment operating income increased 14% to \$73 million for the quarter due to the impact of stronger advertising demand and growth in retransmission revenue, partially offset by an increase in related sales costs and strategic initiative expenses. Digital segment operating income was \$16 million, up slightly from last year as higher revenues at CareerBuilder were partially offset by higher related sales costs and costs incurred for technology support and product development. The revenue and expense variances are discussed in more detail below.

Income Attributable to Gannett Co., Inc.

Net income attributable to Gannett Co., Inc. was \$68 million for the first quarter of 2012, a decrease of \$22 million or 25% compared to 2011. Earnings per diluted share were \$0.28 in the first quarter compared to \$0.37 last year. These lower results paralleled the overall change in operating income.

The following is a discussion of the Company's reported operating segment results:

Publishing Results

Publishing revenues declined 6% to \$874 million from \$930 million in the first quarter last year. Publishing revenues are derived principally from advertising and circulation sales, which accounted for 63% and 30%, respectively, of total publishing revenues for the first quarter. Advertising revenues include amounts derived from advertising placed with print products as well as publishing related internet web sites, mobile and tablet applications. All other publishing revenues are mainly from commercial printing operations. The table below presents these components of publishing revenues.

Publishing revenues, in thousands of dollars

| First Quarter | 2012 | 2011 | Change |
|---------------|------------|------------|--------|
| Advertising | \$ 551,438 | \$ 601,736 | (8%) |
| Circulation | 263,336 | 268,213 | (2%) |
| All other | 59,288 | 59,836 | (1%) |
| Total | \$ 874,062 | \$ 929,785 | (6%) |

The table below presents the principal categories of advertising revenues for the Publishing segment.

Advertising revenues, in thousands of dollars

| First Quarter | 2012 | 2011 | Change |
|--------------------------------------|------------|------------|--------|
| Retail | \$ 278,978 | \$ 302,497 | (8%) |
| National | 90,440 | 104,736 | (14%) |
| Classified | 182,020 | 194,503 | (6%) |
| Total publishing advertising revenue | \$ 551,438 | \$ 601,736 | (8%) |

Publishing advertising revenues decreased 8% in the quarter to \$551 million from \$602 million in the first quarter of 2011. Advertising revenue decreases were 8% for the first quarter both for U.S. publishing and in the U.K. On a constant currency basis, advertising revenues in the UK declined 6% for the first quarter. The average exchange rate used to translate UK publishing results from the British pound to U.S. dollars decreased 2% to 1.57 for the first quarter from 1.60 last year.

The percentage changes in the advertising revenue categories for domestic publishing, Newsquest and in total on a constant currency basis are as follows:

| First Quarter | U.S. Publishing | Newsquest (in pounds) | Total Constant Currency | Total Publishing Segment |
|---------------|--------------------|--------------------------|----------------------------|-----------------------------|
| Retail | (7%) | (6%) | (7%) | (8%) |
| National | (14%) | 2% | (13%) | (14%) |
| Classified | (6%) | (7%) | (6%) | (6%) |
| Total | (8%) | (6%) | (8%) | (8%) |

For the first quarter, retail advertising revenues declined 8%, although demand firmed during the quarter with comparisons in March almost six percentage points better than January results.

Soft national advertising demand at USA TODAY resulted in a 14% decline in national advertising revenues for the quarter. Year-over-year national revenue declines narrowed significantly during the quarter after a particularly challenging January. Domestically, national advertising comparisons improved almost 13 percentage points from January to March. Increases in the technology and advocacy categories were more than offset by declines in several categories including entertainment, telecommunications, automotive and financials.

Classified advertising revenue at the Company's domestic publishing operations declined 6% for the first quarter of 2012, although the comparison improved relative to the fourth quarter comparison. Almost all domestic classified advertising category comparisons were better than fourth quarter comparisons. Employment advertising revenue trends improved during the quarter and employment revenue was up 3% in March 2012 compared to the prior year. Comparisons in domestic real estate revenues improved sequentially within the quarter as well. Classified advertising revenue comparisons, in pounds, at Newsquest were slightly better relative to fourth quarter comparisons.

