GCI - Q3 2013 Gannett Co., Inc. Earnings Conference Call

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(EDITED FOR CLARITY)

OVERVIEW:

Gannett announced 3Q13 revenue of $1.25b and EPS excluding special items of $0.43.

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PRESENTATION

Operator

Good day everyone, and welcome to Gannett's Third-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 speaker 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. Please go ahead.

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

Thanks, Tim. 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 third-quarter results. After their prepared commentary, we will open up the call for questions. Hopefully, you have you had an opportunity to review this morning's press release. If you have not seen it yet, it's available at Gannett.com.

Before we get started, I would like to remind that 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 have provided reconciliations of those measures to the most directly comparable GAAP measures in the press release and on our Investor Relations portion of our web site. With that, let me turn the call over to Gracia.

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

Thanks Jeff, and good morning, everyone. Let me join Jeff in welcoming you to our call. Today I am going to discuss our overall results, as well as some important developments during the quarter. After that, I'm going to turn the call over to Victoria, who will cover the performance of each of our segments and some balance sheet items. Then we will move on to any questions you might have about the quarter.

Before we get started, I want to remind everyone that last year's third quarter was unique, in that we benefited from strong summer Olympics advertising, a record level of political ad spending, and in addition, the significant ramp up of our content subscription model. Against that backdrop, we are pleased to report we have a strong third quarter this year, with $1.25 billion in total revenue, down less than 4% versus last year, despite these very difficult comparisons. But more importantly, if you exclude the cyclical impact of Olympic and political spending, company-wide revenue overall would actually have been flat, and Broadcasting revenues would have been up almost 14%. In addition, we are also happy to report that Digital Segment revenues increased over 5%, and company-wide digital revenues totaled more than $376 million, an increase of 12% year over year. Digital revenues represented approximately 30% of our overall revenue, the highest contribution ever from digital, yet another indicator that our strategy to transform Gannett and position it for growth and success in the digital age is working.

Now we continue to invest in our strategic initiatives during the quarter, with those investments totaling just under $10 million. At the same time, we also moderated our overall expenses. Excluding special items, expenses were 1% lower, primarily the result of our continued cost-control efforts in Publishing, and lower sales costs in Broadcasting. As a result, we reported earnings per share excluding special items of $0.43, and each of our segments remained strongly profitable during the quarter. Operating income excluding special items was approximately $187 million, while operating cash flow totaled $233 million.

Turning to Publishing, our Content Subscription Model passed the one-year mark at 69 of the 78 local domestic publishing sites, which significantly narrowed the year over year benefits in overall circulation revenue. However, in US Community Publishing, we saw circulation revenue gains for the sixth straight quarter, proving that when we listen to our customers and deliver the content they want across the devices they use most, we greatly enhance subscription value, and increase our overall price leverage. Similar work, by the way, was recently done at Newsquest in the UK, where we completed market research and field testing to determine how to best reposition our publications for our readers. It turned out that readers wanted increased pagination, and we delivered, resulting in cover-price increases across the portfolio that boosted circulation revenue by 10% in the quarter in local currency. Another key benefit of the All Access Content Subscription Model is that it gives us multiple in-roads to our readers, which enables us to gain valuable feedback on what they like, what they don't, and how we can make their experiences better. As a result, we continue to work relentlessly to refine and evolve our content packages, and to test new and innovative ideas in our local markets.

Based on feedback we have received from our readers, as well as significant market research, earlier this month we launched an exciting pilot in four of our markets – Indianapolis, Ind.; Rochester, N.Y.; Appleton, Wis.; and Fort Myers, Fla. The pilots center on Gannett's unique ability to generate and distribute national content that our readers crave, while enhancing our ever-important local hometown coverage that is essential to their daily lives. In these four markets, a new section featuring USA TODAY news, business, sports, lifestyle, and entertainment content is now included in the local newspaper print and E-editions. We believe, and more importantly, readers are telling us that the addition of USA TODAY'S robust national report delivers great subscriber value. At the same time, it allows reporters and editors in those communities to focus on delivering more of what they do so well -- deep, high-quality, local coverage.

Through this pilot program, we are offering readers something they can't get anywhere else, as no other media organization can deliver as complete a daily news report, leveraging strictly its own reporting assets. On average the integration has resulted in the addition of as many as 70 pages of content per week in these markets' print editions and E-newspapers. Now, it's been just two full weeks since we launched the pilots, and though it is still very early, the pilots have been met with great enthusiasm by our customers. I believe a call our Fort Myers folks received summarizes well the response so far. The reader said after reading the new combined paper, cover to cover by the way, she couldn't think of anything else we could have done to make the news press more interesting, or more valuable to her. As we get further along in the process, and can gauge and assess comprehensive results, we will look at the possibility of extending the program into additional select markets.

Sharing our rich content across multiple platforms and businesses is just one area in which Gannett has differentiated itself. We are also making major investments in our digital marketing services, which we recently rebranded as G/O Digital. G/O Digital works with clients to develop and execute customized multifaceted programs to solve their unique and continually evolving digital marketing needs in a way that is unparalleled in the marketplace. G/O Digital comprises our full suite of digital marketing services, including marketing leaders such as ShopLocal, KeyRing, DealChicken, and BLiNQ, and puts them to work in an integrated complementary way to transform local marketing and connect advertisers with local consumers.

