GCI - Gannett Co., Inc. to Create Two Industry-Leading Companies With Scale Through Spin-Off Of Publishing Business To Gannett Shareholders Conference Call

EVENT DATE/TIME: AUGUST 05, 2014 / 8:30 AM ET

[EDITED FOR CLARITY]

OVERVIEW:

Gannett announced its plan to create two publicly traded companies, one exclusively focused on Broadcasting and Digital businesses, and other on Publishing businesses. Gannett also announced it has signed a definitive agreement to acquire full ownership of Cars.com.

AUGUST 05, 2014 / 8:30AM ET, GCI - Gannett Co., Inc. to Create Two Industry-Leading Companies With Scale Through Spin-Off Of Publishing Business To Gannett Shareholders Conference Call

CORPORATE PARTICIPANTS

Jeff Heinz *Gannett Co Inc - VP of IR*

Gracia Martore *Gannett Co Inc - President & CEO*

Jack Williams *Gannett Digital Ventures - President*

Victoria Harker *Gannett Co Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Doug Arthur *Evercore Partners - Analyst*

John Janedis *Jefferies & Co. - Analyst*

Unidentified Participant

Craig Huber *Huber Research Partners - Analyst*

William Bird *FBR & Co. - Analyst*

Barry Lucas *Gabelli & Company - Analyst*

Jim Goss *Barrington Research Associates, Inc. - Analyst*

Kannan Venkateshwar *Barclays Capital - Analyst*

Avi Steiner *JPMorgan - Analyst*

PRESENTATION

Operator

Good morning. Thank you for joining the Gannett's investor conference call. At this time I'd like to turn the call over to Jeff Heinz, Vice President of Investor Relations for Gannett. Mr. Heinz, please go ahead.

Jeff Heinz - ***Gannett Co Inc - VP of IR***

Good morning and welcome to our investor call and webcast. Today our President and CEO, Gracia Martore, will review the announced plans to separate our Publishing, and Broadcasting and Digital businesses and the announced agreement to acquire the remaining interest in part Cars.com that we do not already own. After management's commentary we'll open up the call for questions.

Hopefully you've had the opportunity to review this morning's press release. If you haven't seen yet, it's available at Gannett.com. Additionally there is an investor presentation to accompany management remarks today which can also be found on the IR Section of our website.

Before we get started I'd like to remind you that this conference call and webcast include forward-looking statements. And our actual results may differ. Factors that may cause them to differ are outlined in our SEC filings.

The investor presentation also includes certain non-GAAP financial measures. We have provided reconciliations of those measures to those most directly comparable GAAP measures in the press release and on the Investor Relations portion of our website.

With that let me turn the call over to Gracia.

Gracia Martore - ***Gannett Co Inc - President & CEO***

Thanks, Jeff and good morning everyone, and thank you for joining us on such short notice. I'm joined today by Victoria Harker, our CFO; and Jack Williams, President of Gannett Digital Ventures. We obviously have several very exciting and significant developments to cover today so let's get right to it.

Today we announced two major steps in the continuing transformation of Gannett. First, we announced our plans to create two publicly traded companies with scale, one exclusively focused on our Broadcasting and Digital businesses and the other on our Publishing businesses. Second, we announced that we've agreed to acquire full ownership of Cars.com, meaning accelerating growth in our digital portfolio at an attractive price. These are two extremely compelling actions at precisely the right time and we believe they represent a one/two punch that will position all of Gannett's businesses for even greater success and growth and will unlock significant value for our shareholders in the near and long term.

First let me touch on [technical difficulties] tax free separation will provide both companies with enhanced flexibility and dedicated capital structures that will enable them to devote resources to the areas of their business with the most promising growth potential. As standalone businesses each company will have even sharper management focus and resources more directly aligned with their individual needs and priorities. I'll discuss these this in further detail later, but key to this separation is that both companies are financially and strategically strong with scale and competitive positioning in their respective markets.

Now, the second part of our announcements this morning is the agreement to acquire the remaining 73% of Cars.com that we currently don't own. Cars.com, as you know, is a leading destination for online car shoppers that provides credible and easy to understand information for consumers and experts. This acquisition will propel our digital business forward by many measures and will allow us to build upon Cars.com's strong national brand as the number two auto-related site in the country. This transaction alone doubles the size of our already growing rapidly growing digital business and is expected to be highly accretive to free cash flow again, more on that later.

These are bold actions, and before I get to the details I want to provide some context on why both are important next steps in our ongoing strategic transformation. As many of you know over the last two and half years we have taken several decisive steps to reinvent and reposition our business and ensure we are meeting the exact and changing needs of our audiences.

With our recent acquisitions of the Belo and London Broadcasting [stations] we doubled our broadcasting business and now reach nearly one-third of all television households in the country. We have meaningfully expanded our scale in the higher growth, higher-margin Broadcasting and Digital businesses. In essence we created a top player in that space.

Our results this past quarter, fueled by our ability to successfully integrate and operate the Belo stations, resulted in a record high broadcast revenue and an expanded company margin. And now with the acquisition of the remaining interest in Cars.com, a business we clearly know extremely well, we will again double the size of our Digital business, another great asset where we believe we can extract even greater value on a go forward basis through our proven expertise and contractually improved economics of the new affiliation agreements.

We have also made huge strides in stabilizing and revitalizing our Publishing business through the 2012 launch of our highly successful all-access content subscription model that added more than $100 million of operating income to the launching of USA TODAY local editions throughout 35 of our largest local markets. We've gotten great initial responses. The reaction has exceeded our expectations and we intend to continue to rollout iterations of this program in additional markets going forward.