The percentage changes in the classified revenue categories for domestic publishing, Newsquest and in total on a constant currency basis are as follows:

| First Quarter | U.S. Publishing | Newsquest (in pounds) | Total Constant Currency | Total Publishing Segment |
|---------------|--------------------|--------------------------|----------------------------|-----------------------------|
| Automotive | (2%) | (15%) | (4%) | (5%) |
| Employment | (1%) | (5%) | (3%) | (3%) |
| Real Estate | (14%) | (8%) | (12%) | (13%) |
| Legal | (10%) | | (10%) | (10%) |
| Other | (8%) | (4%) | (7%) | (7%) |
| Total | (6%) | (7%) | (6%) | (6%) |

The Company's publishing operations, including U.S. Community Publishing, USA TODAY and affiliated companies and Newsquest, generate advertising revenues from web sites, tablets and mobile applications that are associated with their publishing businesses. These revenues are reflected within the retail, national, classified, circulation and other categories presented and discussed above, and they are separate and distinct from revenue generated by businesses included in the Company's Digital segment. Digital revenues associated with publishing operations increased 13% for the quarter. Digital revenues at U.S. Community Publishing were 11% higher driven by increases in automotive, employment and retail advertising. Digital revenues in the UK were 6% higher in pounds and digital revenues at USA TODAY and its associated businesses were up 25% for the quarter.

Circulation revenues declined 2% for the first quarter of 2012 to \$263 million. Net paid daily circulation for domestic publishing operations declined 4% for the quarter while Sunday net paid circulation decreased by 3%. USA TODAY's average daily circulation increased 2% compared to the first quarter last year, primarily due to an increase in E-Edition circulation.

All Other revenues decreased 1% for the quarter, primarily due to a decrease in UK commercial printing revenues.

Publishing operating expenses were relatively flat in the quarter at \$812 million as continued efficiency efforts and lower newsprint expense were offset by an increase in workforce restructuring charges, expenses related to

strategic initiatives and higher pension costs. Workforce restructuring costs totaled \$18 million and facility consolidation totaled \$5 million in the first quarter of 2012 compared to \$6 million and \$8 million, respectively, last year. Expenses related to strategic initiatives totaled approximately \$18 million for the quarter and pension expenses were almost \$6 million higher than the prior year.

Newsprint expense was 6% lower in the quarter as a 7% decline in consumption was partially offset by a 1% increase in newsprint usage prices. For the second quarter of 2012, the Company expects its newsprint expense will again be below year ago levels.

Publishing segment operating income was \$62 million in the quarter compared to \$118 million last year, a decrease of 47%. The decrease reflects lower operating revenues and an increase in workforce restructuring costs, strategic initiative expenses and pension expense.

A separate discussion of publishing operating expenses and operating income excluding the effect of special items (Non-GAAP basis) appears on page 8.

Digital Results

The Digital segment includes results for CareerBuilder, PointRoll, ShopLocal, Reviewed.com and Planet Discover.

Digital segment operating revenues were \$168 million in the first quarter of 2012 compared to \$158 million in 2011, an increase of 7% primarily reflecting continued strong revenue growth at CareerBuilder. CareerBuilder continues to build market share in the U.S. and its international operations have expanded in Europe and Asia.

Digital operating expenses were \$152 million in the first quarter of 2012 compared to \$142 million in 2011, an increase of 7%. Expenses increased in the quarter primarily due to higher technology support costs associated with new business initiatives, higher sales and marketing costs at CareerBuilder, and product development costs at other Digital segment businesses. Digital segment operating income increased in the first quarter of 2012 to \$16 million.

Broadcasting Results

Broadcasting includes results from the Company's 23 television stations and Captivate. Broadcasting revenues were \$176 million in the first quarter, 7% higher than the first quarter last year primarily reflecting stronger advertising demand.

Television revenues for the quarter were \$171 million, up 8% from the comparable period in 2011. Digital revenues in television were 6% higher for the quarter, reflecting the Company's focus on local digital sales through Yahoo! and community websites. Retransmission revenues totaled \$23 million for the quarter, an increase of 17% over the comparable period in 2011. There are no incremental costs associated with retransmission revenues; therefore, all of these revenues contribute directly to operating income.