One example of how G/O Digital is helping our advertisers extend their reach and connect with more consumers across multiple platforms is our recent work with Staples, the world's largest office products company, and second-largest Internet retailer. Staples was looking for a custom marketing campaign with localized messaging, which would speak to customers across all platforms. We put our full suite of digital offerings to work, and the results initially were very significant. In-store traffic and sales increased, exceeding Staples' goals, and validating the need for and benefit of Gannett's G/O Digital services. We believe that with the investments we are making in G/O Digital, combined with our long-standing relationships with literally thousands of small- and medium-sized businesses, there will be very few, if any, media companies with the level of local connection that Gannett has.

In addition, our pending acquisition of Belo, expected to close in the next few months, will broaden our footprint and open up several strong and growing markets. Our goal is to begin selling our digital marketing services products in Belo markets as soon as the transaction closes, and we are taking steps to ensure that we are ready to deploy the sales and sales support infrastructure to meet the increased demand that we are anticipating. This quarter, revenue from G/O Digital, which was formerly called Digital Marketing Services, was up 70%, result of gains in paid search and social and e-mail offerings products. G/O Digital also received some pretty nice recognition during the quarter. Reflecting the deep commitment and expertise G/O Digital provides to its small- and medium-sized business clients, it was named to Google AdWords premiere SMB partner program, a select program offered to a small number of Google partners worldwide.

At BLiNQ Media, a component of G/O Digital, they won Facebook's Preferred Market Developer Innovation Award for their LocalLiFT offering, an innovative social local product for retailers and brands that combines BLiNQ's best-in-class social media advertising capabilities with shop locals on parallel contents. Simply put, it allows brands and retailers to achieve local marketing at scale. LocalLiFT beat out more than 260 preferred marketing developers in 45 different countries who were invited by Facebook to participate. That is strong recognition from the number one player in the social ecosystem, and it was a unique solution that resulted from a combination of our assets. Clearly, this reinforces the fact that our strategy to differentiate BLiNQ Media, as well as G/O Digital, as leaders is working.

Now, let me move on to Broadcasting. As I noted earlier, 2012 was a record year for revenues, making the comps, as always, tough in the second half of the odd year. The 2012 third quarter benefited from $37 million in ad spending for the Summer Olympic Games, and a record $42 million in political spending. As a result, total television revenues declined 14% in the quarter, which is obviously something we had anticipated. However, excluding the net impact of political and Olympic spending, total television revenues were up almost 14% -- also in line with our expectations and our guidance, driven in part by significantly higher re-trans revenue, as well as a 21% increase in digital revenues, and core support as well.

We also have a number of reasons to be very enthusiastic about our Broadcasting Segment as we look toward next year. We are well-positioned for both the Winter Olympic Games in Sochi, and for what is sure to be another very strong year for political spending. In addition, spending associated with Obamacare and health care awareness is expected to ramp up into 2014, but it is a bit early to really make meaningful projections. Of course, our pending acquisition of Belo only adds to our optimism for a very strong 2014.

Let me turn to our Digital Segment, where an increase of over 5% in revenues was driven primarily by solid results at CareerBuilder. In addition to expanding the reach of its job posting business globally, CareerBuilder is focused on aggressively building out its talent management software. It also sold more than 1,000 TalentNetworks to customers around the world over the last two years, clearly differentiating itself in the market with its big-data solutions. Just as we are doing across our content subscription model and other areas of our business, CareerBuilder continues to invest in enhancing the experience for its audience, job seekers, making their online interactions more engaging and meaningful. In addition to the growth of our Digital Segment, digital revenues company-wide are representing a growing piece of revenues in our publishing and broadcasting segments, as we offer more digital products. As a result, company-wide digital revenues totaled over $375 million, demonstrating that our strategy to position ourselves for higher growth and higher margins in the digital age is gaining great progress.

I'd now like to quickly cover our very successful efforts in the debt markets and balance-sheet management. During the quarter, we renewed our revolving credit agreements for $1.2 billion, for an additional five years. We also recently issued three tranches of senior notes, which saw very strong interest at favorable terms and rates, as Victoria will detail later. We funded the pending acquisition of Belo with the private placing of $1.25 billion in senior notes in two tranches on October 3, just a few days after the close of the third quarter.

We have a very strong balance sheet, with laddered manageable debt maturities with more than enough flexibility to enable us to continue to successfully execute on our growth strategy, while returning capital to shareholders through our share repurchase program, and the continued payment of a strong dividend. Our cash flow remains very strong, and we believe it will be each stronger following the Belo acquisition, as it too has robust, predictable, cash-flow generation. We are also uniquely positioned to unlock significant synergies following the integration of our businesses, and that level of cash generation will enable us to reduce debt on a consistent basis. As I've said before, the Belo transaction folds perfectly into all of our existing strategic efforts. It significantly increases our high-margin broadcast portfolio, gives us greater network diversity, enhances our re-transmission negotiating position, and perhaps equally important, opens the door to new, high-growth markets where we can market all of our offerings, especially our G/O Digital services.

As you may have seen, during the quarter Belo shareholders approved the pending acquisition. We continue to anticipate bringing the transaction to a close following the attainment of regulatory approvals. We are working toward a seamless integration that will accelerate our transformation and create an even stronger Gannett going forth.

Now I would like to turn it over to Victoria, who is going to provide a more detailed review of the results, and update you on our capital allocation activities during the quarter. Victoria?

