GCI - Q4 2012 Gannett Co., Inc. Earnings Conference Call
(Edited for clarity)

FEBRUARY 04, 2013

OVERVIEW:
Co. reported full-year 2012 revenues (excluding extra week) of $5.3b and non-GAAP EPS of $2.33. 4Q12 diluted EPS (excluding special items) was $0.89.

CORPORATE PARTICIPANTS

Jeff Heinz *Gannett Co Inc - VP of IR*

Gracia Martore *Gannett Co Inc - President & CEO*

Victoria Harker *Gannett Co Inc - CFO*

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

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

CONFERENCE CALL PARTICIPANTS

Doug Arthur *Evercore Partners - Analyst*

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William Bird *Lazard Capital Markets - Analyst*

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PRESENTATION

Operator

Good day, everyone, and welcome to Gannett's fourth-quarter 2012 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 CEO. At this time, I'd like to turn the call over to Jeff Heinz, Vice President Investor Relations. Please go ahead.

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

Thanks very much. Good morning, and welcome to our conference call and webcast. Today, our CEO, Gracia Martore, and Victoria Harker, our CFO, will review Gannett's fourth-quarter and full-year results. After their prepared remarks, we'll open the call for questions. Hopefully you've had an opportunity to review this morning's press release. If you haven't read it, it's available at www.Gannett.com.

In addition to her report on the quarter, Gracia also will be updating you on the growth and capital allocation plan we announced in February of last year. I'd like to remind you that several of the presentations explaining the plan in detail are available on the investor relations section of our website.

As we get started, I also need to remind you that this conference call and webcast include forward-looking statements. Our actual results may differ, and 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 the investor relations portion of our website.

With that, let me turn the call over to Gracia.

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

Thanks, Jeff, and thanks to all of you for joining us today, the morning after an elongated Super Bowl. As Jeff said, I'll start with a short review of the outstanding results we posted this quarter. I'll then turn to an update on our growth strategy, focusing on some of the key initiatives that are reshaping the Company and positioning Gannett for success.

One reminder before we get started -- our Publishing and Broadcasting results were impacted by an extra week in 2012 compared to 2011. That extra week is the last week of the fourth quarter. So, while it makes the presentation a bit tough, we'll note what is included or excluded in the comparisons.

So, let's begin with some highlights of our strong fourth quarter, results that reflect the successful execution of our strategy, and the great work being done by all of our employees. First of all, we had a gain in total operating revenues of 5%, excluding the extra week in the quarter. Again, excluding that extra week, we achieved our first year-over-year Company-wide revenue growth since 2006.

Our Broadcasting business was a big contributor to that growth, thanks to a record level of political advertising that drove record revenues and profitability for the quarter. Company-wide circulation revenue, excluding the extra week again, increased almost 10% in the quarter, the second consecutive quarter of circulation revenue gains. The increases are being driven by the success of our new subscription model that we'll talk about in greater details in a few minutes. Digital segment revenues were up 3%, and Company-wide Digital revenues increased by 27% year over year, excluding the extra week. As a result, Digital revenues across the Company now account for 25% of total revenues.

Operating expenses, excluding special items and excluding the extra week, were up just 3%, reflecting in part strategic investments and initiatives previously launched, such as the all-access content subscription model, investments which are already bearing fruit, and will most certainly contribute to our results in 2013 and beyond. Operating income on the same basis was up over 10%, and free cash flow totaled $248 million. And finally, diluted earnings per share for the quarter, excluding special items, were $0.89. Now, that's an increase of 24% or $0.17 per share, compared to the fourth quarter last year.

The fourth quarter capped off a very strong year for Gannett. Excluding the extra week, our revenue increased by 1% to $5.3 billion. For the year, profitability was up, as non-GAAP earnings per share for the full year were $2.33, an increase of over 9%.

Before I turn to the strategic update this morning, I want to make a few observations. First, as I said, 2012 was simply a terrific year for our Company. It was incredibly busy and productive, and it was also very exciting. For the first time in a long time, we were playing offense. We got off to a fast start in February by announcing our new strategic plan, and we gained momentum as the year progressed. We worked very hard in 2012, and I am pleased with the progress thus far, but again, we are only in the early innings. As a team, we're energized and ready to execute again in 2013. And as we enter 2013, our Business is healthier and performing better than it has in a number of years, and we're well positioned to achieve our goals.

