GCI - Q2 2013 Gannett Co., Inc. Earnings Conference Call
(Edited for Clarity)

JULY 22, 2013

OVERVIEW:
GCI reported 2Q13 total revenue of $1.3b, operating income, excluding special items, of approx. $229m and EPS, excluding special items, of $0.58.

CORPORATE PARTICIPANTS

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Victoria Harker *Gannett Co Inc - CFO*

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Good day, everyone. Welcome to Gannett's second quarter 2013 earnings conference call. This call is being recorded. Due to the large number of callers, we will limit you to one question or comment. We greatly appreciate your cooperation and courtesy. Our speakers for today will be Gracia Martore, President and Chief Executive Officer; and Victoria Harker, Chief Financial Officer. At this time, I would like to turn the call over to Jeff Heinz, Vice President, Investor Relations.

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

Thanks Jessica. Good morning and welcome to our earnings call and webcast. Today our President and CEO, Gracia Martore, and our CFO, Victoria Harker, will review Gannett's second quarter results. After their prepared commentary, we'll open up the call for questions. Hopefully you've had the opportunity to review this morning's press release; if you've not seen it yet, it's available at www.Gannett.com.

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. This presentation also includes certain non-GAAP financial measures. We provide a reconciliation of those measures to the 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 and CEO***

Thanks, Jeff and good morning. Let me join Jeff in welcoming you to our call. First I'm going to discuss some highlights from the quarter, including the good progress we're seeing on our strategic plan, and then recap our biggest news of the quarter, our pending acquisition of Belo Corp. And after, that I'm going to turn it over to Victoria, who is going to cover the performance of each of our business segments and some balance sheet items as well. And then, of course, we'll move on to any questions that you all might have.

Turning to the second quarter financial results, we are very pleased that earnings per share increased 4% to $0.58 per share excluding special items, especially in light of the very mixed economic backdrop and our comparisons in Broadcasting due to political spending. This growth was primarily driven by the continued success of our all-access content subscription model, very strong Company-wide Digital results and solid results in our Broadcast segment despite those political headwinds. Total revenue as you saw this morning was $1.3 billion, in line with the second quarter of last year as revenue increases in circulation and the Broadcasting and Digital segments almost completely offset a decline in advertising revenue in our Publishing segment. Expenses excluding special items were by and large unchanged in the quarter, and I am pleased to report that the impact of our cost control and efficiency efforts counterbalanced our investments in our strategic initiatives and higher expenses related to higher revenues in the Digital segment. Each of our segments remained strongly profitable as operating income from the quarter excluding special items was approximately $229 million while operating cash flow totaled $277 million.

On the all-important free cash flow metric in the quarter, it was up 23% compared to last year and totaled about $173 million. Publishing revenue was down due to lower advertising revenue as the relatively slow and mixed pace of the economic recovery and secular challenges continue to impact advertising demand even as you have seen in some of the numbers of digital-only companies that have reported. However, the decline in advertising revenues was significantly mitigated by a strong increase in circulation revenues as our all-access content subscription model continues to add new subscribers and gain traction in our local communities. As a result, circulation revenue in US community Publishing grew over 11%, and that's the fifth consecutive quarterly increase, but if I just look at the 78 locations where the all-access model is available, circulation revenue actually there was up about 13% year over year. Victoria will provide some further detail in the progress of our all-access model in a few minutes, but let me say that we are very pleased by its growth trajectory as this organic revenue growth further helps insulate us from challenges on the pure advertising front.

We continue to work on and will begin to test other opportunities to add value to our print and digital subscribers which will further enhance future circulation revenue, and we're going to have more news on this front in the fall. We continue to take steps to best position us for the future, and that includes a number of initiatives related to USA TODAY. In fact in September last year, USA TODAY Travel launched a loyalty program called The Point that is now in more than 3000 hotels, all of which are part of Hilton Worldwide's 10 distinct hotel brands. Already the program is generating 130,000 daily unique visitors. Beyond this, several other travel program partners such as Norwegian Cruise Lines and Caesars are now part of our newly launched Experience sites, which enable travelers to take advantage of discounts on travel as well as USA TODAY news and content while they are on the road. If you haven't yet experienced our Experience sites, please go to our travel portion of our www.USATODAY.com site for a great experience. Our relaunch of the tablet app further enhances the attractiveness of these programs as well as the at-home news and entertainment experience.

Another of our strategic initiatives, USA TODAY Sports Media Group, also continues to gain momentum. We've expanded our relationships with both NASCAR and the UFC in arrangements that guarantee ad spend to USA TODAY Sports Media Group. We've also strengthened our advertising relationships with the MLB, NFL, NHL, and NBA -- I don't think there are any other N's left -- as they have begun to move toward customized advertising strategies that employ multiple platforms, and USA TODAY continues to be the official newspaper of the PGA Tour and Champions Tour. These strong partnerships are a cornerstone of the Sports Media Group strategy as they provide not only advertising vehicles, but also opportunities for our partners to leverage Gannett's local and national publishing platforms as well as our broadcast stations. For example, late in the first quarter, our Sports Images group was named Preferred Photo Provider for MLS Clubs, including special event, sponsors and licensees.