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

Thanks Gracia, and good morning, everyone. As Gracia has already mentioned, we are pleased with our financial results for the quarter, despite stiff headwinds in the sector, and macroeconomic uncertainty caused by the US government shut-down. Before I dive into the details of our segment results and financial results of operations, I will briefly touch on a few special items which occurred during the quarter. In our ongoing effort to gain efficiencies and reduce costs, we generated $5.9 million in facility consolidation expense, as well as $9.2 million workforce restructuring impact to our operating results during the third quarter. Combined, these items impacted operating expense by $15 million, and earnings per share by $0.04.

Beyond this, during the quarter we entered into a partnership with Generation Partners to provide Captivate, our information in-elevator media business, with the ongoing access to the content and capital it needs to grow in the future. As a result, we took a $16.6 million, one-time charge on this business, and our interest in the Captivate partnership will be reported as equity-method income going forward. In addition, during the quarter we spent $4.4 million toward the close of our acquisition of Belo, including accounting, legal, and other fees related to the transaction. When combined with the non-operating impact of Captivate, results were reduced by $21 million on a pretax basis, or $0.05 per share. As a result, total earnings per share for the quarter were reduced by $0.09 due to the special items outlined here.

Now I will briefly touch on our transformation initiatives, such as the All Access Content Subscription Model, digital marketing services – now branded G/O Digital -- which generated strong results for the quarter. We are very pleased overall with the performance of these initiatives, which have now generated over $150 million in incremental revenue year to date, while efficiency efforts like Gannett Publishing Services and our global sourcing program have also brought in significant cost savings to help fund other new product investments.

Beyond these transformation issues that you're now very well acquainted with, we also funded almost $3 million in new content and marketing efforts during the third quarter, supporting the local USA TODAY pilot program. This not only reflects investment in our local publishing markets, but also our continued focus on finding new and innovative ways to leverage our broad, multi-channel platform. We look forward to providing you with the insights we gain through these pilots as we incorporate reader feedback going forward. As you've seen, we've provided a GAAP-to-non-GAAP reconciliation of these drivers of our results in the press release to help provide additional context for these non-recurring costs, and greater insight into our ongoing business trends, as well.

Now, on to the Publishing Segment. During the quarter, the Publishing Segment continued to face head winds from the tepid economic recovery, both in the US as well as in the UK. Advertising revenues reflected this, with a 5.9% year over year decrease. Retail advertising, which is now more than half of the domestic advertising category, saw sequential improvement with virtually all classified advertising categories, such as automotive, employment, and real estate up, and improving comparatively. Also within the Publishing Segment, total online advising revenue increased 10% year over year, on the strength of retail advertising, which was up over 30% over last year. G/O Digital growth also showed promising resilience to economic softness, albeit from a smaller base, as customers sought increased efficiency within their marketing and advertising solutions. In the UK, Newsquest advertising revenue was down 5% year over year in local currency, but better than second quarter's comparatives across all categories of advertising. Likewise, Newsquest online revenue also increased 13% year over year, driven by retail advertising, again from a small but growing base.

In the Publishing Segment, overall circulation was flat year over year, but down sequentially. This reflects the narrowing benefits of the All Access Content Subscription Model, due to the annual lapping of its launch. Local domestic publishing circulation revenue overall was up by about 1% year over year, reflecting our sixth consecutive quarterly increase in revenue. The All Access Content Subscription Model now boasts nearly 1.5 million subscribers who have activated their digital accounts, and over 63% of all subscribers use EasyPay to manage their subscriptions. EasyPay not only benefits customers, but also leads to longer retention. In addition, USA TODAY circulation revenue was down 12%, due to circulation-revenue reductions as a result of planned travel partner program changes, which drive online usage, as well as declines in single copy.

Broadcast revenues were up 14% year over year when adjusted for political and Summer Olympics advertising, which generated over $75 million during the same quarter last year. On a similarly adjusted basis, we were pleased to see that advertising across most categories improved year over year, as well as sequentially, driven by the home improvement, restaurant, and retail advertising categories. While the medical ad category was slightly up, it did not yet begin to reflect what is anticipated in future quarters for health care reform advertising spending. Likewise, re-transmission revenues continued to increase, up nearly 63% compared to last year. Based on current trends, we expect the fourth quarter total television revenues will be lower by about 19% compared to the fourth quarter of 2012, excluding the extra week last year, given the record levels with political advertising revenues during that period, which topped out at over $91 million. Excluding these incremental impacts from last year, we anticipate that total television revenues next quarter will be up year over year by 10% to 12%.

Finally, Broadcast Segment digital revenues were up 20%, driven by G/O Digital marketing successes there, as well. During the third quarter, Digital Segment revenue increased 5% year over year, driven by CareerBuilder's ongoing success in new verticals. CareerBuilder delivered a 6% increase over last year, stronger than both first and second quarter this year. Digital revenues company-wide of $376 million during the third quarter, an increase of 12% year over year, were buoyed by the ongoing success of the All Access Content Subscription Model.

Digital revenues are now up over 30% of total company revenue. On a stand-alone basis, digital revenues in the Publishing Segment were up nearly 21% year over year. Local publishing digital revenues were up 22%, and both USA TODAY group and Newsquest digital revenues were up 13% when compared to the same quarter last year. These increases were in part driven by the ongoing success of G/O Digital and other digital initiatives company-wide.