In addition, with the rebranding of USA TODAY, our flagship property now ranks number one in combined print and digital circulation. And at Newsquest in the UK, recent results indicate that that business has stabilized as well, with advertising revenue virtually flat in the second quarter year over year. With much of the leg work done in creating and strengthening market-leading businesses, the time is now right to create two separate companies that we believe will each exceed the growth they have achieved under one umbrella.

So now let's take a closer look at the separation transaction which will be implemented through a tax-free distribution of shares of a new entity holding Gannett's publishing assets to shareholders. Following the spin, we anticipate that the combined initial dividend of the two independent companies will not be less than Gannett's current quarterly dividend of $0.20 per share.

Our Broadcast and Digital business, or Remainco, will retain Gannett's debt of approximately $4.6 billion after the close of Cars.com, but given its strong revenues and cash flows, will maintain a strong balance sheet. This is an important point, a strong balance sheet in that business and our Publishing company will be virtually debt-free.

Now, we expect to close the separation transaction in mid-2015. Let me talk for a minute about why this is a value creating opportunity. The separation will provide more targeted investment opportunities and valuations that more accurately reflect distinctive business characteristics.

As I mentioned briefly, both companies will have capital structures reflective of their growth, profitability and cash flow generation. Each will also be better able to pursue value-enhancing acquisitions with fewer regulatory obstacles in two consolidating industries, and will have increased organic growth potential by targeting high-growth or in-demand areas. As superior operators with dedicated resources, enhanced focus, and industry-specific investments, we will be able to drive innovation and further our tradition of award-winning journalism.

Let me take a quick step back. You've heard me talk in the past about the inherent value in having a portfolio of leading publishing, broadcast and digital assets under one roof. We've considered those benefits and have structured the spin in such a way to retain many of the advantages we have today from our great scale and deep local connections.

For example, both companies will continue to collaborate on permissible cross-platform sales and content sharing opportunities. It is a win-win in every respect. We are creating two independent companies that will be among, if not the largest and strongest in their peer groups and will be optimally positioned to unlock shareholder value both in the near term and increasingly as they develop independently in the future.

Now I'd like to take some time to take a closer look at what each of our two businesses will look like following the completion of both the acquisition of Cars.com and the publishing spinoff. Following the separation Gannett's Broadcasting and Digital company, which has yet to be named, will be headquartered in McLean and will trade on the New York Stock Exchange.

It will be a leading television broadcaster and an emerging digital powerhouse; including 46 broadcast stations we own or service throughout the US and strong digital leaders with substantial revenues and cash flow in CareerBuilder and Cars.com. It will be made up of an extremely attractive and high-margin portfolio that covers almost one-third of the households in the U.S.

The Broadcast and Digital company will be the number four owner of Big Four network affiliates and number one household coverage for NBC and CBS, as well as number four for ABC, excluding owner operators. The company will also continue to benefit from strong retransmission revenues. The Broadcast and Digital company will enjoy leading digital positions in two major verticals: talent management solutions with CareerBuilder, which as all of you know is majority owned by Gannett, and auto through full ownership of Cars.com.

I am honored to be taking on the role of CEO for the Broadcast and Digital company following the completion of the separation. I am excited about the dynamic nature of this business and its growth possibilities.

So now let's move onto our publishing company. Following the separation it will retain the Gannett name and will become the largest and most diversified standalone newspaper company in the country.

The publishing company is expected to be listed for trading on the New York Stock Exchange and again will be headquartered here in McLean, Virginia. We are extremely pleased that Bob Dickey, President of US Community Publishing will become Chief Executive Officer of the publishing company following the completion of the separation.

Importantly, again, our publishing business will be virtually debt-free and will include US Community Publishing, as well as our iconic USA Today brand and Newsquest. The publishing company will also benefit from a well advanced digital strategy with a leading portfolio of local marketing solutions, as well as content delivered on all digital platforms.

The publishing company will also have ongoing market affiliation agreements with Cars.com and CareerBuilder.com. Importantly, the publishing SpinCo entity will retain significant financial flexibility to pursue strategic acquisition opportunities that add shareholder value created by ongoing consolidation in the newspaper industry.

Now I'd like to switch gears and focus on our announced agreement to acquire Cars.com. As you know Cars.com is one of the few proven and established digital solutions of scale in the market today, making it a highly strategic and logical fit for us. Again we're acquiring 73% of it, the part we don't own, for $1.8 billion in cash.

As you know we've been involved with this great business as an owner of Classified Ventures since 1998. In fact, Jack Williams has been involved with CV and Cars since their inception. It is a business we know very well, and we believe we can take this business to the next level under our full sole ownership.

We expect Cars.com to be accretive to free cash flow by approximately $0.43 per share and neutral to EPS in 2015, growing thereafter. Now assuming that Cars.com was 100% owned by us for all of 2014, and the new affiliation agreements were in place, again, for all of 2014, Cars is expected to contribute approximately $155 million in incremental 2014 estimated pro forma EBITDA to Gannett. A result of better contractual economics associated with the new affiliation agreements that take effect at closing.

To help paint a fuller picture, the affiliation agreements, the agreements with owners and affiliates that were in place since Cars' inception, were designed with economics that were more favorable to the owners and affiliates. However, the new affiliate agreements we will enter into are structured such that the contractual economics are more favorable to Cars.com, and therefore will result in higher revenue and EBITDA. We expect to close this transaction in the fourth quarter of this year, subject to regulatory approval and other customary closing conditions.