Another component of their growth was the development of new digital products. This quarter, the Sports group launched a major new digital product, “For The Win”. Built as a mobile first social sharing focus product, the launch of what we call FTW was sponsored exclusively and subsequently renewed at a significant CPM and effective annual run rate. Engagement as measured by unique visitors and page views has widely exceeded internal plans thus far. We are also pleased that since our acquisition of Big League Sports last year and the roll up of all Gannett sports assets into the Sports group, we have maintained a top five audience position as measured by comScore as we continue to increase digital audience and scale and revenue opportunities.

As we've discussed in our previous calls, growing a next generation of script subscribers through USA TODAY Sports, our all-access content subscription model and our other digital products remains a key strategic focus for us. It is an area where we see significant upside opportunity as many of these next generation subscribers may not have ever read us in print and are new to Gannett, but it's about even more than simply adding subscribers. As readers tap into our digital capabilities, we gain a better understanding of their news consumption habits, and the benefits of this are twofold. Not only do we use that knowledge to help our advertisers target and engage our readers more effectively, but we also use it to improve our own offerings and invent new features and applications that best align with the needs and lifestyles of our audiences. We're currently looking at a number of different ways in which we can enrich our audience's experiences with our digital products and better leverage all of our capabilities across a full range of demographics, and you can expect to see these kinds of enhancements to our digital products over the next several months. In addition, we've completely redesigned the entire suite of mobile and desktop products to provide better consumer experiences and more higher value advertising such as video. Our sites and apps will have a more unified look and feel based on the award-winning USA TODAY mobile apps and will have consistent advertising options across properties, with advanced targeting to enable broader ad solutions.

Now let me take a moment to move to our Digital segment, where operating revenues improved by approximately 3% reflecting very solid growth at CareerBuilder. Let me briefly update you on CareerBuilder's strong position in the online employment market. It is and has been for quite some time the largest general job site in North America providing unmatched reach for employers. They maintain the largest online recruitment sales presence in North America that consults directly with employers and the latest recruitment technologies. Beyond that, they continue to add and grow select niche community employment sites that provide a customized experience that cannot be matched by general social-based recruitment platforms. In fact, they operate more than 20 niche websites globally focused on select professional communities such as healthcare, technology, oil and gas and retail, and they are increasingly delivering software- as-a-service solutions that leverage labor market data to help employers address human capital challenges.

Digital Marketing Services, an important part of our digital efforts, are in increasing demand within our local businesses, local media operations, and we are working diligently to build out solutions that we believe will further accelerate adoption. Revenue from local Digital Marketing Services is up significantly in the second quarter, increasing 90%, albeit off a modest base, and we continue to have a strong and very active pipeline. We are focused on enhancing and scaling up our Gannett Local operations and fulfillment capabilities to ensure that we are equipped to take advantage of increasing demand for Digital Marketing Services in our local communities. Now digital revenue continues, as you can see, to be a powerful contributor to our overall revenues. As you know, Gannett's digital products and services are ubiquitously provided across all platforms, not just within the Digital segment, so digital revenues Company-wide totaled over $374 million in the quarter. Again that reflects an increase of about 20%, and digital revenue contributed almost 30% of total revenues, further validating the fact that we are successfully transforming Gannett into a more highly diversified, higher margin multimedia Company.

Turning to Broadcast for a moment. Revenue grew over 3% in the quarter with growth primarily driven by substantially higher retransmission revenue and stronger core advertising. That growth was mitigated in part by lower political. Television revenues were up 9% excluding political as we projected on our first quarter earnings call.

Now I'd like to switch gears a bit and recap what was our biggest news for the quarter, our pending acquisition of Belo Corp. announced on June 13, which will both complement and accelerate our ongoing transformation. Belo folds naturally into our existing strategy and will accelerate its progress. It shifts our business mix toward our higher growth, higher margin Broadcast and digital assets. Based on simply 2012 financials, we anticipate that following the close of the transaction, Broadcast will represent more than 50% of the companies' combined total EBITDA, and together, Broadcast and Digital are expected to contribute nearly two thirds of total EBITDA.

In addition, according to a recent Gallop poll, television is the number one source of news for approximately 55% of Americans. Through our combination with Belo, we are creating a broadcast super group that will give us a significant presence with 21 stations in the top 25 markets, including stations to be serviced by Gannett through shared services or similar arrangements. And among the Big Four network TV station owners in the top 25 largest markets, Gannett and Belo combined will be the largest owner-operator in terms of number of TV stations, significantly increasing our scale with minimal overlap. And in the five markets where both Belo and Gannett already own existing operations, we are as we said restructuring ownership of the stations, and we expect to work with the new station owners through a combination of joint sales and shared service arrangements. We expect to consolidate all of the results from these stations into our overall financial results. The addition of Belo will also diversify our affiliate coverage and strengthen our positions. We will become the number one CBS affiliate group, reaching 10% of the CBS audience. We'll be the number four ABC affiliate group, reaching 6% of their audience from a very minor presence within that network, and our position as the number one NBC affiliate group will be further expanded; we will now deliver 15% of NBC's total audience.

But the Belo transaction is not just a broadcast investment; it is a strategic investment. We'll also see tremendous benefits Company-wide and will strengthen our footprint and enhance our go to market strategy overall. We'll expand our scope and geographic diversity and further maximize the investments we've made across all areas of our business, such as what I've mentioned previously, our innovative USA TODAY Sports, our newer USA TODAY Travel initiative and our transformative Digital Marketing Solutions, enabling us to introduce them in high growth, new markets like Texas and the Pacific Northwest. As you've heard today, we are already making great progress selling our digital products across more local markets and extending our recognizable brands and national scale, and we are confident that the Belo acquisition, together with the unique synergies that we bring, will bolster those efforts in a meaningful way and provide significant value while allowing us to continue to maintain our strong balance sheet and conservative financial profile. This insures that we have the flexibility to pursue additional new opportunities as they arise.