The second point is a reminder that we made significant progress in the face of continuing industry headwinds, and ongoing political and economic uncertainties. In fact, with GDP shrinking at the end of the year, we are entering 2013 on a weaker economic footing than most people expected. But as we all know, the economy is really a mixed bag, and uncertainty continues. But last year's operating environment was a difficult one as well. But I'm very proud to say that, in spite of obstacles beyond our control, we made great progress in 2012.

So, let me quickly recap our strategy. As I noted, we started 2012 by announcing an ambitious business strategy that was integrated with a comprehensive capital allocation plan. Our goal was to return Gannett to sustainable growth, while delivering increased value to shareholders. The plan was bold, but because it was carefully designed to leverage our strong brands, deep community ties, and financial strength, we are confident it is achievable.

Our strategy, as you know, is based on three themes -- stabilizing our Publishing operations while continuing to grow our Broadcast and Digital businesses; expanding into high-potential adjacent lines of business; and staying focused on optimizing our assets while maintaining our strong financial profile. I'm pleased to report we made progress in 2012 on all of these fronts.

To implement the strategy, we committed to revitalizing our local and national news and information capabilities, while enabling subscribers to access great Gannett content across a variety of Digital platforms, as well as print. The new Digital platforms broadened access to content, and also opened new ways for advertisers and marketers to engage with their customers.

We made significant progress in implementing our strategy across each of our business segments -- Publishing, Broadcasting, and Digital. First, Publishing. It comes as no surprise that consumers are increasingly turning to Digital devices of all kinds to access content. We've said before that print newspaper readership may be ebbing, but news and information consumption is up, thanks to the shift to Digital platforms. As a result, the linchpin in our strategy was to make sure that we were getting paid for the great content we produce, regardless of which vehicle consumers are using. That was the genesis of our new all-access subscription model. The new model offers consumers a wide choice of subscription offers that gives them access to content where, when, and how they want to receive it. Consumers are demanding more choice than ever before, and we are meeting those consumer needs in exciting new ways.

During the fourth quarter, we completed the roll-out of the new plan in 78 local Publishing markets. The roll-out, I'm pleased to report, was on time, on budget, and on target. The customer response has been very positive. As a result, circulation revenue is up, as I mentioned. In fact, revenue exceeded our projections in the fourth quarter, as circulation revenue was up 15% at our local domestic Publishing operations, excluding the extra week. That growth helped deliver the circulation revenue growth Company-wide of almost 10%.

This strong fourth-quarter performance drove a 3% increase in total circulation revenue for 2012 on a like year-over-year basis. For all of 2012, the new subscription model increased operating profit for the Publishing segment by approximately $20 million. With the model now fully deployed, we expect an operating profit boost of $80 million or more this year, putting us on track to meet or beat the $100 million increase by the end of 2013 we originally projected in February of last year. I will tell you that Bob Dickey and his team did a great job executing on this plan, and delivered great results.

While these contributions to circulation revenue driven by subscribers were unparalleled, we didn't stop there. We also focused on the needs of our customers, advertisers, and marketers, particularly the thousands of small- and medium-sized businesses we've worked with for decades in our local markets. Delivering on their Digital needs is also a key focus of our plan. Here's what we heard from them -- our local businesses want to use Digital tools and platforms to build relationships with their customers, in addition to traditional methods. At the same time, the Digital arena is a new, complex, and sometimes very confusing place. That's where we come in.

We have deep local-market knowledge. We are a known and trusted media partner, and through our Digital Marketing Services business, we offer a broad suite of Digital products and services to these local businesses. Thanks to the build-out of our portfolio of Digital marketing offerings, we are now helping business owners in all of our local markets effectively use everything from daily deals and mobile coupons to search-engine optimization and Digital advertising to reach their sales and marketing targets. DMS is a new suite of products for us that augments our traditional print and Broadcasting revenues.

We entered 2013 with strong offerings in place. The demand is certainly there, and as I have heard from our sales staffs from Fort Collins to Fort Myers, they are absolutely thrilled to be able to offer these products. And, during the fourth quarter, we saw customer lists and revenues grow very nicely, with good momentum going into 2013.