Specifically, the acquisition of Cars.com will secure our digital leadership in the largest and most important local and national advertising category, the auto vertical and by having full ownership of Cars.com we'll have greater control over business operations and product road maps. Cars.com is a strong cash generator and our plan is to use some of that cash to reinvest in the business and drive further growth and innovation through new product launches and expansions into new or adjacent areas that are value enhancing for dealerships.

This was one of those acquisitions that, simply put, makes perfect sense financially and strategically at a very attractive price. It will be highly value additive, bolstering our digital position in a core and well-understood sector for Gannett.

Now I'd like to turn it over to Jack Williams, President of Gannett Digital Ventures, to give you further color of the Cars.com business. I would point out that Jack knows Cars.com inside and out, and as I mentioned he has advised this business since its inception in 1998. Jack?

Jack Williams *- Gannett Digital Ventures - President*

Thanks, Gracia.

Cars.com is now the number two auto-related site. Today the site displays approximately 4.3 million new and used cars from nearly 20,000 dealers. With consistent growth since its inception, annual organic visits have grown at a 17% compound annual growth rate from 2008 to the 2013, a result of strong operations and efficient and effective execution by Cars.com management.

The company is also benefiting from favorable industry growth dynamics. Automobile sales are back at pre-recession levels and Cars.com sits perfectly positioned with a growing share of dealer customers and advertising spend.

Looking at Cars.com financial performance, as you can see on slide 11, it is a high-growth business. Revenue has grown at a 19.5% compound annual growth rate from 2006 to 2013 and estimated pro forma 2014 incremental revenue to Gannett is approximately $538 million. It's noteworthy that Cars.com continued to grow even in the midst of the recession.

Turning to slide 12, you can see that Cars.com is also a high-margin business. EBITDA has grown 39.5% since 2006 and is expected to grow significantly with new affiliate economics with incremental 2014 pro forma EBITDA expected to reach approximately $155 million.

Cars.com is also a leader in consumer engagement, and that's something that's always been important to us at Gannett. Based on two key measures of customer engagement, the amount of time consumers spend on the site, and visitors; Cars holds the number two position by both measures when looking at mobile and desktop usage.

On a monthly basis, consumers on average spend an incredible 109 minutes on the site on their desktops and mobile visitors spend an average of 69 minutes using the site from their mobile devices. The reality is that this is a business that will allow us to exploit the ongoing and significant macro trends for its digital and the broader media and advertising landscape. According to the NADA industry report in 2002, auto advertising buyers were spending roughly 5% of their expenditures on Internet advertising. In 2013, that number rose to 33%.

So not only is Cars in a growth market, it is a company growing its share of that industry. Translating that into numbers, on slide 14, you can see that desktop and mobile advertising sales in the auto industry is expected to be more -- to more than double to $7.8 billion by 2018 according to an NADA report.

But even today, the numbers are incredibly strong. We know that original equipment manufacturers spend 20% to 35% of their total budgets on Digital Media and that in 2013, franchised dealers spent $2.4 billion, or 33% of their total ad spending on digital advertising, up from $1.9 billion in just 2012.

Now I'd like to quickly cover how Cars sells its products. There are two primary sales channels: direct and affiliate. Through its direct sales, which account for approximately 78% of total revenue, Cars.com products are sold to advertisers by a direct Sales force and the revenue is recognized at retail rates. With the affiliate sales, Cars.com products are sold to advertisers by the affiliate Sales force. Often in conjunction with print or other advertising products.

As we mentioned briefly, to ensure a smooth transition we have entered into a new five-year contracts with all of the previous owner affiliates. As a reminder, those owners include Tribune Media, McClatchy, AH Belo and Graham Holdings.

Now, before I cover the new affiliate agreements I want to provide some historical context. The agreements with the owner affiliates have been in place since Cars.com's inception and they were designed with economics that were more favorable to the owner affiliates.

The new affiliate agreements are more favorable to Cars.com. These more favorable economics for Cars.com will result in increased revenue and EBITDA. At the conclusion of these five-year affiliate agreements, we'll be switching over to a direct sales model across the board which will further increase revenue and EBITDA going forward.

Now let me turn the call over to Victoria to discuss the impact of this acquisition on our pro forma financials and financial plans.

Victoria Harker *- Gannett Co Inc - CFO*

Thanks, Jack.

As Gracia has already noted, this is a very financially compelling transaction in both the near and long term. We expect Cars.com to be accretive to free cash flow by approximately $0.43 per share and EPS neutral in 2015 growing thereafter.

We also anticipate recognizing a tax-free gain of $673 million for our 27% stake in Cars.com at the time of close. The Cars.com transaction is also expected to contribute approximately $155 million in incremental pro forma 2014 estimated EBITDA, which implies a multiple of 11.7 times pro forma estimated incremental EBITDA. Within the first year, we expect to generate additional revenue from the new affiliate agreements and greater focus on operations, and therefore expect that multiple to be even lower at 9.2 times based on 2015 estimated EBITDA.

Gannett will maintain a strong balance sheet with anticipated pro forma net leverage at approximately 2.8 times, which is expected to be reduced over time. As we've proven with our Belo acquisition, we know how to integrate large acquisitions seamlessly and expect to do so with Cars.com.

So moving forward with the additional cash flow of Cars.com coupled with the strong cash generation of our broadcast stations and CareerBuilder, following the completion of the spinoff, broadcast digital company will be able to quickly repay the debt we're retaining from the existing Gannett company. I should note that until the spinoff transaction closes, we do not expect to be buying back shares.