Beyond contributing to Gannett's ongoing success and profitability, the acquisition of Belo, combined with the growing strength of our strategic initiatives, will further our position as the leading local media company in the US. We're excited as you can tell about Belo and how it will accelerate our transformation into the new Gannett. Obviously the transaction is subject to regulatory and shareholder approval and customary closing conditions. The regulatory process is well under way, and at this point, we remain on track to bring it to a close by the end of the year. And on that high note, I'd like to turn it over to Victoria, who is going to provide a more detailed review of our results from our segments and update you on capital allocation activities. Victoria?

Victoria Harker *- Gannett Co Inc - CFO*

Thanks, Gracia, and good morning everyone. As Gracia's already commented, we are once again pleased with our financial results this quarter. With many of our new initiatives gaining momentum and contributing strongly to our results, we're enjoying even greater flexibility, which allows us to continue to invest in new and promising areas. Before I dive into those details, as well as specific financial performance metrics for our Broadcast, Publishing and Digital segments, I'd like to provide some additional color on a few non-recurring special items which impacted the quarter to help provide additional clarity on the true operating trends we're seeing. Our ongoing efforts to gain efficiencies and reduce costs generated $35.7 million of non-recurring expense during the quarter in workforce restructuring and transformation costs, netting $21.5 million after tax or $0.10 per share. Workforce restructuring costs totaled $21.7 million, $13 million after tax or $0.06 per share. Transformation costs were $14 million, $8.4 million after tax or $0.04 per share.

You'll note that in our Press Release, we have provided a GAAP to non-GAAP reconciliation of these drivers to help provide additional context for the non-recurring impact of these costs and to give you greater insight into our ongoing business trends. Now in order to address those trends, let's turn to our business segment results, beginning with our Publishing segment. Once again this quarter, our all-access content subscription model provided notable momentum and strong financial returns during the quarter. Against this backdrop, however, the continued softness in macroeconomic trends caused advertising revenues to decline by about 5% again during the quarter. Despite this, total circulation revenue gains of 6% nearly fully offset these declines, demonstrating the growing strength of the investments we've made in our Publishing segment. As a result, Publishing segment revenues were just 2% lower for the quarter on a year-over-year basis.

As Gracia already noted, we continue to see diminished advertising demand due to lagging economies in the US and particularly in the UK, as well as secular challenges. However, within our domestic operations, national advertising was 2% better than the second quarter last year driven in part by USA TODAY. Importantly, year over year comparisons for the second quarter were significantly better than for the first quarter comparison by about 7 percentage points. Additionally, comparisons for all of the major domestic classified advertising categories -- Auto, Employment, and Real Estate -- were better than first quarter comparisons. Circulation revenue at our local domestic publishing operations grew each of the last five quarters up approximately 11.5% over last year, further demonstrating that our strategic transformation to a more highly diversified multi-media Company is well under way.

In the Broadcasting segment, operating revenues were up over 3%, driven by a 62% increase in retransmission revenues as well as growth in core advertising which benefited from demand for automotive and media advertising. Television revenues were up $7 million to $205 million, an increase of 4%. Adjusting for the nearly $10 million of political ad spending during the same quarter last year, television revenues would have been over 9% higher. More specifically on this point, looking to the third quarter, we face a year over year revenue comparison which includes $79 million of Olympic and political ad spending, including $4 million of political spending that aired during the Olympics counting in both categories. Based on current trends, we project a mid-teens percentage decrease in total television revenues in the third quarter of this year compared to the same quarter in 2012, given the strength of political campaign and Olympic advertising spending last year. Excluding the incremental impact of Olympic and political ad spending, we expect the percentage increase in total television revenues in the third quarter this year compared to the third quarter last year to be in the mid-teens. We expect that a large portion of that growth will be in retransmission revenue, which we expect to be roughly in line with second quarter of this year.

Moving on to Digital results. Digital revenues Company-wide were buoyed again this quarter by the ongoing success of the all-access content subscription model as well as our Digital Marketing solutions offerings. Digital revenues in the Publishing segment were up approximately $57 million, nearly 50% growth year over year. Digging into this a bit deeper, local domestic publishing Digital revenues were up 57%. USA TODAY and its associated businesses also achieved strong Digital growth as a result of the iPad and iPhone relaunches, driving their Digital results up 24%. Likewise, Newsquest Digital revenues were also up 8%, in pounds.

Before we turn to a review of expenses for the quarter, I'll provide a quick update on the all-access content subscription model in a bit more detail. As I noted earlier, the model drove a substantial increase in circulation revenues again this quarter as it continued to garner customer attention in our local Publishing markets. Given we are now through the first anniversary of the 2012 launch in many of our Publishing sites, we have already begun the relaunch of our local digital platforms, starting with the debut of a new iPad app for the Democrat and Chronicle in Rochester in order to insure that our customers are continuing to get fresh, relevant content on the most convenient platforms they choose. The relaunch of our mobile and desktop products will continue to improve the user experience and create higher value advertising opportunities for our clients with even greater scale. We expect the relaunch of our top 35 markets to be largely completed by year's end.