During 2012 we also took a fresh look at our well-respected USA TODAY brand to further expand on our position in the Digital realm. In September, we relaunched it with a new print format and enhanced Digital platforms, allowing for fresh new ways of viewing great Gannett and USA TODAY content. Larry Kramer joined Gannett in May of 2012, and he and his team are hard at work transitioning one of media's most recognized brands into a more powerful, multi-platform information and marketing Company.

The USA TODAY Sports Media Group is an example of what we're doing with the USA TODAY brand, and all of our sports assets and coverage across the Company. We are building on our history of great sports reporting and photography. Through its broad reach, Gannett is already one of the country's most powerful sports information companies. We cover sports from the local high school level through hometown college and professional teams. In 2012, we streamlined our coverage, and turned USA TODAY Sports Media Group into one of the nation's top five Digital sports destinations with over 20 million unique visitors each month, where it stands today. We have a solid foundation in place, and are now working to leverage our strong position by helping advertisers and marketers reach their sports-minded target audiences.

Leveraging the learning and tools we've developed this year, over in the UK, Newsquest is embarking on its own strategic initiatives and has launched growth plans tailored to the needs of customers in their own markets. Work is progressing well, and we expect to see the positive impact on Newsquest in 2013 and beyond.

Turning specifically to our Digital segment, CareerBuilder had another solid year of growth as it continued to take share domestically, expand internationally, and enhance its product set. In September, CareerBuilder acquired Economic Modeling Specialist International, which specializes in gathering and interpreting vast amounts of labor market data and employment information. Combining EMSI's big data expertise with CareerBuilder's industry leadership will enable CareerBuilder to deliver deeper and more targeted employment and labor market information, and insights to customers. With its industry leadership position domestically, its presence in over 50 markets outside the US, a focus on technology solutions and niche sites, CareerBuilder is positioned to generate additional growth in 2013.

Now let me turn to Broadcasting, where Dave Lougee and his team delivered, in 2012, the best results in the history of our Broadcast group, and ended the year with an exceptionally strong fourth quarter. Just as importantly, they significantly increased their market share this year, reflecting the value of their content and format in gaining new viewers while retaining their loyal base. The Presidential and hotly contested Congressional elections drove record political ad spending of $150 million, which included over $90 million in the fourth quarter alone.

Turning to retransmission revenues, they were also up in the quarter and the year, and we expect it will be a significant revenue driver in 2013. While the displacement caused by political spending resulted in lower core revenues in the fourth quarter, television ad revenues in December, which were not impacted by political ads, were up over 5%, and that momentum continues into the first quarter.

Before I turn the call over to Victoria, I just wanted to make two additional observations. First, while the substantial work on the growth initiatives is going on, we continue to focus on programs to optimize our assets, and create efficiencies. And second, and most importantly, in 2012 we began delivering on our promise to return even greater value to our shareholders. In February of last year, we increased the annual dividend by 150% to $0.80 a share, and announced our plans to accelerate our stock buyback program. For Gannett shareholders, this resulted in dividends of approximately $159 million paid out during the year.

In addition, we repurchased over 10 million shares at a cost of $154 million. In fact, the total return for Gannett stock was 42% in 2012, well in excess of the S&P 500 return of 16%, as investors were attracted not only to our dividend yield, but recognized the progress we've made on repositioning Gannett for a brighter future.

With that, I'll turn the call over to Victoria for her comments. Victoria?

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

Thanks, Gracia, and good morning, everyone. To provide some additional color on the drivers of our financial results, I'll now provide a deeper dive on our segments' performance during the quarter. As Gracia noted, ongoing investments in several of the new initiatives impacted both Publishing and Broadcast segment reported results this quarter, as did the extra week. We've included reconciliations in our press release to help provide context for these impacts, as well as other special items.

In broad terms, during the fourth quarter we incurred special item impacts of just over $118.4 million or $0.45 per share, with the majority, or $114.6 million, impacting operating income, with an additional $3.8 million non-cash component reflecting a minority interest investment reduction, which impacts equity income alone. With that as backdrop, I'd now like to turn to a review of our drivers of our segment financial results for the quarter.