Our current debt pay down is ahead of schedule and incremental EBITDA is stronger, resulting in a better leverage ratio and stronger position prior to financing the transaction. To do so, we plan to use the combination of cash on hand, accessing our undrawn revolver and issuing approximately $650 million to $675 million in new senior notes. These notes will be issued in two tranches with seven and 10-year tenures. We anticipate drawing approximately $600 million to $625 million on our existing revolving credit facility.

As you know, returning value to our shareholders through an attractive capital allocation program has long been a priority for us. One that we continue to execute on. Our plan is to calibrate our current capital return program in parallel with business results following the Cars.com transaction, while maintaining and continuing to monitor our $0.20 per share quarterly dividend.

With that I'll turn the call back to Gracia.

Gracia Martore - ***Gannett Co Inc - President & CEO***

Before I open the call up to questions, let me just emphasize what we view as the key take-aways from today's announcements. These are bold moves at precisely the right time in Gannett's ongoing strategic transformation.

We believe the separation of our business into two publicly traded industry leaders with impressive scale, strong flexible balance sheets, and dedicated capital structures will unlock value for our shareholders over both the near and long term. And finally, Cars.com doubles our very rapidly growing digital business and aligns with our long-time strategic focus.

In summary, today's announcements reflect the realization of the successful long-term transformation of Gannett as we strive continuously to most effectively compete in today's media landscape while delivering strong returns to our shareholders. We wholeheartedly believe that these transactions advance those objectives on a great many levels.

With that we'd be pleased to answer any questions you might have. Bennie?

QUESTION AND ANSWER

Operator

Thank you.

(Operator Instructions)

Doug Arthur.

Doug Arthur - ***Evercore Partners - Analyst***

Let me ask a little bit of a retro question here. With the spun off debt-free publishing company, any top three priorities on how the shape and strategy of that company may change near term? Thanks.

Gracia Martore - ***Gannett Co Inc - President & CEO***

Doug, what we envision is a company which will be virtually debt-free so it will have a very strong balance sheet.

We'll have fewer -- as you can appreciate with the platform that we have across this country in so many local markets, and with the existing regulatory obstacles that are there and constraints that are there, as you can appreciate, it has been difficult for us to in some cases, be able to look at certain acquisition opportunities that we thought were very attractive because of the cross-ownership rules and other issues. We will now have two companies that are unfettered in their ability to look at great investments and great acquisitions that will add shareholder value.

So I think that's an incredibly important strategy for our publishing business as well as our digital and broadcasting business, more so broadcasting. So that's clearly an important strategic focus for that company.

Secondly we'll continue to be focused on all the strong progress we've made on the digital side of our publishing business -- being across every platform with engaging relevant content. You can see that with what we've accomplished at USA TODAY; the number one newspaper and digital site in the country.

So we see great opportunities to continue to expand those opportunities with very focused investments in that business. We just think it's a great way for us to continue to grow our publishing business unfettered by any other constraints that we have had previously.

Doug Arthur - ***Evercore Partners - Analyst***

Gracia as you emphasize the cross-platform efforts with the broadcasting digital operations, all of those local digital efforts will remain in place on a new structure?

Gracia Martore - ***Gannett Co Inc - President & CEO***

Absolutely, we will continue with those cross-platform efforts. Our G/O Digital Marketing services business, which we believe is going to be a real home run and we reported that there was growth of about 65% year over year last quarter, that will continue to be a shared service among both our Broadcasting business and our Publishing business even after the spin. A lot of the content sharing that we've talked about with permissible agreements in place will continue to be available.

So really, it's a win-win and it's an ability for us to do all the things that we've been doing under appropriate sharing and commercial agreements. In both businesses. And with both businesses unfettered in their ability to invest in great transactions.

Doug Arthur - ***Evercore Partners - Analyst***

Okay. Great. Thank you.

Operator

John Janedis, Jefferies.

John Janedis - ***Jefferies & Co. - Analyst***

Two quick ones. First, Victoria you've historically had a low tax rate. Can the publishing assets work towards a tax inversion given the Newsquest assets?

And then separately for Gracia, once you complete the transaction, the market is going to focus on the growth of Cars.com and I'm wondering are you planning on having a separate Cars.com segment or more of a single digital segment for reporting purposes? And to your comment on G/O Digital, Gracia, does that stay at publishing for reporting purposes or how does that work?

Gracia Martore - ***Gannett Co Inc - President & CEO***

Why doesn't Victoria answer your first question.

Victoria Harker - ***Gannett Co Inc - CFO***

You're exactly right relative to the publishing business in terms of the historically low tax rate which we continue to work on improving even in today's structure. I think it would be premature to really opine relative to the conversions strategy but obviously we're looking at that fairly objectively. And as we roll forward over the span of the next 10 months obviously we'll have a better defined view of that.

Gracia Martore - ***Gannett Co Inc - President & CEO***

And with respect to your question around G/O Digital, that's one of those TBD's as to where exactly it will be housed in the organizations. But the most important thing is that it will be a shared service -- servicing both our broadcasting properties as well as our publishing properties for the next year and beyond the spin in permissible agreements.

John Janedis - ***Jefferies & Co. - Analyst***

In terms of Cars.com is that going to be separated in terms of reporting or is does that stay within digital?

Gracia Martore - ***Gannett Co Inc - President & CEO***

As you know, we currently have a digital segment. In that segment is our ownership of CareerBuilder and a couple of other of our smaller digitally focused businesses. Cars.com will become part of that segment and we will have to provide additional transparency on each of the two strong elements that make up that digital segment. And I'll tell you we'll be happy to be reporting on the kind of growth rate that Cars has sustained historically and will sustain well into the future.