In addition, we continue to expand our digital marketing capabilities to drive subscription sales, including several successful Facebook and Google customer campaigns. As a testament to the appeal of those products to a wide variety of customers, we've added about 6,000 new digital-only subscribers as a result of the rollout of our college digital subscription program earlier this year. The very first schools we approached about this opportunity, Florida State University in Tallahassee and the University of Cincinnati, are now providing digital subscriptions to their students and faculty. As a result, we now have 65,000 digital-only subscribers and even more significantly, 1.3 million subscribers or nearly half of our total customer base have now activated their digital access. This is a key take-away for us as it further corroborates our earlier projections. This level of engagement not only indicates that our content has value for our loyal customers, but also paves the way for us to achieve the approximately $80 million incremental operating income we expect from the model this year.

Now turning to costs and our efficiency-related efforts, both Company-wide and at the segment level. For the quarter, total Company expenses were in line with revenue, with total non-GAAP operating expenses basically unchanged compared to last year. As a subset of this, corporate expenses were $2.3 million higher on a non-GAAP basis, reflecting increased stock compensation as well as unfavorable year-over-year comparative due to a small asset sales gain during the second quarter of last year. Publishing segment non-GAAP operating expenses, excluding special items but including initiative investments, were down over 1% compared to the second quarter last year. One note here, prior year Publishing expenses were impacted by $5.3 million in furlough savings which did not recur again this year.

In the Digital segment, expenses were up about 4%, reflecting impact of higher expenses at CareerBuilder. As CareerBuilder rolls out more of its products and extends its geographic reach over the course of this year, we expect somewhat higher expenses associated with those products and branding launches. This is somewhat off-cycle to the branding spending that would typically have occurred primarily in the first quarter of the year. In addition, three small acquisitions also impacted CareerBuilder's expenses during the quarter, reflecting investments in future revenue and profit growth.

Within the Broadcast segment, a 3% increase in operating expenses reflects higher costs associated with strategic initiatives including investments and digital development ad sales tools as well as support of their higher revenues overall. Total new initiative investment during the quarter was approximately $11 million for digital product deployments in the Publishing and Broadcast segments. As I mentioned earlier, beyond this, an additional $15 million is spent within all of the segments for ongoing support of base customers for Training, Marketing and Customer Service. These investments are as planned, and their results are tracking well.

In terms of profitability, each of our segments drove solid operating cash flow in the second quarter. As Gracia noted, operating cash flow for the quarter in total was $277 million. Operating cash flows from the Broadcast and Digital segments were approximately $105 million and $45 million respectively, representing more than 50% of our operating cash flow and just over 30% of our revenue base. Operating cash flow in the Publishing segment totaled $138 million for the quarter. Free cash flow of $173 million in the quarter was strongly higher by 23% compared to the second quarter of last year, driven primarily by lower pension contributions this quarter.

Now turning to our capital allocation results and priorities during the quarter. As Gracia already touched on earlier, in conjunction with the announcement of our intent to acquire Belo, we announced we would continue our existing annual dividend payment program. At the same time, we also announced that we would extend our share buyback program, replacing our existing remaining authorization with a new $300 million authorization expected to be carried out over the next two years. As you might surmise, we did not have the opportunity to repurchase a significant volume of shares during the second quarter due to the Belo transaction. As a result, we acquired just over 400,000 shares during the quarter for $8.6 million, bringing the year-to-date repurchase volume to 2.1 million shares or $41.4 million. Beyond this, our dividend paid out approximately $46 million in the quarter with fully $92 million paid out to shareholders to date. Total debt outstanding at the end of the quarter was $1.36 billion as we reduced our debt by $92 million in the second quarter.

Capital expenditures in the second quarter were approximately $33 million with $49 million spent year-to-date. As we've noted in the past, a significant and growing portion of our 2013 $110 million capital budget is being invested in digital products and platform development Company-wide, and the second quarter was no different. As you know, one of Gannett's guiding tenets has been and continues to be our longstanding commitment to a strong balance sheet and a disciplined approach to the allocation of our capital. As a result of the strong operating and financial results discussed here today, we continue to have the flexibility to pursue investments including bolt-on acquisitions that will help propel our transformation efforts forward even more quickly, assuming they make strategic and financial sense for the Company. With that, let me turn the call back over to Gracia for some final thoughts before we take your questions.

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

Thanks very much, Victoria. As I've said before although our strategy is already delivering powerful results to both our top and bottom line, it was never meant to be a quick or immediate fix. Our transformation plan is a complex and multi-faceted process, and we do not expect linear growth each quarter. But what we do want to see is continued progress, and we have successfully achieved that since the implementation of our strategic plan last year -- in fact, accelerated it -- and we're not stopping there. We continue to work behind the scenes on opportunities and further innovating our offerings so that we can best compete in the digital age, and you can expect much more to come from us in the months and quarters ahead.

Now, we would like to open it up for questions. We'll turn it back to the Operator.

QUESTION AND ANSWER

Operator

Thank you.

(Operator Instructions)

We'll go first to John Janedis with UBS.

John Janedis *- UBS - Analyst*

Thank you, good morning. Gracia, can you talk a little about what you're seeing in TV. There's obviously a lot of movement in political and Olympics, but can you just cut through it for us and tell us what you're seeing among the top categories, and are you seeing much from Obamacare awareness spend?