Now turning to costs and efficiency related efforts on both the company-wide and segment-specific levels, for the quarter, total company expenses decreased slightly year over year. As a sub-set of this, corporate expense was up by about $4 million when compared to last year on a non-GAAP basis, as a result of increased stock-compensation expense, as well as a specific 2012 benefit in the same quarter related to a prior-year building sale gain. Within the Publishing Segment, operating expenses were down 3% due to efficiencies gained through Gannett Publishing Services, global sourcing efforts, and other direct-cost reductions.

Core Broadcast Segment expenses were also lower than last year due to lower sales costs, but were slightly offset by initiative spending, bringing overall Broadcast Segment expense to flat, comparatively. Digital Segment operating expenses were up 5%, reflecting higher sales costs associated with revenue growth at CareerBuilder. In terms of total company profitability, the growth in Broadcast and the Digital Segments has been very strong overall, with these two segments providing nearly 61% of the $233 million in total company operating cash flow in the third quarter. Free cash flow for the quarter was lower than the same quarter a year ago by approximately $5 million, due primarily to the record levels of Broadcast Segment revenues and margin during the third quarter of 2012.

Finally, turning to our capital allocation results and priorities, it was a very busy quarter, as Gracia mentioned. During the quarter we successfully issued 3 tranches of high-yield debt for approximately $1.85 billion, to provide financing ahead of the Belo transaction, as well as other corporate funding needs, of which $600 million closed prior to the quarter end. As a result, we carried nearly $6 million in additional interest expense as we closed the quarter, associated with this additional debt, which will increase to approximately $26 million in the fourth quarter, prior to any redemptions. These were all very successful issuances, which allowed us to opportunistically access the market while interest rates were at historical lows.

As I mentioned earlier, we invested $34 million this quarter in both our new and previously launched transformation initiatives, which continue to successfully produce both incremental revenue and cost savings. Beyond this, we also invested $24 million in capital projects during the quarter, primarily related to ongoing digital development, as well as product integration and enhancements at CareerBuilder. This brings our year-to-date CapEx spend to $73 million, right on track with our projected $110 million, full-year spend, with nearly 65% going toward development of digital products and platforms.

Finally, during the third quarter, we also repurchased 1.5 million shares for $37 million during the quarter, as a reflection of our ongoing commitment to our $300 million stock buy-back program. This brings the year-to-date repurchase volume to 3.5 million shares for $78.8 million. With that, let me hand the call back to Gracia before we turn to Q&A. Gracia?

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

Thanks, Victoria. Just one more other point I would like to make before we open up the call for questions. Our strategy, which we first articulated and shared with you in February of 2012, was never meant to be a short-term plan. Rather, it is a smarter, more strategic way of running our business that positions us to weather challenges as they come, like the secular down-turn in publishing, or a tepid economy, or anything else thrown our way down the road. While we did not see quite the same pop this quarter compared to the third quarter of 2012, when we were first rolling out our Content Subscription Model and other key initiatives, and benefited from record levels of Broadcast advertising, by all accounts, we are a much stronger and more highly diversified company today. We have delivered solid results and strong profitability across each of our segments, and our growth engines – Broadcast and Digital -- continue to represent increasing portions of our overall revenue and EBITDA mix. We are confident that this positions us well in today's ever-involving, but decidedly more digital, media landscape. We are very pleased with our overall performance during the third quarter and throughout 2013 thus far, and there are a number of reasons for us to be very optimistic as we look forward to 2014.

With that, I will turn it back over to the operator, who I know open it up for your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

John Janedis, UBS.

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

Two questions for you. First, did your businesses see any impact from the government shut-down, meaning exiting 3Q or 4Q to date?

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

I can say that there has been direct impact, and then there is probably the more indirect impact. For instance, we have a little business called Gannett Government Media. Obviously, that had a pretty chilling effect on that business. We own a television station here in Washington, DC. As you can appreciate, it serves the northern Virginia, DC, and Maryland areas. Those, I believe, were the states most impacted directly by the slow-down. As to a more global impact across our company, I have read a lot of pundits who have indicated that this is going to have some meaningful impact on the economy over the next period of time. We're just going to have to see how that plays out.

I think the important thing is going to be whether we just simply kicked the can down the road and, therefore, we start up with the uncertainty again that causes businesses and consumers to be a bit chilled by what they see going on here in Washington, DC, or whether this can be a much more collaborative outcome that this country, I believe, so richly deserves. That was my political thought for this morning.

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

Separately, can you talk about the circulation revenue trends that you're seeing at USCP? Did you see any change in retention rates as subscribers rolled over the original increases? Any differences depending on the market size? Given the increased content you're delivering, is another price increase coming in the near term?

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

Let me start. I have Bob Dickey here, and I think Bob, you can give us a little bit of color on retention, which I think is a good story.

Bob Dickey - ***Gannett Co Inc - President US Community Publishing***

Retention right now, John, has improved just slightly and was pretty flat a year ago after some increases early in the program, so we're very happy with that. Our subscribers continue to be incredibly loyal. As it relates to price increases, at this point in time, we have not announced any. We are doing some very selective price increases as part of the previous full-access model in some markets who are deeper discounted subscribers up the ladder, and those are going as planned. That's where we are at this point.