Total adjusted television revenues, defined to exclude the estimated incremental impact of ad revenue related to political spending, were up 6% for the first quarter of 2012. The increase was due, in part, to strengthened demand for automotive advertising and several other key categories in the quarter. Based on current trends the Company expects the percentage increase in total television revenues for the second quarter of 2012 to be in the high single digits compared to the second quarter of 2011.

Broadcasting operating expenses for the first quarter totaled \$104 million, up 3% from the first quarter 2011. The increase is primarily due to approximately \$2 million of strategic initiative expenses and higher sales costs associated with higher revenue. Operating income was \$73 million for the first quarter compared to \$63 million in 2011.

Corporate Expense

Corporate expense in the first quarter was \$15 million, down 18% from the first quarter last year due to lower general and administrative costs.

Non-Operating Income and Expense

Equity Earnings

Equity income increased 25% to \$4 million for the first quarter this year, due primarily to strong results from Classified Ventures which were up 53% for the quarter, offset partially by newspaper partnership results which were 19% lower.

Interest Expense

The Company's interest expense for the first quarter was \$40 million, down 15% from last year primarily reflecting lower average debt levels. Total average outstanding debt was \$1.8 billion for the first quarter of 2012 compared to \$2.3 billion last year. The weighted average interest rate for total outstanding debt was 8.02% for the first quarter of 2012 compared to 7.32% last year. Net debt repayments were \$97 million during the quarter.

At the end of the first quarter of 2012, the Company had \$138 million in long-term floating rate obligations outstanding. A 50 basis points increase or decrease in the average interest rate for these obligations would result in an increase or decrease in annualized interest expense of less than \$1 million.

Other Non-Operating Items

Other non-operating items increased \$1 million for the quarter, primarily due to higher interest income.

Provision for Income Taxes

The Company's effective income tax rate was 28% for the first quarter of 2012, compared to 30% for the comparable period of 2011. The tax rates for the first quarters of both 2012 and 2011 reflect benefits from releases of reserves on prior tax positions. The lower rate in the first quarter of 2012 as compared to the first quarter of 2011 reflects an increase in certain permanent deductions as a result of prior year settlements. A separate discussion of effective income tax rates excluding special items (non-GAAP basis) appears on page 8.

Net Income Attributable to Gannett Co., Inc.

Net income attributable to Gannett Co., Inc. was \$68 million for the first quarter of 2012, a decrease of \$22 million or 25% compared to 2011. Net income attributable to Gannett Co., Inc. consists of net income reduced by net income attributable to noncontrolling interests. Net income attributable to noncontrolling interests was \$8 million in both 2012 and 2011 first quarters. Earnings per diluted share were \$0.28 in the first quarter of 2012 compared to \$0.37 last year.

The weighted average number of diluted shares outstanding for the first quarter of 2012 totaled 240,411,000 compared to 243,308,000 for the first quarter of 2011. The decrease is due to shares repurchased since the first quarter of 2011. See Part II, Item 2 for information on share repurchases.

Operating Results Non-GAAP Information

The Company uses non-GAAP financial performance and liquidity measures to supplement the financial information presented on a GAAP basis. These non-GAAP financial measures are not to be considered in isolation from or as a substitute for the related GAAP measures, and should be read only in conjunction with financial information presented on a GAAP basis.

The Company discusses in this report non-GAAP financial performance measures that exclude from its reported GAAP results the impact of special items consisting of workforce restructuring charges and facility consolidation expenses. The Company believes that such expenses are not indicative of normal, ongoing operations and their inclusion in results makes for more difficult comparisons between periods and with peer group companies. Workforce restructuring and facility consolidation expenses primarily relate to incremental expenses the Company has incurred to consolidate production facilities and centralize functions. These expenses include payroll and related benefit costs and accelerated depreciation.

Management uses non-GAAP financial performance measures for purposes of evaluating business unit and consolidated company performance. The Company therefore believes that each of the non-GAAP measures provides useful information to investors by allowing them to view the Company's businesses through the eyes of management and the Board of Directors, facilitating comparison of results across historical periods, and providing a focus on the underlying ongoing operating performance of its businesses. In addition, many of the Company's peer group

companies present similar non-GAAP measures so the presentation of such measures facilitates industry comparisons.