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

That's a great question, John, and thanks for it. Just to recap the numbers, we are blessed with the fact that in 2012, we over-achieved and generated about $75 million of political and Olympic revenues. Then the next year, you have to compare against that. But you know what, I'll take that over-achievement every time. But if you set aside those high margin dollars and exclude it, we're actually looking at, I think in our guidance we said, total television revenues up in the mid-teens.

What we are seeing is continued strength in auto, and you've actually hit on something very interesting on the Obamacare side. Dave Lougee is also here with me and I'll ask him to pipe in here in a moment. We are actually very focused on that, and we see that as potentially a big opportunity for us in the coming quarters as more spending has to take place around the various exchanges and other issues surrounding healthcare, but Dave, do you want to jump in on that?

Dave Lougee - ***Gannett Co Inc - President, Gannett Broadcasting***

Yes, I will. Good question on Obamacare, because as the exchanges come to market and it's going to be a state by state situation, a bigger opportunity to others, but there is clearly some tremendous media buys and frankly opportunities for business development on the part of our stations. It would appear to be beginning in the fourth quarter, really looks like it's going to start being an October event. I'm not sure we're going to see much of it in September.

And also just to add-on to your question about core billing, which it's always difficult as Gracia said on the apples-to-apples side, but we think actually September is going to finish stronger than the quarter has started. And frankly when we look at our local revenues, if you go back to 2011 and where we think we're going to estimate right now just on the local side is we'll probably finish almost 10% over 2011 in local core revenues.

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

And then lastly on obviously the retrans side, we had another great quarter. That's kind of an annuity-like thing, and that will obviously continue until the end of the year when we have another opportunity at one of our major cable or satellite MSOs to have another conversation with them to further align value with what we provide.

John Janedis - ***UBS - Analyst***

Thanks, Gracia. On a different note, on national advertising and print, I think it was your best quarter in about three years, and I'm wondering is there anything to call out there, and if you view that as a potential leading indicator for the segment in terms of broader advertising?

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

I think there are a couple things to call out there. I think the strong team that we've put in place over last year at USA TODAY where obviously the vast majority of our national Publishing revenue resides, I think is just doing a terrific job in really presenting the value that USA TODAY brings across all platforms, but especially the continuing value of our print product there. So we feel very good about the progress we've made on the national front. Obviously we'll have to see.

There's going to be a lot of things that are frankly impacted by -- what does second half of the year and beyond look like from an economy standpoint, and there's a lot of question marks around whether the Fed will tighten, not tighten, what healthcare costs will look like. And the psychology frankly of CEOs of companies and how they feel about spending is going to be -- especially at the national level --is going to have an important impact on things. But I feel extremely pleased with the good progress that USA TODAY is making and the team that we have in place there to lead even further innovation and further opportunities both on the print as well as even as importantly the digital side.

John Janedis - ***UBS - Analyst***

Thank you very much.

Operator

We'll go next to William Bird from Lazard.

William Bird - ***Lazard Capital Markets - Analyst***

Gracia, on the all-access plan, is your goal still 250,000 to 300,000 paying digital subs by year-end, and along the same lines, what needs to happen to hit the target?

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

Yes, I think we ended the second quarter around the 65,000 level or so. We also have obviously -- there's 11,000 subscribers that started as digital only that we fortunately were able to also participate in a home delivery as well, so they are no longer digital-only subscribers. I think as I alluded to in my remarks, there's a number of things frankly that we are working on in terms of enhancements, additional digital platforms and potentially fairly exciting add to the consumer experience by blending some assets that Gannett is uniquely positioned to do. I can't say more about that, but that's something, as I alluded to in my remarks, that we're going to be looking at very, very carefully over the next few months and expect to have some news on probably in the late fall. So while we continue to be very focused on new digital subscribers, really pleased with the beginnings of some of the new college programs that we're bringing on and expect to see more of that. We're focused more on the totality of the effort.

The other thing I'd say, Bill, because I think sometimes folks compare apples to oranges vis-a-vis the numbers, I think the New York Times has done just a fabulous job on their strategy and what they've done. And they talk about 700,000 paying digital subscribers. And we've got a couple metrics, and the one think is the most comparable to that 700,000 is the one that Victoria shared, which is that we have 1.3 million all-access subscribers that have activated their digital part of their subscription that they are obviously paying. So the apples-to-apples number with the New York Times, several hundred thousand, which is phenomenal, is 1.3 million for us. We then added that additional metric of simply brand new digital-only subs, an important additional metric. But we focus on the totality of it, we focus on that 1.3 million that have activated, and frankly that's right on track with what we had planned, and we expect that number to continue to grow over the next few quarters.

William Bird - ***Lazard Capital Markets - Analyst***

Separately, you mentioned some successes with the Digital Marketing Services program. Could you give us a sense of what the approximate annual revenue run rate is?

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

I think that's a work in progress. I don't want to be too specific at this point other than to say it is achieving the kind of growth rates that we all hope for. I think the most important thing to focus there on is the fact that we are seeing even more demand than we thought we were going to see when we started that program or launched that initiative back in February of 2012. Saw another 90% growth rate on the local side of our Digital Marketing Services business. So what I can tell you is that we are nicely on track, if ahead of track of what we expect. I don't want to get into the quarterly focus on numbers because I think we have too much of that. Suffice it to say we are well along on the path of growth, and with the addition of the Belo sites particularly where there are literally millions of small and medium sized businesses, this is an initiative that I believe ultimately will be another stool for the Gannett Company's revenue growth and revenue prospects.