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

Yes, I think John, with respect to pricing, the very foundation of what we did with our All Access Content Subscription Model, and now with what we're doing with these four pilots, is to be totally focused on enhancing our content for readers and users. We believe that when we provide additional value, as we have with our All Access Content Subscription Model, as we are doing with re-launches of our mobile sites and apps and a variety of other things -- and for instance in those four pilot markets, where we are providing literally 70 or 80 additional pages of both national and local content that consumers are finding valuable, and we're hearing from them the value they see in it, that we believe that will potentially give us the leverage, some pricing leverage.

But it's still unbelievably early. We're only a couple of weeks into it. I think we can probably speak more concretely about it when we get to the investor conference in early December. But we are still optimistic about our focus on content and bringing additional value to consumers. We have already proven that by doing that once, consumers were willing to give us pricing leverage, and we believe that we can repeat that as long as we continue to provide that added content and value.

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

Okay. Gracia, two quick model questions. One, does the TV station segment, that pacing number if you will, does that adjust for the Captivate de-consolidation from last year?

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

Your question is whether the television guidance we gave you is really -- includes Captivate, and it doesn't. That's a pure television-to-television comparison. So that 10% to 12% increase, excluding political, is a 19% decrease, excluding the extra week from last year, is purely a television-to-television comparison.

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

And just on the circulation side, given the flattening out of the growth, ex the extra week from last year, does 4Q kind of look like 3Q?

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

Yes, I think it will be probably within that range. We've got a couple of pieces going on here. Number one, we've got Newsquest, which will continue to benefit from some of the pricing that they have done; as well at USA TODAY, they instituted some pricing actions on home delivery in July, and on single copy at the beginning, at the very end of September. So we will have some benefit from those two pieces. But then we will have further cycled all of the ramp-out of the All Access Content Subscription Model.

But I think we're looking at this more than just from a quarter-to-quarter basis. I think as we look into 2014, and we see how these pilots go, that we have done in these four communities, I think that that potentially gives us an opportunity that will be much more meaningful than what we are talking about right now.

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

Thanks very much, Gracia.

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

Thank you.

Operator

We will take our next question from Doug Arthur with Evercore.

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

Yes, Gracia, a couple of questions on TV, and one quick one on All Access. The extra-week impact of the newspapers for Q4 is pretty well chronicled. Can you just remind us on TV, the extra week I believe is not quite as significant as a revenue factor for last year. Can you kind of ballpark what that is? Secondly, on TV, I believe you're coming into some pretty important, or at least one important re-trans negotiation in the fourth quarter. I know you're loath to talk about that, but any guidance there as to timing and potential impact would be helpful. Then Victoria, you have talked all year about the $100-million pre-tax cumulative benefit from All Access. Are you still on target there to the bottom line? Or are you actually ahead? Thanks.

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

Well, that's three questions, so I will take the first two, and then I will pop the last one over to Victoria. With respect to the 53rd week on television, you're exactly right. The impact was probably in about the $10 million range on total revenues last year for the extra week. Then with respect to -- and for the total company, it was about, I think around $60 million and about $0.03 of EPS to frame that extra week, when you go back and look at our press release from the fourth quarter of last year.

With respect to re-trans, we, as Dave Lougee -- who is here with me, as well -- and I have indicated, we do have one significant deal and one more modest deal coming due, but towards the very end of the quarter, so we don't anticipate anything of consequence in terms of impact on the fourth quarter. We will have to see how those negotiations go, and then we will be able to give you, once they're completed, some better estimates for re-trans for 2014.

But we should see re-trans in an absolute basis being roughly comparable to what we have posted in the third quarter. As you recall, in the fourth quarter of last year, we had some meaningful transactions that also boosted -- that boosted revenue in the fourth quarter. More likely these will boost revenue in the first quarter and beyond.

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

And then the $100-million target?

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

On your All Access question -- and I won't speak for Bob, obviously -- but I think at this point, given the fact that we had already generated about $20 million of the bottom line impact even prior to going into this year, we are on a good trajectory relative to this year's year to date. I think we're at this point very comfortable with the $100-million bottom-line impact.

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

Okay, great, thank you.

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

Thanks.

Operator

We will take our next question from Craig Huber with Huber Research Partners.

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

Yes, good morning. I got some housekeeping questions. I've got two to start off with, please. What's the update of your circulation digital-only subscriptions in the quarter? I believe it was 65,000 into the second quarter. Also Gracia, what was the daily and Sunday circulation volume percent change in the quarter for the US Community Publishing? I have some follow-ups, thank you.

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

Sure. Let me start with the second question, which is with respect to daily volume at US Community Publishing. In the third quarter, down about 7%. That's actually better than the second quarter, which was down around 8%. Then on the Sunday, down about 11%, which is again a bit better than the second quarter, which was down a little over 12%.

With respect to the metrics around our All Access Content Subscription Model, the one that I think, in addition -- well, there are several metrics we pay a lot of attention to. Victoria just articulated one of the most important, which is the fact that we said we were going to add about $100 million to operating profitability, and we are absolutely on course to do that, if not slightly better than that. That's one of the most important metrics. I think the second metric is that we had said at the get-go that we expected ultimately to get to about 60% activation of the digital subscriptions that we were providing as part of our All Access Content Subscription Model.