John Janedis - ***Jefferies & Co. - Analyst***

Thanks a lot.

Operator

Alexia Quadrani, JPMorgan.

Nadia Lovell – ***JP Morgan***

This is Nadia in for Alexia. First congratulations on the announced transaction. Just one quick question. Pretty sure you haven't really focused on the acquisitions in a while, yet you mentioned acquisition as a growth strategy. Can you discuss what has changed?

Do you see any good opportunities out there in M&A? And what leverage would you be comfortable at any venture would you consider making the publishing business more of a yield story?

Gracia Martore - ***Gannett Co Inc - President & CEO***

Great question. With respect to what's changed, clearly, there are -- have been attractive newspaper properties, local media properties that have been on the marketplace.

We've been constrained in two respects. One, the regulatory obstacles of cross-ownership rules that given our sizable portfolio, we bump into more often than you would ever imagine.

And number two it was much more difficult for us to do from an investor perspective, publishing acquisitions within the context of the Company that we are currently structured in. Now that we will have a separate publishing business that will have an incredibly strong balance sheet, will have great cash flow, they'll be able to opportunistically and in a disciplined way, look at those opportunities as they come up without those two constraints.

As to leverage on the publishing business frankly, with the substantial amount of free cash flow that that business generates, they can do a variety of acquisitions and investments without really in any way levering up that business. We are blessed with a strong cash flow generative publishing business which I know is a little different perhaps than some others, but we have always been blessed with a strong cash flow generation business on the publishing side.

Unidentified Participant

Okay. Thank you.

Operator

Craig Huber, Huber Research Partners.

Craig Huber - ***Huber Research Partners - Analyst***

Gracia, my first question if I could, the $195 million of pro forma EBITDA for 2015, can you ballpark for us please what the cost savings number that's in that number please?

Gracia Martore - ***Gannett Co Inc - President & CEO***

Very, very little. It is primarily driven by the fact that we are putting in place new five-year affiliation agreements. And just let me go back a little in history as you may recall, Craig, when Cars.com was first put in place back in 1998, as you remember, most of the economics were desired by the newspaper owners. They wanted those economics to be in their operating companies.

Not at the Cars.com level because they would get no credit for it and we were all just minority owners. Those affiliation agreements have stayed in place. Those affiliation agreements will change the day that we close and the economics of those affiliation agreements will shift from being more favorable to the owners to being more favorable to Cars.com.

And so when we talk about that $155 million of incremental EBITDA in 2014, what we mean by that is we already have some level of EBITDA in our publishing and a small smidge in our broadcasting businesses as a result of the work that we do from our affiliation agreements. When you deduct that out of the cash flow that Cars.com will generate, we will report incrementally $155 million more of cash flow at the Gannett level. So a simple equation is we pay $1.8 billion in cash for an additional $155 million of EBITDA, which is almost totally as a result of the changing economics, contractual economics, of those affiliation agreements.

Craig Huber - ***Huber Research Partners - Analyst***

So just -- appreciate that -- just to be clear, so at the broadcasting company, you said there's a little bit of Cars.com --

---

Gracia Martore - ***Gannett Co Inc - President & CEO***

A tiny bit from the Belo stations -- the four Belo stations that had affiliation agreements with Cars.com.

Craig Huber - ***Huber Research Partners - Analyst***

But putting that little small piece aside say $5 million, $10 million whatever it is. If this holds here, you'd be booking $195 million for pro forma 2015 on the EBITDA line?

Gracia Martore - ***Gannett Co Inc - President & CEO***

$155 million in 2014. Pro forma incremental.

Now, at the Cars level the cash flow will be higher. It'll be about $172 million in 2014. But we can only -- we only are going to take credit obviously in this calculation for what we are incrementally gaining which is that $155 million.

Craig Huber - ***Huber Research Partners - Analyst***

Or the $195 million you're talking about for 2015?

Gracia Martore - ***Gannett Co Inc - President & CEO***

Yes.

Craig Huber - ***Huber Research Partners - Analyst***

And could you also ballpark for us the pro forma revenues for 2014 that get you to this $155 million of EBITDA?

Gracia Martore - ***Gannett Co Inc - President & CEO***

For 2015?

Craig Huber - ***Huber Research Partners - Analyst***

For 2014 or 2015.

Gracia Martore - ***Gannett Co Inc - President & CEO***

For 2014 at the Cars.com level, it's probably about $535 million to $540 million of revenue. And the total EBITDA is about $165 million to $170 million. But the incremental piece to Gannett will be revenues of about $500 million and EBITDA of about $155 million. Because obviously again we already have some level of revenue and some level of EBITDA already in our publishing and broadcasting segment from Cars.

Craig Huber - ***Huber Research Partners - Analyst***

Sorry to ask this, the difference between the $155 million to $165 million to $170 million, the difference is also partially the newspaper segment but also at that --

Gracia Martore - ***Gannett Co Inc - President & CEO***

Correct.

Craig Huber - ***Huber Research Partners - Analyst***

And then one last modeling question. Do you guys have any idea what the annualized amortization expense will be for Cars.com once this thing closes? I bet the answer is no, but --

Gracia Martore - ***Gannett Co Inc - President & CEO***

Yes, we do.

Craig Huber - ***Huber Research Partners - Analyst***

Could you share it with us?