William Bird - ***Lazard Capital Markets - Analyst***

Great, thank you.

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

Thank you, Bill.

Operator

We'll go next to Alexia Quadrani with JP Morgan.

Alexia Quadrani *- JPMorgan Chase & Co. - Analyst*

Hi, thank you. With your earlier comment, Gracia, on the strength of the USA TODAY on the national side, the print national side, was there any one category driving that, or was it just really an improvement across-the-board? And then just maybe a general comment if you have any across all your US Publishing businesses of anything you're seeing in terms of advertising trends in July. Thank you.

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

Yes, on the category side at USA TODAY in the second quarter, it was nicely distributed across a lot of categories. But I would pull a mention of entertainment, which is now our largest category which is up nicely, technology spend up dramatically, packaged goods, financial, travel, retail, pharmaceutical, so it was really a very broad mix of categories, which actually pleases us even more to see the breadth of the penetration across all of the categories. As to sort of the outlook for next quarter, as we mentioned on the broadcast side, we unfortunately have the comparison against the phenomenal results we had last year in Olympics and political, but we've got a nice up lift obviously on the retrans side, and core as we mentioned also is showing nice momentum. So setting aside a tough comparison, but I'll take that comparison every day of the year. Broadcast is plugging along and performing very well.

On US community Publishing, I think that what we're looking at is probably in line with what we saw in the first quarter -- excuse me, the second quarter. Newsquest, I think their top line results and bottom line results will be better in the third quarter, but they still have the drag on the currency side. As you know, the British pound has not performed with a lot of strength against the US dollar and that will intensify again in the third quarter when we go up against a tougher currency rate. And on the digital side, CareerBuilder looks like their strong performance will continue again in the third quarter despite a pretty anemic jobs environment, but I think that their new product innovation, some of the things I mentioned like the niche sites they are doing are providing them with strong growth plus continuing to take market share. So I'd say it's a mix of different businesses, but positive direction.

Alexia Quadrani *- JPMorgan Chase & Co. - Analyst*

And one follow-up, Gracia, if I may. You have a lot of new and positive changes going on with the Company in the US. Do you find being involved in the Publishing business in the UK sort of core to your outlook? Any color you can provide on that.

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

I think the Management team at Newsquest has done just a terrific job given as Victoria mentioned an even more difficult economic backdrop, although I guess the Royal Baby is causing retail sales to escalate today, or potential royal baby. They've just done a terrific job in what is a much, much more difficult economic back drop. So with any kind of improvement in the economy there and the initiatives that they have -- they've hired a lot of additional digital sales resources. We're seeing some traction as a result of that on the digital side, very nicely, and as a result of the strong job that they always do on the expense side, Newsquest is a good business. We just need a little bit of help on the economy there to help us really realize the full potential of that business.

Alexia Quadrani *- JPMorgan Chase & Co. - Analyst*

Thank you very much.

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

Thanks, Alexia.

Operator

And we'll go next to Michael Kupinski with Noble Financial.

Michael Kupinski *- Noble Financial Group - Analyst*

Thanks for taking the question. Just to follow-up on Alexia's questions on the Publishing side, if you were to take out the numbers particularly on the currency exchanges and so forth, would we still see the sequential decline in this paper advertising from the first quarter? And if you can talk a little bit about it obviously the economic picture has kind of brightened a little bit, particularly in Real Estate and so forth in some key markets, was wondering if we are seeing any pushback in terms of advertising results about maybe the all-access strategy or maybe the circulation declines. If you can just talk about what you're hearing from advertisers on the Publishing side.

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

Yes, let me take the first part of that question, and Victoria, jump in as appropriate. If I'm reading my numbers correctly, if you -- across all of Publishing, we saw a slight down tic from a comparison standpoint in the second quarter. But if I exclude Newsquest -- I just simply exclude Newsquest, so forget currency, forget everything, just excluding Newsquest -- actually we would have seen a sequential improvement in Publishing, advertising quarter-to-quarter, so you've hit on a very good point. The combination of a tougher economy as well as the currency lag has really impacted the Newsquest side of the equation, but on the domestic side, we continue to make good progress.

Victoria Harker *- Gannett Co Inc - CFO*

And, in part, that was driven by the all-access content subscription model all but offset the softness from an advertising standpoint. So excluding Newsquest, we would have been better then, and I think that's an important metric and it shows the momentum we're getting out of all-access content subscription model even as we cycle through the first year.

Michael Kupinski *- Noble Financial Group - Analyst*

Great. Thanks for fleshing that out. I appreciate it. That's all I have.

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

Okay thanks a lot.

Operator

We'll go next to Craig Huber with Huber Research Partners.

Craig Huber *- Huber Research Partners - Analyst*

Good morning. Thanks for taking the questions. I have three quick housekeeping questions and a strategic question, Gracia. First for daily and Sunday US local news, what was the percent change for daily and Sunday circulation volume year-over-year in the quarter please?

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

Yes, off the top of my head, and Victoria, correct me if I'm wrong, I think daily was down a little over 8% and Sunday was down about 3%.

Victoria Harker *- Gannett Co Inc - CFO*

A little bit over.

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

Okay, secondly, what are you guys doing on the USA TODAY circulation pricing front?