At this point -- Bob, correct me if I'm wrong -- but I think we are at about 53% against all of those units, but we have probably a dozen places where they're above 70%, or 65% or 70%. We feel very good about being well on track with the digital traction that we expected to achieve out of this initiative. We're at about a 1.5 million digital subscribers who have activated – All Access subscribers who have activated their digital part of their subscription. One of the smallest metrics is with respect to digital only, for two reasons. One is that we have spent a heck of a lot more time focused on digital only, plus Sunday. We have seen about 10% or so of the digital-only subscribers quickly become digital-only plus Sunday.

Frankly, that is an incredibly valuable subscriber to us, because as you well know from following us as long as you have, Craig, that Sunday is such an important day for advertising. To have additional Sunday exposure is incredibly important to us. We have also -- that number is probably in excess of 75,000 or 80,000 at the moment, but frankly that is probably one of the least significant and important metrics that we have used to determine the success of what has been just an extremely successful initiative for the company.

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

Gracia, to be clear, are you ball-parking at 75,000 to 80,000, plus any digital-only subs that switched over to digital plus Sunday print? Is that what you're saying?

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

If you're just specifically looking at that one small metric, yes, that is exactly what I'm saying. But I think the more important metric is 1.5 million paying digital access subscribers as part of our All Access content model who have activated their subscriptions.

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

Then a couple few more housekeeping questions, please, on the cost front. Newsprint, what was the average percent change in price year over year in consumption? Then also I'm curious, for your Digital Segment, Gracia, the up 5% or so revenues, what was that number excluding the small acquisitions, please?

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

This is Victoria. On the newsprint price for the quarter was down, it was pretty small, it was about a 0.4% decrease. The usage was down about 8.6%. So expense overall down about 9%. That's roughly in line with what year to date. It's slightly higher in total for year to date, but it's about the same ratio.

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

On -- I assume on the 5%, you're referring to our Digital Segment?

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

Yes.

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

Really I think we've lapped most of the acquisitions, so if they had any impact, it would have been very nominal.

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

My last question, Gracia -- and thanks for this -- for that USA TODAY content you put in these four pilot markets, I think you said 70 pages in total across a week. I'm curious, does that include extra ad revenue in there, as well, or that can't be all just editorial, I assume, right?

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

First of all, those 70 pages include both USA TODAY content, as well as additional local content. A lot of it is content, but there is some advertising. For instance, for a USA TODAY advertiser, now has an opportunity to be across a wider swath of consumers by being in that section. There is going to be some advertising content, as well as -- but a great deal more of editorial content, as well.

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

I'm sorry, I thought you said it was 70 pages, Gracia, of extra USA TODAY content on a full-week basis. Is that not what you're saying?

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

No, I said 70 pages including USA TODAY content and additional local content.

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

Got you. Great, thank you very much.

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

Okay, thank you.

Operator

We will take our next question from Alexia Quadrani with JPMorgan.

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

Just following up on USA TODAY, could you give us a little color, I guess what the strategy is there, in terms of this migration of -- with the hotels to more of a digital product versus the print product? I guess any color you can give us on how that impacts your profitability, or really how you monetize that move?

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

Sure. I think all of us who travel, and all of us who stay in hotels understand that more and more consumers, when they are in hotels, are armed with smartphones or tablets or whatever devices, in addition to receiving the USA TODAY at their doorstep. What we believe is that we need to be at the forefront of however consumers want to activate and access our content. As more consumers in hotels want to consume that content on their devices, we want to be there, and we want to follow those consumers. So we have effectively done that in the Hilton situation.

As I have said before, those opportunities that we have in the Hilton hotel rooms -- which I think are in excess of 3,000 or 4,000 hotel rooms now we are paid to provide that portal and some of those additional features of content. I think also what it helps us is that it's a pretty targeted audience, and we can show to advertisers and others that these folks are travelers, and have certain demographics because they're in certain part of the Hilton Diamond members, or whatever. I think it's a combination of advertising, together with being paid to provide that portal service. Frankly, it costs us less to provide that content where there is no ink and paper and distribution costs involved.

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

This is Victoria, just to expand on that a little bit. We're looking also now at the next set of opportunities past Hilton to take a similar kind of approach with other hotel chains that allow a similar type of a portal access that we have the ability to charge for, and again, give -- take out the expense of providing just a pure newspaper approach to their offering to their customers. So it's a win-win for both of us.

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

I guess on that front, is the goal eventually maybe to migrate completely to a digital model for USA TODAY? Secondly, I guess any thoughts on maybe a potential pay wall on USATODAY.com?

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

I think I would reiterate what I said at the beginning, which is we are going to follow consumers wherever they take us. What we're now seeing in these four pilots that we have done is that our customers in those markets love receiving additional USA TODAY content in their local newspaper. There is -- I believe there is going to, for quite a period of time, there is going to be people who want to receive their content from USA TODAY in the print form, but more and more, consumers are going to want to receive that content on their smartphones, on their iPads.

We need to be wherever consumers want to access that content, and we believe it will morph of over time, but I don't think we're sitting here suggesting that digital only is, in the short term, where we're going to be -- more over time. A pay wall for USA TODAY, I would leave that to no current plans.

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

Okay, thank you.

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

Thanks, Alexia.

Operator

We will take our next question from Kannan Venkateshwar with Barclays.

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

Kannan?