During the fourth quarter, the Publishing segment benefited from a significant increase in circulation revenue with the all-access subscription model driving nearly a 10% uptick in revenue. However, this was not enough to entirely offset a 6.5% decline in advertising, as some local and national businesses contracted marketing spend during the fourth quarter anticipating the outcome of the year-end fiscal cliff. That said, it is important to note that on a sequential quarterly comparative basis, Publishing segment revenues were easily the best of the year, and down only slightly, 1.6% on a year-over-year basis, excluding the impacts of the extra week this year. We are very pleased to see this trend clearly moving in the right direction.

To help calibrate the financial benefits that are being driven by the all-access content subscription model, I'd like to provide some additional color on its performance to date. Late in the fourth quarter, we completed the final phase of the roll-out across 78 US community publishing markets right on schedule.

As was the case with prior phases, the response has been quite strong. Circulation volumes across all delivery types are as good or better than projected at the time of launch earlier this year, reflecting the fact that the all-access content subscription model has not only been driving new customer sales, but has increased our ability to retain existing subscribers. In fact, the retention rate amongst the longest tenured waves of all-access content subscription customers markets is up nearly a full percentage point on a year-over-year basis, driving revenue growth of nearly 24% on average in these same markets. This is a very positive indication that consumers are enjoying the benefits of access to rich local content where and when they want it.

As a component of this, it's also important to note that EZ Pay adoption continues to be a strong contributor to the all-access content subscription model success, and is driving strong customer retention, given the ease and simplicity with which our customers can interact with us. EZ Pay adoption grew 10 full percentage points year over year, with 60% of our home subscriber base now using this payment method.

Across all waves and markets, the all-access content subscription model now boasts nearly 46,000 Digital-only subscribers. This represents a very significant rate of adoption, given it was launched only 10 months ago in the first wave of markets, and has only recently become available in others.

Extending this reach for new Digital-only subscribers will continue to be a focus in 2013, as we accelerate our marketing efforts to drive growth in the Digital-only customer base to 5 to 7 times current levels by the end of this year. To this end, we're making strategic investments in marketing, training, and the development of sales tools to ensure even greater success, along with enhanced customer service support.

Another early indication that all of these investments are paying off, visitors to the all-access content subscription model Digital platforms grew 6% year over year, an increase that was driven in large part by mobile phone access to rich local content. iPhone native applications and mobile web are primary drivers of this mobile access growth, reaffirming the targeting and value of our investment in expanding our Digital portfolio within the all-access model. But we're not done yet. We will continue to enhance our Digital portfolio even further this year, extending the depth and breadth of our portfolio of iPad applications this Summer, while making other key investments in tablet device content platforms and technology.

While we continue to be excited by theses drivers of circulation revenue in Publishing, a quick review of advertising impacts for the quarter again shows the impact of the tepid pace of the macroeconomic recovery on advertising demand. That said, while lower on a year-over-year basis, fourth-quarter advertising revenue, quarter-over-quarter sequential comparatives, excluding the extra week, were the strongest of the year, led by the retail and classified ad categories. National advertising, however, continued to lag prior year. For your reference, additional category-specific advertising detail is contained in our press release.

All in all, the impact of the all-access content subscription model, in conjunction with Digital advertising and marketing solutions, continues to drive positive trends in Digital revenues in our Publishing segment. As a result, Digital revenues in the Publishing segment were up over 79% this quarter, excluding the extra week, driven by the 100% increase in our local domestic Publishing operations. Digital revenue at USA TODAY and its associated businesses also increased 28%, while in the UK, Newsquest Digital revenues in pounds were 9% higher, demonstrating the strength of the Digital offerings tailored to their own customer needs.

Supporting these revenue streams, excluding special items, $14 million in initiative spending and the extra week, Publishing segment operating expenses of $834 million for the quarter were largely the same as the fourth quarter last year, despite the incremental costs of service and support for all-access content subscription model customers. This was accomplished through aggressive cost management, and an increased focus on even greater efficiencies within our shared support platforms. Likewise, Publishing segment operating income was $156.3 million, excluding special items, strategic initiative investment, and the extra week in the quarter.

Now, turning to our Digital segment. Although our Digital segment did not benefit from an extra calendar week in the fourth quarter, revenues there were over 3% higher in the quarter, driven, again, by the strong results at CareerBuilder. As Gracia noted, CareerBuilder continues to expand its product base, particularly with the acquisition of EMSI, and expand internationally to meet the growing need of their customer base.