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

Right at the moment, we're obviously looking at a lot of things. As I alluded to in my remarks, there are opportunities for us to provide some unique customer experiences combining the content around the Company, so that's something that we are looking at, but in the context of some other initiatives that we can probably talk more about later in the fall.

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

And the newspaper cost side for newsprint, what was the percent change for news print pricing as well as the volume change, and what was the overall cost change for news print for the whole Company for the quarter please?

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

We were down in terms of -- the components were about 9% and 6%, so about 15% overall, the usage being the greatest driver of that.

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

And then lastly if I could, given this Belo acquisition transformational acquisition you guys announced, have you guys given much thought at the Board level for management thought to spinning off your Publishing at some point down the road?

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

I think most of the focus right at the moment is the successful integration of the terrific new acquisition, Belo Corp. That will take some time and energy and opportunity to realize the unique synergies that we bring to the table vis-a-vis that transaction. But at the same time as we've said, we have a lot of flexibility on our balance sheet to do some other things, so we'll also focus on other opportunities. Gannett is committed to increasing shareholder value in the medium to long term. We always at the Board level are looking every time we meet and in between meetings, we are looking at opportunities to increase shareholder value. We never rule anything out, but our focus right now is a transaction that has created a lot of value for the Company and will create even more into the future, so we're focused on that in the short-term to have a successful integration.

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

If I could just sneak one more in please, what was the percent change for auto advertising for TV in the quarter please?

Dave Lougee – President, Gannett Broadcasting

I'll take that one, Craig. It was actually up about 8%.

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

Great, thank you.

Operator

We'll go next to Doug Arthur with Evercore.

Doug Arthur *- Evercore Partners - Analyst*

Yes, Victoria, I think you started to answer this a couple questions ago, but can you deconstruct the 6% increase in total circulation in the Publishing sector versus 11.4% for the local community paper, so can you fill in that gap? I assume most of that's Newsquest.

And then I'm wondering on the digital side, you've had four great quarters in a row on the margin side. You mentioned the higher cost for acquisitions and new products for CareerBuilder. Should we expect margins in digital year-over-year now in the second half to be flat to down? Thanks.

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

Let me take the last question first while Victoria's looking at a couple of notes on the digital, on CareerBuilder. As you may recall, traditionally CareerBuilder and a lot of their Marketing and promotion dollars and particularly tied to the Super Bowl in the first quarter of the year. They did not participate in the Super Bowl this year, and in fact, I think that their spending and promotional and Marketing is going to be more staggered through the course of the year, which is different than it was last year and prior years. So if you combine the first and second quarters for CareerBuilder, what you would see is that their bottom line is up in the double digits, and margins are very strong. So I think it's just a different factor that occurred between the first and second quarters which is dramatically different.

Now we'll also have promotional spend on a more consistent basis into the third and fourth quarters unlike last year, but we expect that CareerBuilder will have a strong quarter in the third quarter again. But you sort of have to blend the first two quarters together to really have a full picture, and that picture is a very good one.

Victoria Harker *- Gannett Co Inc - CFO*

Yes, I think just to further flesh out that point, some of the acquisitions that they have done obviously are compressing their margins right now because they haven't yet started to see the growth that they have expected by way of those acquisitions. Three of them actually impacted their expenses during this quarter as well. I think in terms of your previous question, the local domestic circ revenue being up about 11%, you were asking for the composition of the drivers relative to that?

Doug Arthur *- Evercore Partners - Analyst*

Well I'm trying to get a sense -- you're saying 11.4% at local community papers, but it was 6% overall, so I'm assuming that the logical gap is USA TODAY and Newsquest, and I'm just wondering if you can spell that out a little bit.

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

Yes, I think that's absolutely right, Doug. Let me just say on the USA TODAY circulation front, and then Victoria will chime in here, that as we mentioned with Hilton, we are managing the transition there. I mentioned The Point where we are now obviously as we look at the travel space and hotels, we observed the behaviors of consumers, and clearly many more of them want to see USA TODAY on their iPad or their Smartphone. And so we put together a digital portal for Hilton for about 3,000 hotels called The Point. We have a number I think I mentioned about 130,000 or so folks that -- daily who are looking at that site. And so we're managing down the print delivery, for instance at a Hilton, as we transition to more focus on our digital delivery of news and information.

So I think you'll see that the print will continue to decline, but will be continuing to pick that up, and we are paid for that not as a circulation number, but as a specific cost for the portal and the number of rooms that we serve, etc. So it's not a traditional all circulation number that you will see there, but Victoria, you have more detail.

Victoria Harker *- Gannett Co Inc - CFO*

I think to Gracia's point on that, we're actually -- as we're traversing some of those partnership programs, the circ number doesn't exactly belie the revenue and operating income benefit we're getting from the pricing from some of those programs. But in terms of the decomposition, the 6% total Company-wide, as we've mentioned obviously almost 11.5% up for USCP, down about 11% relative to the USA TODAY across the groups and down about 1.1% for Newsquest overall.

Doug Arthur *- Evercore Partners - Analyst*

Okay, thank you.

Operator

We'll go next to Jim Goss with Barrington Research.

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

Thanks. A couple on the Broadcasting area, Gracia. I think you alluded to an interest in additional broadcast properties. Did I read that correctly, and do you have somewhat of a parallel focus in integrating Belo and possibly also looking around at what else might be additive, and do you have certain limitations because of the 39% rule? I assume that's still intact because of your heavy focus on VHF network affiliates.