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

Just a couple of questions on the newspaper segment. The first is, on the pay wall, I just wanted to understand the math behind the $100-million gain in operating revenues -- I mean, sorry, the operating income? If we go back to 2011 and compare the revenue, circulation revenue through that period, for the first three quarters of this year, then you are just slightly ahead of what you were doing then. If I remember correctly, you guided us to an operating margin of about 50% in that business, so the revenues are just slightly ahead. Just from a - just mathematically, the margins can only be higher than $100 million, it would be operating margins that are a lot higher than 50%?

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

I think what you're looking at is our total circulation revenue, which would include USA TODAY Newsquest, as well as US Community Publishing. Well, obviously we have the benefit of knowing those numbers as they pertain to each one of those businesses. We have been scrupulous in viewing those numbers. If you look at where they are, there's several components. You have to look at, when you simply look at the 78 markets within US Community Publishing that had the benefit of the All Access Content Subscription Model. You start with gross revenues, then you have to take that down for additional marketing, additional other things that we do. In fact, those numbers are very much on track to realize that $100 million of operating revenue – operating profit.

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

Okay.

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

That was the rate, that was the target, the metric that was put out at the time we had launched the All Access Content Subscription Model in the spring of the prior year. That's the apples-to-apples in terms of those 78 markets and the benefit of this particular roll-out.

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

Okay. The second question was in terms of the newspaper business, now post the Belo acquisition, is there any thought behind the newspaper business as a stand-alone entity? Can you just give us your thoughts on why it should be part of the consolidated entity?

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

Sure, a couple of things, Kannan. First of all, I think for the foreseeable future, certainly into 2014, our number one focus is on closing on and integrating Belo and achieving all of the synergies, if not more, that we shared with you when we announced the Belo transaction. That's incredibly high on our list of things and our priorities right at the moment.

I'd say secondly, as we have discussed I think several times, is the fact that when we look at our publishing markets and our broadcasting markets, we really don't look at them as publishing or broadcasting solely. We look at them as local markets where we have incredibly strong brands, where we have been for a very long time, where we have rich, deep relationships with literally thousands of businesses, both large and small.

When we look things like what I'm talking about with G/O Digital and our digital marketing services business, what we are finding is, as we have rolled that out across both publishing markets and broadcasting markets, is that they are equally successful in generating additional digital revenues, because businesses in those communities, in addition to wanting to have print or broadcast advertising, also understand the importance of reaching consumers on digital platforms, and in ways that are more attractive on a digital basis.

That is true of the businesses we go at, whether they're in a -- whether we happen to have as our main brand in that market, a title like the Morning Register, or a title like WUSA Channel 9 here in DC. We see the incredible opportunity we have to scale these additional businesses like G/O Digital across 111-plus markets locally in this country, where we have common characteristics and common advantages, and we just see that as a unique, huge opportunity that frankly no one else has.

That's why we see this as -- we don't just look at them as publishing and broadcasting markets. We look at them as local markets where we have incredible advantages, and we have the ability to scale technology platforms and other things across 111-plus local markets in this country, which is pretty extraordinary for anyone.

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

Just to take that to a very specific example, from an investment standpoint, as Gracia pointed out, we have a much broader platform across all three of our businesses to amortize investments, and we'll be spending $110 million in CapEx this year, two-thirds of which or so are on the products that are on digital, which are now being developed, trained, and rolled out across different channels. Absent having that broad footprint across the segments, you would have to spend incrementally more to develop them separately. I think that is a huge advantage that we gain through efficiencies of our investment.

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

All that being said, for the time being, we're incredibly focused on integrating Belo. We're incredibly focused on developing the businesses we've talked about. But as with everything, we are always looking at it. Our Board, whenever we meet with them, we're always looking at different alternatives. But at the end of the day, what we are in this business to do is to create additional shareholder value. That's what we're focused on doing.

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

Okay. One last question is on Classified Ventures. There's been a news flow more recently on Apartments.com and so on. What's is your thought on that asset? Is there a point at which you basically sell that asset and monetize it?

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

I think we're just going to have to see. Right now, as you said, we are looking at, as all of the partners are, looking at the strategic alternatives around Apartments.com, we will just have to see how that unfolds. The other thing I would say is that when you look at the Cars.com business, it's a terrific business. When you think about where auto sales and new car sales are going to be this year, and the fact that prognostications are that next year is going to be another potentially 16-million-plus new car sales unit year, that's a very good business. We will just see how it continues to grow, and the best way to maximize value there down the road.

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

Thank you.

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

Thank you.

Operator

And I will take our next question from Jim Goss with Barrington Research.

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

A couple related to broadcasting first. Given that there has been an industry roll-up in that broadcast sector -- your Belo deal certainly a big part of it -- I'm wondering in terms of the overall environment, is there a sense of urgency -- sort of make hay while the sun shines? Is there any more calm approach you can take before taking the next step of another acquisition, perhaps in that area, as you integrate Belo? Related -- sort of unrelated in broadcasting, curious about the logic of your Captivate move. Did you take that as far as you thought you could on your own and you thought this was an additive issue? You might talk about that a moment?

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

Sure. With respect to the industry roll-up, I like to think we take a calm approach to everything. There were lots of deals that were being done before Belo, and there will probably be lots of deals done after Belo. For us, the Belo deal was a unique opportunity to expand into some incredibly great markets -- Texas and the Pacific Northwest, where number one, we didn't have any exposure; number two, which were faster-growing markets than the average here in this country. It enabled us to increase our scale in a very meaningful way, to become the – it will allow us to become the number one CBS affiliate group, reinforce our number one status with NBC, and become the fourth-largest affiliate group for ABC, where we had been nowhere with them before.