Excluding special charges and initiative investments, Digital segment operating expenses were up 3% in the quarter, driving operating cash flow growth of 5.3% compared to the fourth quarter of last year. Digital revenues Company-wide totaled over $367 million in the fourth quarter, and $1.3 billion for the year, excluding the extra week. As yet another indication of how broadly Digital access to rich content has been embraced by subscribers, we're pleased to note that Digital revenues across all segments now comprise nearly 25% of total Company revenues.

Moving to the Broadcasting segment. As Gracia noted earlier, results in the fourth quarter were excellent, providing yet another record quarter for both revenue and profit. Political advertising of over $91 million in the quarter was the single largest driver of these results. Excluding the extra week in the quarter, Broadcasting segment revenues were 39% higher, with TV station management continuing to refine content delivery and optimize inventory to generate increased market share. When combined with their compelling geographic footprint, many of our stations were able to generate significantly higher ad revenues than their competitors during the quarter.

Retransmission growth was also up significantly in the quarter as well, about 39%, totaling approximately $30 million in the quarter. Broadcasting segment expenses also continued to be well managed again this quarter. Excluding the extra week and special items, operating expenses were just 14% higher, driven by the cost of additional revenue support. As a result, operating income totaled just over $153 million in the quarter, an increase of 69.4%, up almost $63 million compared to the fourth quarter last year. This is quite an extraordinary achievement for the Broadcast team.

As we've said before, creating efficiencies and closely managing costs are part of our DNA. Maintaining our strong financial profile is an integral part of our strategy and our capital allocation plan, as we self-fund our new initiatives, as well as increase returns of capital in the form of both dividend growth and stock repurchases from our healthy free cash flow. What this means is this -- while substantial work on the growth initiative continues, we also continue to focus on programs to optimize our assets and create efficiencies by creating shared support platforms and ad delivery products, sales and training tools that benefit all segments. This not only creates an improved cost structure, but frees up our cash and our people to reinvest in new strategic areas such as our Digital expansion.

As Gracia noted, we continue to invest in strategic areas which show the greatest promise, particularly in our Digital marketing services initiative. During the quarter, strategic investments in all segments totaled $14 million, with a sizable portion of it focused on the Publishing segment's all-access content subscription model. This brings the total 2012 initiative investment to approximately $74 million, which is within the range we had previously projected. As noted earlier, all of this was organically funded through close cost management, despite the fact that some areas, like pension costs with a $6 million increase during the quarter, are tougher to control.

Now, to address a few significant balance sheet items. During the fourth quarter, we repurchased over 2 million shares at a cost of approximately $37 million, as part of our ongoing buyback program announced earlier this year. For the full year, we have now spent approximately $154 million to repurchase over 10 million shares, and continue to look to allocate capital where we see the greatest potential for growth in shareholder value, balancing the return to our investors in the near and longer term.

And here's another important barometer of our financial strength driven by the strength of our segment results. 2012 fourth-quarter free cash flow was $248 million, $45 million higher than during the same quarter last year. At the end of the fourth quarter, total debt outstanding was just $1.43 billion. Capital expenditures in the fourth quarter were about $29 million, completing a full-year CapEx program of $92 million for the year. As we've noted in prior calls, a growing percentage of our capital expenditures are now invested in Digital products and platform development, as well as efficiency efforts.

Now, turning to just a few key points in drivers of trends for the first quarter of 2013. While we continue to enjoy the ongoing successful implementation of the all-access content subscription model during the quarter, there are several factors that will impact year-over-year first-quarter comparisons in the Publishing segment. For example, given the trends in earlier periods, we had furloughs in the Publishing segment during the first quarter of 2012, which resulted in about $8 million in savings. Given the progress we've made since then, we are not doing furloughs in the first quarter of this year. Beyond this, Publishing segment revenues for the first quarter of 2013 will not benefit from the week between Christmas and New Year's holidays, which has historically been a strong advertising week, as the first quarter of 2012 did.