Gracia Martore - ***Gannett Co Inc - President & CEO***

It's in the mid-to high 80s. About $88 million.

Craig Huber - ***Huber Research Partners - Analyst***

$88 million annualized?

Gracia Martore - ***Gannett Co Inc - President & CEO***

Right. Obviously an estimate at this point, we'll have to fine tune that but that's a good working number.

Victoria Harker - ***Gannett Co Inc - CFO***

We've gone through a series of evaluations, obviously we would need to finalize this as we get closer to close, but for modeling purposes that's sufficient.

Craig Huber - ***Huber Research Partners - Analyst***

And one more question. I'm sorry to hog up the time here. That revenue growth number you talked about, on a pro forma basis, is that sort of up mostly mid-teens similar to what was in 2013?

Victoria Harker - ***Gannett Co Inc - CFO***

On the pro forma basis? That growth rate is actually much higher than teens. It's in the high 20s.

Craig Huber - ***Huber Research Partners - Analyst***

Okay. And what are you assuming the growth then for 2015 then? Because I'm trying to get more of an apples to apples type number.

Victoria Harker - ***Gannett Co Inc - CFO***

It certainly will be a double-digit growth rate. We probably can't get any more precise than that but we feel it will be another strong year for Cars.com and with the new affiliation economics in place, it will continue to be a good transaction for us.

Craig Huber - ***Huber Research Partners - Analyst***

Great. Thank you very much.

Operator

William Bird, FBR.

William Bird - ***FBR & Co. - Analyst***

Just as a follow-on to the last question, what do you expect the pro forma EBITDA to be in 2015 at the Cars.com level?

Gracia Martore - ***Gannett Co Inc - President & CEO***

Let's see. At the Cars. com level? I don't have that handy. Victoria, by any chance do you?

Victoria Harker - ***Gannett Co Inc - CFO***

Bill, we'll come back to you with that number.

William Bird - ***FBR & Co. - Analyst***

Okay. And I guess separately, maybe you could --

Gracia Martore - ***Gannett Co Inc - President & CEO***

It'll be north of $200 million for sure. Just precisely where it's north of that --

Victoria Harker - ***Gannett Co Inc - CFO***

And we're still working through obviously from a P&L perspective post the close in terms of some of the activities we have going on. But to Gracia's point roughly in the $200 million, $210 million probably a good ballpark.

William Bird - ***FBR & Co. - Analyst***

And then there's an equity piece that drops out. How large is that?

Gracia Martore - ***Gannett Co Inc - President & CEO***

The equity income piece that we have below is about, I think it was $30 million?

Victoria Harker - ***Gannett Co Inc - CFO***

$32 million.

Gracia Martore - ***Gannett Co Inc - President & CEO***

$32 million-ish Bill.

William Bird - ***FBR & Co. - Analyst***

Okay. And separately could you talk about the dynamics around the new affiliate agreements at Cars.com? You mentioned they become more favorable.

I'm curious within the term of the five-year agreement, do they become even more favorable? In other words does the take rate change within those five years?

Gracia Martore - ***Gannett Co Inc - President & CEO***

No. The take rate itself, so to speak, doesn't change but what changes, obviously, is growth in that business so the more dollars that are brought in, the more dollars we have to apply that percentage to. It's obviously a double-digit growth revenue growth business so that obviously helps with increasing that number.

But the terms of the affiliation agreements remain in place as they are for the full five years. And then after the five years is over we go to direct where Cars.com will obviously have, after a transition period, 100% of the economics.

William Bird *- FBR & Co. - Analyst*

Okay. Great. And then do you have any change in plans for your corporate headquarters? Will both businesses reside there?

Gracia Martore *- Gannett Co Inc - President & CEO*

Yes. As we said, both businesses will reside here in McLean.

William Bird *- FBR & Co. - Analyst*

Any thoughts on changing strategy around corporate headquarters?

Gracia Martore *- Gannett Co Inc - President & CEO*

We're always looking at opportunities, Bill, to create shareholder value. And if the right opportunity came along, we would look at it as we do any asset and if it makes good economic sense we would realize on that.

William Bird *- FBR & Co. - Analyst*

Great. Thank you.

Operator

Barry Lucas, Gabelli.

Barry Lucas *- Gabelli & Company - Analyst*

Get away a little from Cars just a bit, Gracia, can you talk at all about the economics of CareerBuilder? How they differ from CB and Cars.com and what your appetite might be given this transaction that was announced today in terms of rolling in the rest of CB?

Gracia Martore *- Gannett Co Inc - President & CEO*

I'll answer the second part of that and then I'll ask Jack to shed light on CareerBuilder. As we've always said we think the CareerBuilder business is a terrific business. A lot of the work that they've been doing in some of the small acquisitions they've been making in Big Data and in Software as a Service, we think is the right strategic direction for CareerBuilder and will create a lot of value going forward.

As we've always said, at the right price, we look at any investment opportunity. But obviously we already have control of that asset. We already consolidate fully into our numbers.

So it would have to be an attractive investment and it would have to actually be for sale. Right now we think we have a lot of work to be done with the two announcements we made this morning and we're going to be very fully focused on those two announcements. Jack, do you want to talk a little bit about CareerBuilder?

Jack Williams - ***Gannett Digital Ventures - President***

Nothing's changed at CareerBuilder, Barry. It's basically the same thing that we've done for quite some time. Their sales are made almost 100% by their sales forces.