So it had a lot of characteristics, a lot of great markets that we were interested in, and we believe that scale really does matter. At this point, with the Belo transaction, we will be covering close to about 30% of the country. That's very good scale for us. Could we move some pieces around or do some other small things? Sure. But we don't feel any pressure to go out there and do a deal that doesn't make good financial sense and create shareholder value very quickly.

With respect to Captivate, what we saw there, we like our Captivate business very much; but I think what all of us have come to realize in the out-of-home space is that there is a need for some consolidation, and there is a need for scale in that business as well. We have a unique opportunity with Generation Partners to combine our assets with their ability and willingness to fund capital going forward, both from a capital expenditures standpoint, as well as potentially a roll-up strategy going forward, while we continue to have a piece of that business and enjoy the potential upside to that business, while getting some return on our investment to start with. It just was a unique situation on an asset that we believe needs to be consolidated into a broader out-of-home play.

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

Okay Gracia, a couple more smaller ones, I think. Is there a perceived opportunity in terms of mobile ad sales you feel are developing with USA TODAY on the tablets and smartphones? Is there some pricing and volume you think you will be able to generate in that area? With regard to the digital moves, are there smaller vehicles with bigger potential? I know you mentioned ShopLocal, DealChicken. Are some of those ones you think will have -- play an increasingly large role as time goes on?

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

Let me start with the mobile question and anybody that would like to jump in, feel free to. We see enormous opportunity in mobile, and especially at USA TODAY, but really across our entire set of businesses. USA TODAY has put up some phenomenal increases in mobile users and page views and all of the mobile metrics, that make it just an outstanding vehicle. We see opportunities certainly arising with our ability to monetize mobile in a much more meaningful way. We are continually working on that, both at USA TODAY, as well as frankly across all of our mobile platforms, whether they are in broadcast or in our publishing side of the business. Just a huge opportunity, we believe, going forward, and something that we are carefully working on.

I will tell you the area that we're also focused on is video, because video right now carries a very attractive ECPM. We have increased our video views across the company in an extraordinary way, and we have a lot more that we are doing in that area. We see some opportunity there, especially having a very expanded broadcasting business, together with our video production center down in Atlanta, to really be able to maximize the video opportunity in a much more meaningful way over the next several years.

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

Okay. All right. Well, thanks very much, Gracia.

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

Thanks, and I think we have run out of time. We have one more question, and then we will close it up, so everyone can go off and do what they need to do.

Operator

We will take our last question from Barry Lucas with Gabelli and Company.

Barry Lucas - ***GAMCO Investors, Inc./Gabelli & Co. - Analyst***

Thanks very much for squeezing me in, Gracia. Just a couple of quickies, really, on the TV side -- one on the approval process and particularly DOJ. Any color you can give there, as well as the FCC? Two would be the broader threats to broadcast. Any thoughts you have and can share on Aereo and Barry Diller and/or this little spat that has grown up with Charlie Ergen and Dish and Media General. It doesn't appear to me to be an argument over $0.05 or $0.10 per sub per month. Any thoughts on any of those subjects would be greatly appreciated.

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

Sure, Barry. Let me take the first two, and then Dave will talk about spats, since I apparently don't like to talk about spats. With respect to approvals, as we all know, the government was shut down for 16 or 17 days. That included the FCC and the DOJ. I assume that they are getting ramped back up after being off line and not checking e-mails and all those wonderful things. We are doing everything that we can, obviously, internally to close the deal, as we previously had indicated. It obviously is not entirely in our hands. We don't control the FCC or the DOJ, or what their lineup is right at the moment, given they were not on track for over two weeks. But we are moving as expeditiously as we possibly can.

With respect to Aereo, as I have mentioned before, we just believe that there has been lawsuits all over the place. Some have obviously been very favorable, some of them have been unfavorable. I think ultimately, as we have said, we suspect that the Supreme Court will ultimately decide on it, but we continue to believe that the copyright laws of the United States of America should prevail. We believe that when we provide content that we should be paid for providing that content. I think that underlies what is happening in re-trans, it underlies what we have done with our All Access Content Subscription Model. We ultimately believe that the copyright laws of this country will prevail. But Dave, do you want to comment on --?

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

On the addition of Media General, I don't think we should comment specifically on any particular company's negotiation, but generally I just say, as the NAB has pointed out, that in the very few cases where there has been any kind of discontinuance of service, it's been one or two providers for the most part, or three, across -- and we don't believe that's an accident.

As it relates to us in terms of risk mitigation, we have very strong stations that are very valuable to the consumers in our markets, and like our situation relative to our value proposition. Wells Fargo put out a piece just a couple months ago that talked about -- accurately so -- that in, I think 2012, broadcasters will account for 35% of all of the viewing nationwide; and yet, 7% of the subscriber fees. What you have there is still a lack of market alignment that is positive for the industry overall. Irrespective of what may happen with an individual negotiation with other companies, the truth is on our side, as we like to say, as it relates to the market realities.

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

Thanks a lot, Barry. Thanks to all of you for joining us. We will turn it back to the operator.

Operator

That concludes today's conference call. We appreciate your participation.