The Broadcasting segment will also experience similar year-over-year comparative challenges in television revenues. For example, the absence of political revenue, when combined with the shift of the Super Bowl to our 6 CBS TV stations, rather than our 12 NBC stations where it was broadcast last year, together will unfavorably impact year-over-year quarterly comparisons by about $6 million. Despite this, and excluding political variances year to year, total television revenues are projected to increase by 10% to 12% in the first quarter of 2013, demonstrating the core strength of our stations in many markets.

Likewise, overall Company stock-based compensation will add $7 million to 2013 expenses, almost $2 million of which will impact the first quarter of this year. As I noted previously, we are also continuing to invest in new initiatives, and currently project to spend $35 million to $40 million in 2013 against these opportunities, with approximately $10 million impacting the first quarter.

It should be recognized that the ongoing marketing service and support costs for our growing all-access content subscription model customers, as well as new DMS clients, is now embedded in our cost structure for 2013. As we've done in prior quarters, we're continuing to fund this through ongoing cost reductions and efficiency efforts across the Company, ensuring that our customers continue to receive the best quality news and content, anywhere, anytime.

With that, let me turn the call back over to Gracia for some closing remarks before we take questions.

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

Thanks, Victoria. The new strategy we announced almost a year ago was designed to return Gannett to sustainable revenue growth while improving profitability and increasing shareholder value. We made great progress last year in implementing our strategy, and I am very confident we are on the right track. We're optimistic about the coming year, but we are also realistic about the broader economic environment. We know that, like 2012, 2013 will also present challenges. We are ready to take them on, and we're also more than ready to work very hard to keep building on our momentum, achieving our goals, and delivering on our promises.

With that, thank you very much for joining us, and now we'll be happy to take your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Also, in the interest of time, we do ask that you please limit yourself to one question or comment.

(Operator Instructions)

Doug Arthur, Evercore.

Doug Arthur *- Evercore Partners - Analyst*

Yes, actually two questions. Gracia, the 46,000 Digital-only subs, is there any -- can you elaborate on what your experience has been with subscribers who have been traditionally print only? Do you have some hybrids where they've perhaps dropped print Monday through Friday, but are getting it on the weekend, and then taking the full access as well? I mean, can you sort of embellish on your subscriber experience in Digital?

And then secondly, in terms of Q1 guidance on Broadcasting, any comments on core, ex-retrans? Thanks.

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

Thanks for the two questions, Doug. Let me begin to answer the first one, and we've got Bob Dickey with us in the room, and I know he'll want to chime in. Let me just say that with respect to the 46,000 Digital subscribers, as you know, we spent 2012 really focused almost entirely on taking the existing subscribers we had, and rolling them into our new model. We did not spend any marketing dollars or really any time focusing on them developing new, additional Digital subscribers. We happen to have 46,000 of them as a result of the word that got out in the market.

We have said that we expect in 2013 that we are going to be spending not inconsequential marketing dollars and really focusing on ramping up that level of Digital-only subscriber, because those subscribers tend to be younger and, therefore, more attractive in some ways to advertisers. And so, our goal in 2013 is to increase that 46,000 number to 250,000 to 300,000 subs by the end of the year.

But Bob, do you want to add anything?

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

Doug, to your question about shift, I am happy to report, to date, we have not seen any real significant movement from seven-day to four-day or to Sunday-only. Certainly, there's been some of that. Consumers now have the choice. But so far as we get moving into the first wave, which will cycle next month, we've not seen significant movement. We're within the projections we expected on the Sunday and daily home delivery volume side, and we're doing slightly better on the single copy side.

Certainly something we'll want to continue to manage. We watch it closely. And we're very, very happy with our e-edition, the replica. The traffic there has been a pleasant surprise. It's growing stronger than we anticipated, and we think there are some things we can market there as well.

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

To the second part of your question, Doug, with respect to the first quarter, as we said, probably the area that we have the best visibility is on the Broadcast side, and we're looking at good follow-through in the first quarter. I think what we're expecting is, on the core ad revenue side, something in the 4% to 5% growth for the quarter. And that's not just in auto, although auto continues to be quite strong, but that's spread across a number of categories in the first quarter.

On the print side, it's really early. January is our smallest month in the smallest quarter of the year, so we don't gain a lot of good visibility. As Bob said, we're tracking very well on the circulation side of that, and circulation now is a good one-third of our revenues on our local domestic Publishing side. So, that's a nice boost, and that I think will continue to be a good factor for us.