The affiliates including the Gannett, some Tribune, and McClatchy affiliates have some capability to sell some products but those products the listing products and contracts around job postings and that they've sold historically and all of the newer businesses that are far more complicated. Software as a Service businesses, the data businesses all the other things that CareerBuilder's gotten into our basically all sold by the direct sales force. So their economics are pretty much unchanged in terms of where they're going, what we've reported in the past.

Barry Lucas - ***Gabelli & Company - Analyst***

Great. Thank you. As long as I'm getting ahead of myself, we've got a digital business and a broadcast business in the new television side, television digital. How would you think about a third leg and what direction might be appropriate to flesh that out even more?

Gracia Martore - ***Gannett Co Inc - President & CEO***

Barry, we are creating as a result of the spin, two businesses that have different characteristics. On the broadcasting and digital side, they share some characteristics in terms of their high-growth businesses, they have capital structures that would be more appropriate to a high-growth, high cash flow generation businesses.

We've got a lot of work to do with the announcements we made this morning. But ultimately at the end of the day, we never rule anything out and down the road, we continuously -- the Board and all of us continuously look at opportunities to create shareholder value. But our focus will be for the present, to be focused on the integration of Cars.com and successfully executing on the separation of our two businesses over the next year.

Barry Lucas - ***Gabelli & Company - Analyst***

Great. Last area for me, Gracia, just the specific milestones. You've got a Form 10 to file. You don't have IRS approval yet.

Victoria Harker - ***Gannett Co Inc - CFO***

No.

Barry Lucas - ***Gabelli & Company - Analyst***

HSR?

Gracia Martore - ***Gannett Co Inc - President & CEO***

HSR on the Cars.com transaction has to be taken care of. And customary closing conditions so that's why we believe on the Cars side we'll be able to close that in the fourth quarter.

On the spin side, as you mentioned, Form 10, lots of other milestones along the way. And typically, spins take anywhere from 9 to 18 months. We expect that we will complete it in mid-2015.

Barry Lucas - ***Gabelli & Company - Analyst***

Great. Thank you. Thanks so very much.

Gracia Martore - ***Gannett Co Inc - President & CEO***

Thank you, Barry.

Operator

Jim Goss, Barrington Research.

Jim Goss - ***Barrington Research Associates, Inc. - Analyst***

I had a few also. First, the rationale for the multiple you arrived at and coming up with this transaction since that, what you're willing to pay for something has some meaning to what you feel you ought to be valued at as well I'm sure.

Gracia Martore - ***Gannett Co Inc - President & CEO***

Yes. Obviously you can look at the multiple in two ways. One is the sellers multiple which they have indicated in their press releases.

And the other for us is how much are we paying for the 73% of the company we don't own? And what is the incremental EBITDA we will be generating as a result of making that purchase? And in our case again, on the 2014 pro forma incremental EBITDA, estimated, we're paying $1.8 billion and we're getting about $155 million in incremental estimated pro forma EBITDA for 2014. And if you do that math, it implies a multiple of 11.7 times.

So I think you can look at both of those multiples as one indicative of the full value of the company and then one indicative of what it will specifically add to the Gannett Company because we already own 27% of the company. And as Victoria mentioned, we will be writing that up on a tax-free basis by about $670 million.

So we're blessed with the fact that we already owned 27% of Cars.com that we didn't have to pay anything for in this transaction. And what we're paying for will give us incremental EBITDA of $155 million.

Jim Goss - ***Barrington Research Associates, Inc. - Analyst***

Okay. And your decision to place CareerBuilder and Cars.com within the broadcasting digital group rather than linking it to the publishing group, where the units basically originated, could you discuss that rationale? Is it more the nature of the business versus the nature of -- or the nature of investment versus the nature of the business?

Gracia Martore - ***Gannett Co Inc - President & CEO***

No. I think it's a combination of both. These are true digital businesses. They happen to have been started by publishing companies who were originally looking at these businesses to simply bridge that transformation from print classified revenue to digital classified revenue.

And the business was just within the markets that those owners were in. Cars and CareerBuilder have grown substantially since then. And they are now well beyond just the markets that the owners brought to the table. So these are true digital businesses.

Now, they happen to be a little different than many digital businesses in that they have strong revenue growth and strong cash flow with very high margins. Something of a rarity in the digital space but something we're very proud of. So appropriately, they belong in the segment that contains our digital businesses.

But as we mentioned, there are affiliation agreements that the other owners plus ourselves will have with our publishing operations as well as with our broadcasting operations. So they get the benefit of what those businesses do for them in their markets and the digital segment obviously get the benefit of what these businesses appropriately do from a digital perspective. So that's really the rationale. And obviously they carry different multiples and appropriately should reside in the place where we have higher growth higher-margin digital businesses.

Jim Goss - ***Barrington Research Associates, Inc. - Analyst***

Great thanks, Gracia. One last thing, mobile has been emerging versus desktop in terms of the Internet add category. Either you or Jack can maybe discuss the opportunities in mobile advertising with these sort of businesses as well?

Jack Williams - ***Gannett Digital Ventures - President***

Sure. Actually, they're very unique versus what exists today where mobile has a lot of traffic and a lot of usage but not a lot of monetization and optimization of the financials. And both CareerBuilder and particularly Cars, where there are more transactional businesses and there is more information around those transactions they have been very, very successful, and have very high traffic numbers. But the way they're measured by their paying customers is by the number of leads to car dealers, the number of people who sign up for other information, send e-mails or do other things transactionally.

And it doesn't matter to the car dealers or to the employers looking for candidates whether those folks came from fixed websites or they come from mobile. So in fact we've got very strong mobile presence and we actually have a built-in monetization engine for that mobile presence.