Non-GAAP Financial Tables/Reconciliations

On an as adjusted basis using non-GAAP amounts for expenses, operating results were as follows:

In thousands of dollars, except per share amounts

| First Quarter | 2012 | 2011 | Change |
|---|--------------|--------------|--------|
| Operating revenues | \$ 1,218,587 | \$ 1,251,261 | (3%) |
| Adjusted operating expenses, non-GAAP basis | 1,061,852 | 1,059,022 | |
| Adjusted operating income, non-GAAP basis | \$ 156,735 | \$ 192,239 | (18%) |
| Adjusted net income attributable to Gannett Co., Inc., non-GAAP basis | \$ 80,800 | \$ 98,916 | (18%) |
| Adjusted diluted earnings per share, non-GAAP basis | \$ 0.34 | \$ 0.41 | (17%) |

Adjustments to remove special items from GAAP results follow:

In thousands of dollars, except per share amounts

| First Quarter | 2012 | 2011 | Change |
|---|--------------|--------------|--------|
| Operating expenses (GAAP basis) | \$ 1,082,929 | \$ 1,072,645 | 1% |
| <i>Remove special items:</i> | | | |
| Workforce restructuring | (16,289) | (5,967) | *** |
| Facility consolidation charges | (4,788) | (7,656) | (37%) |
| As adjusted (non-GAAP basis) | \$ 1,061,852 | \$ 1,059,022 | |
| Operating income (GAAP basis) | \$ 135,658 | \$ 178,616 | (24%) |
| <i>Remove special items:</i> | | | |
| Workforce restructuring | 16,289 | 5,967 | *** |
| Facility consolidation charges | 4,788 | 7,656 | (37%) |
| As adjusted (non-GAAP basis) | \$ 156,735 | \$ 192,239 | (18%) |
| Net income attributable to Gannett Co., Inc. (GAAP basis) | \$ 68,223 | \$ 90,493 | (25%) |
| <i>Remove special items (net of tax):</i> | | | |
| Workforce restructuring | 9,689 | 3,867 | *** |
| Facility consolidation charges | 2,888 | 4,556 | (37%) |
| As adjusted (non-GAAP basis) | \$ 80,800 | \$ 98,916 | (18%) |
| Diluted earnings per share (GAAP basis) | \$ 0.28 | \$ 0.37 | (24%) |
| <i>Remove special items (net of tax):</i> | | | |
| Workforce restructuring | 0.04 | 0.02 | *** |
| Facility consolidation charges | 0.01 | 0.02 | (50%) |
| As adjusted (non-GAAP basis) (a) | \$ 0.34 | \$ 0.41 | (17%) |

(a) Total per share amount may not sum due to rounding.

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Consolidated operating expenses on a non-GAAP basis for the first quarter of 2012, adjusted to remove costs associated with workforce restructuring and facility consolidations, were flat compared to 2011. This includes approximately \$20 million of strategic initiative expenses as well as a \$6 million increase in pension expense.

Current quarter expense levels reflect the impact of efficiency efforts and facility consolidations in prior quarters and lower newsprint expense partially offset by higher Broadcasting and Digital segment expense.

As a result of the above cost factors, as well as lower overall revenues, as adjusted operating income on a non-GAAP basis was \$157 million for the first quarter of 2012, a decrease of 18% from the comparable period last year. Adjusted net income attributable to Gannett Co., Inc. on a non-GAAP basis was \$81 million for the quarter, a decrease of \$18 million or 18% compared to last year after \$20 million of pre-tax expense on strategic initiatives.

A summary of the impact of facility consolidation and workforce restructuring charges on the Company's Publishing segment is presented below:

In thousands of dollars

| First Quarter | 2012 | 2011 | Change |
|--|------------|------------|--------|
| Publishing segment operating expenses (GAAP basis) | \$ 812,022 | \$ 812,188 | |
| <i>Remove special items:</i> | | | |