Advertising -- I think the year started with that week change, it started a little bit of uncertainty around fiscal cliff again and all those kinds of interesting things. I think we'll know better as we progress through the quarter, but we haven't seen anything thus far that makes us believe that we're not going to achieve some of the goals that we've set out for ourselves for the first quarter.

I think on the USA TODAY front, we're actually seeing some pretty good traction on the print side of advertising on USA TODAY. And it's only been a few months since we relaunched USA TODAY. And so, it's going to take a little time for the traction, especially on the new Digital platforms, to take hold. But we're already seeing good progress on video views and a number of other metrics on the Digital side that give us good confidence that as the year progresses we're going to see good follow-through on those numbers.

And Newsquest is starting out as we would always expect Newsquest to do. They'll do what they need to do, and they've done some work on the circulation side as well. And based on their early results from that, they're going to be accelerating the roll-out of that program. So, we feel good about what Newsquest is going to accomplish.

Now, Victoria did mention some kind of one-off items. Obviously, different challenges that we have in the first quarter compared to the first quarter of last year, so we will have those to deal with. We're pleased on the one hand that we're not doing furloughs, but that's obviously an impact of $8 million year-over-year, and all the other little pieces that Victoria mentioned.

Doug Arthur *- Evercore Partners - Analyst*

Great. Thank you.

Operator

Craig Huber, Huber Research Partners.

Craig Huber *- Huber Research Partners - Analyst*

I have a few housekeeping questions, please. In the quarter, Gracia, what was the daily in circulation -- daily circulation volume percent change year over year for the US Community Publishing? Also was wondering, on the pension side, how did that end the year, what was underfunded status, how much do you anticipate potentially putting into that plan this year? I have a follow-up, too, thanks.

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

On the circulation side, as Bob mentioned, the numbers are coming on track as to what we expected. Let me just refresh your memories, that we had indicated that we expected on daily home delivery and Sunday home delivery that over and above the existing trend that we had, that we expected that we would probably see about a mid-single digit, 5% or 6% further decline. And on home delivery in the fourth quarter it was down about a little over 9%. And on the Sunday side, again, in that 9%-ish range. So, right on track of what we were anticipating.

On single copy, as Bob mentioned, in the fourth quarter we actually saw better numbers than we expected. We had talked about last February that we expected to see declines potentially in the 30% range. Those declines at this point are about 50% of what we had anticipated. So, I think total US Community Publishing in the fourth quarter, volumes down in that 11% range, and on the Sunday side, not a dissimilar range as well, but right on track with where we expected.

Craig Huber *- Huber Research Partners - Analyst*

Then the pension, please.

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

We actually had a terrific performance on the pension side. We had a return of about 12.6% for the year, but as you can expect with interest rates continuing to fall, our discount rate is down I think about 90 basis points. But net-net, I think our funding is going to be pretty much in the same order.

Victoria, we funded about, what, $90 million-some odd last year?

Victoria Harker *- Gannett Co Inc - CFO*

About $94 million.

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

And then we did another contribution --?

Victoria Harker *- Gannett Co Inc - CFO*

End of year, and at this point we will evaluate next year, but we're fully funded as we had anticipated by 12/31.

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

Not fully funded, we're about 95%. Based on the current rules.

Craig Huber *- Huber Research Partners - Analyst*

So, what is the ERISA underfunded status, please? What are you expecting to put into it this year?

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

We did that $50 million contribution, and that's all we have to do. In fact, it's more than what we had to do from a mandatory standpoint, with the pension relief regulations that required us to contribute less. We may look at voluntary contributions as the year progresses, but we have completed our funding -- our mandatory funding for the year. And I think our -- we haven't finalized the numbers yet on the ERISA funding, but my assumption is, based on the good performance, the contributions we made offset by the discount rate, that the funding level is going to be pretty close to where it was today, and will probably be in that 95% range again.

Craig Huber *- Huber Research Partners - Analyst*

Also, what was the auto percent change for TV in the quarter, and how's that looking so far this quarter? And if I also could just squeeze another one in here. For your Digital segment, the extra week, did you not have an extra week in the quarter, just didn't have an impact at all in the Digital segment?