So these are very good businesses as that transition's occurring. And as that more and more usage is that the mobile level.

Jim Goss - ***Barrington Research Associates, Inc. - Analyst***

All right. Thanks very much.

Gracia Martore - ***Gannett Co Inc - President & CEO***

Thanks, Jim.

Operator

Kannan Venkateshwar, Barclays.

Kannan Venkateshwar - ***Barclays Capital - Analyst***

Gracia, on the broadcast business when you are evaluating the Cars.com transaction, how did you weigh the possibility of a transaction in broadcast versus digital versus just given the kind of economics that you brought with the Belo transaction? And is it fair to assume that the kind of upside you saw on that particular transaction was relatively unique and therefore the deals on the broadcast space with same kind of economics are probably not around anymore? Just wanted to get your thoughts on that.

Gracia Martore - ***Gannett Co Inc - President & CEO***

Sure. Thanks for the question, Kannan.

What I would say as we described when we announced and then closed the Belo transaction, it was a somewhat unique transaction in that there were very few overlaps. There were great synergies. These were market-leading stations. A terrific set of assets. Higher exposure to Texas which is a high-growth state. And so it was a somewhat unique transaction.

But pretty soon, we followed on with the acquisition of the London Broadcasting stations. Six new markets for us in high-growth places again in the state of Texas. And that gives us about 83% penetration of the households in Texas.

So yes, it was a pretty unique transaction. There were obviously still regulatory issues about owning TV stations in the same markets, et cetera. So you have to look at that very carefully.

But we look at frankly, the Cars.com transaction as a transaction that will create the same, if not more, value for our shareholders and for our Company with the tremendous growth characteristics it has. It is a business that's that has tail winds going with it.

And so we have been very fortunate to be able to do within one year, two fantastic transactions in different spaces. One in digital and one in broadcasting that are just marquis transactions.

But we are blessed with the fact that it isn't an either/or situation for Gannett. We have an incredibly strong balance sheet by design. And so we are able to respond to opportunities like Belo, like Cars.com and still have a strong balance sheet despite the cost of those transactions.

So we are blessed with that flexibility. We are blessed to have been able to do two fantastic transactions. And obviously, we continue to look for ways to increase shareholder value in a disciplined and appropriate way.

Kannan Venkateshwar - ***Barclays Capital - Analyst***

Thanks. And one follow-up on Cars.com, if you look at the Classified Ventures numbers, looks like the G&A number is roughly about $40 million. Is it fair to assume that particular line provide some opportunity in terms of cost synergies going forward?

Gracia Martore - ***Gannett Co Inc - President & CEO***

Obviously, to anything, we bring the benefit of scale, so from sourcing to insurance to a whole host of things, we will bring the benefit of the scale, the Gannett organization brings to purchases and other things that Cars.com does. But let me tell you, that this is a story and the returns that we're talking about are very much focused on the tremendous growth opportunities that they have demonstrated and will continue to demonstrate in that arena.

Victoria Harker - ***Gannett Co Inc - CFO***

The costs, and you've seen this in our last call when we've talked about the Belo transaction, areas of opportunity would actually see upside for exactly as Gracia points out leveraging our scale for a number of our ability to reduce back-office, to reduce processing costs, and purchasing. So that I think is still continues to be upside relative to this transaction as well.

Kannan Venkateshwar - ***Barclays Capital - Analyst***

Great. Thank you.

Operator

Avi Steiner, JPMorgan.

Avi Steiner - ***JPMorgan - Analyst***

Thanks for taking the debt questions here. I appreciate it. I've got three there all somewhat interrelated.

Number one, if you can clarify that the leverage of 2.8 times is just pro forma for Cars.com at year-end 2014 and does not factor anything related to the newspapers spin? And then --

---

Gracia Martore - ***Gannett Co Inc - President & CEO***

That's correct.

Avi Steiner - ***JPMorgan - Analyst***

Thank you. And then can you talk about your financial policy going forward? You've obviously had what I would view as a very conservative balance sheet, certainly relative to my world and how we think about that going forward, pre- and post-newspaper spin. And then have you heard from the rating agencies at all yet? Thank you very much for taking the questions.

Gracia Martore - ***Gannett Co Inc - President & CEO***

Let me address those last two. We have met with the rating agencies and have reviewed with them all of what we have reviewed with all of you. And I'm sure that they will speak to it in the next few days. They were excited, I believe, by the transformation that is going on at the Gannett Company.

With respect to the capital policies and financial policies going forward of the two individual companies, those are one of the things that we will be determining over the next several months as we move towards two independent companies. As I mentioned on the publishing side, that business will be virtually debt-free. So it will have a more conservative financial structure and an ability to do things with a flexible balance sheet and strong free cash flow that perhaps many others can't.

With respect to our Digital and Broadcasting company, they will have the debt that we currently have as well as the debt we will incur for the Cars.com business, but even with that additional debt, they will -- those businesses will still be levered less than the typical leverage that broadcasting companies, for instance, carry. But we will determine and share with you more definitively those policies as we get closer to the time of spin.

Avi Steiner - ***JPMorgan - Analyst***

Appreciate the time. Thank you very much.

Gracia Martore - ***Gannett Co Inc - President & CEO***

And we all appreciate all of you joining us today on what is a fantastic day for the Gannett Company and a fantastic day for creating shareholder value. And if you have any further questions, please call Jeff Heinz at (703)854-6917. Have a great day.

Operator

Ladies and gentlemen, that concludes the call for today. You may now disconnect. [End of transcript.]