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

I think Jim, what I was alluding to is the fact that number one, we have even with the Belo transaction an incredibly strong balance sheet, and this just actually enhances our cash flow generation and actually strengthens our balance sheet, so we have a lot of flexibility. We are not just focused on broadcast. We are focused on any opportunity that will provide us with higher margin, higher growth businesses at the right price, obviously that's always a constraint. As to the 39% cap, we will be about -- on a reported basis about 30% with the addition of Belo, but there's a difference between the way you count UHF versus VHF, so for FCC purposes, Dave, we're 23% to 24%?

Dave Lougee *- Gannett Co Inc - President, Gannett Broadcasting*

That's right, 23% to 24%.

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

So we have plenty of room if we were to see other opportunities on the Broadcast side that would not be a gating factor, but I just want to be perfectly clear. We're looking at a variety of different opportunities not all-in the Broadcast arena that fit the description of good businesses with high margins and high growth characteristics.

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

Okay, another area, thank you for that. Another area I want to talk about is that Aereo activity of Barry Diller, how do you view it as an operator but not a network owner in terms of impact on your business? Is it good for reach but bad for retransmission discussions? It seems to be inserting itself into the CBS/Time Warner Cable discussions apparently from some reports.

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

Well let me start, and I know Dave will want to add. First of all, Aereo has a very, very, very small number of subscribers at this point, barely a blip on the screen, so we'll start with that. So its impact right now is obviously extraordinarily inconsequential, but what I would say is that as a content creator, we philosophically believe the content creators should be compensated for the use of their content. That's what retransmission revenues and fees are all about, us being fairly compensated for the content that we provide. And we're not directly involved, but clearly on the West Coast, the trial courts there have taken quite a different picture of this and a different attitude and result than the New York courts have taken thus far. We believe that the courts are ultimately going to conclude that Aereo must compensate broadcasters before it can retransmit over-the-air Broadcast programming to its subscribers. That's just a fundamental tenet of copyright laws and content and everything else. Dave I don't know if you want to add anything?

Dave Lougee *- Gannett Co Inc - President, Gannett Broadcasting*

I think you said it well.

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

And finally, Tribune's move, somewhat mirrored your move. How are you viewing that either in terms of your broadcast strategy or as a partner in CareerBuilder classified ventures?

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

Obviously on the CareerBuilder side, we are the majority owner and have control of that partnership. We are good partners with Tribune and with McClatchy in that partnership. What Tribune decides it does or doesn't want to do with their stake, that's something that they will have to share with all of us, on classified ventures there are obviously a number of partners. All of us have -- when we first started, I think all of us had aligned interests going forward. I think some of that alignment perhaps has changed over the course of the years as different folks have gone in different directions with their business strategies, and that's something that we all have to look at and think about through the lens of what our business strategies are, and we'll see how that all plays out here.

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

Okay, thanks very much.

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

I think we have time for one more question, we don't want to impose on everyone's time.

Operator

Yes, we'll go last to Edward Atorino with Benchmark.

Edward Atorino - ***The Benchmark Company - Analyst***

Hi. In the text it shows a relatively small increase in digital, is it 3% or something like that?

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

Yes.

Edward Atorino - ***The Benchmark Company - Analyst***

And in the other part of the text, it shows an 18% increase. What am I missing?

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

Okay, in the 3%, that is purely the Digital segment, and the Digital segment really only has in it 100% of CareerBuilder, although then we have to take out the part we don't own in the -- what we used to call minority interest line at the bottom. It includes PointRoll, ShopLocal and a couple of other small businesses. When we refer to all Digital revenues Company-wide, for instance in Dave's broadcast division, they generate a lot of local Digital revenues, in Bob Dickey's local Publishing markets we generate a huge amount of Digital revenue similarly with Newsquest, similarly with other businesses. So what we do is we then look at all of those Digital revenues across the Company and combine them, so that's the difference between the two. One is segment, one is the total Company all Digital revenues.

Edward Atorino - ***The Benchmark Company - Analyst***

So some chunk of that digital isn't doing too well? I mean if one is up 18% and one is up 3%, something has to be going down.

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

The Digital segment on a standalone basis obviously has a much bigger base, so it's not growing as nearly at the high double digit teens as does some of the smaller businesses which are able to grow much more quickly as well as the overlay businesses that we sell Digital into. So that has a much smaller base to grow from, and on a percentage basis all-in, USCP when they are selling the all content subscription model is generating a very fast growth rate on top of its base because it just launched a year ago. CareerBuilder is growing from a much larger base, but it has been in existence for quite a long time.

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

But a very nice growth rate as well.

Edward Atorino - ***The Benchmark Company - Analyst***

Is the $186 million and the $374 million? Operating revenue digital?

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

Yes. One number is purely the Digital segment. Those businesses I mentioned CareerBuilder, PointRoll, ShopLocal, the bigger $374 million number includes all of those businesses plus Digital and Broadcast, so Digital Marketing Services, USA TODAY, local banner ads that are being sold in our local properties, etc. So the $186 million segment is a subset of that total $374 million.

Edward Atorino - ***The Benchmark Company - Analyst***

Good.

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

Thanks very much Ed. Thanks very much for joining us. If you have any other questions, I know that Jeff Heinz would be delighted to take them. He can be reached at 703-854-6917. Have a great day.

Operator

This does conclude today's conference. Thank you for your participation.