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

In our Digital segment -- those are businesses that we acquired, and when they came on, they were on monthly calendars. So, we didn't change them to a five-four-four calendar, so that's why they just have monthly numbers and they don't have the extra week.

On the automotive side, I think Dave Lougee's here, and he can probably give us all the nits and nats on that.

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

Great, your question I think was about fourth quarter and first quarter. Fourth quarter, remember, was impacted by the displacement that was alluded to earlier. So, I think the more key number was December, when it was a pure quarter without the impact of political, and that ended up 15%-plus, in that neighborhood.

And in the first quarter, it's pacing nicely as well. We've got some ups and downs because of the Super Bowl being a January event this year and a February event last year. But again, when you look at March, it's I think right around 20% right now. It remains strong. But it's actually nice to see that our strength is a little bit broader than just auto, like it was early last year.

Craig Huber *- Huber Research Partners - Analyst*

Great. Thank you.

Operator

John Janedis, UBS.

John Janedis *- UBS - Analyst*

Gracia, you've done obviously a great job in growing Digital advertising, but that obviously tends to lead to increased competition. What are you seeing from some of the larger Digital-centric players? And is there any way technology advancements can dull your advantage of having feet on the street?

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

On the Digital side -- and let me sort of hone in first on our Digital marketing services side. There's certainly a lot of competition, as we have said, from companies that offer just one product. So, lots of people offer daily deals, but that's their product. Lots of people offer search engine optimization, but that's their product.

For Gannett, we offer a full suite of products in our Digital marketing services side. And that's what I think is a huge advantage to us, combined with the fact that we have great relationships and those feet on the street that you alluded to. We have the ability to talk to customers in those markets on an ongoing, regular basis. They trust us to come to us to solve their problems. And when we can provide them with a full suite of Digital marketing services products, be consultative to them, that's a huge advantage.

And our products aren't second-class products; they're first-class products. And with the addition of BLiNQ and with the addition of Key Ring, we're already beginning to integrate those products. And our folks at BLiNQ see real opportunities to do some things on the social media front with a variety of our locations, as well as on the Key Ring side. We're going to be able to do promotion across all of our platforms, internally, for Key Ring in the second quarter using our media to accelerate their progress.

So, I actually think that all of the advantages we've had -- and I will tell you, I don't think we're second to anyone from a technology platform -- some of the technology platforms we've put in place. So, I feel really good about our ability to compete as effectively, if not more effectively, than a lot of the insurgents that are just one-product shops.

John Janedis *- UBS - Analyst*

Thanks. Maybe two quick housekeeping questions to follow up. One is -- Victoria, just to clarify, is the $35 million to $40 million in initiative spend, is that a step down from the $74 million or is that on top of it?

Victoria Harker *- Gannett Co Inc - CFO*

We have an embedded base of costs that we're obviously continuing to invest to support our marketing tools, as well as our training, as well as the customers that we've acquired or now are on Digital. So, that's incremental to the $35 million to $40 million that I was talking about. The $35 million to $40 million obviously is new spending against initiatives, which we're just breaking out to make sure that there's clarity on that.

John Janedis *- UBS - Analyst*

Great.

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

Let me just add two things on that, John. On the investment that Victoria just talked about on customer service, you have to remember that we permanently increased our customer service functions. It used to be, our customers called us for vacation stops or the paper was wet at the end of their driveway. Now they're calling us about multiple platforms with multiple questions. So, there is a level of customer service that we believe we need to provide that is much greater than it was before. And we also want to provide great customer service. So, very important to us as we continue to focus on that to have embedded a much better customer service function and a much broader one.

I think as well that when I look at Digital Marketing Services, as we've explained, we're very excited about how that initiative is shaping up. We, in fact, believe that in the intermediate term there's even more opportunity in our Digital Marketing Services initiative than we even thought when we looked at it in February of last year. What that means is that we are accelerating some investment in that. And so, the margins aren't going to be where they would be, given that we think that what we're sacrificing in the short term is some margin, but what we're going to get in the long term is a much bigger and more robust business. So, that's why we're doing the things we're doing. That's why we're making the investments that we're making.

Victoria Harker *- Gannett Co Inc - CFO*

Just to look at the capital side of things, as I had talked about earlier, obviously we had a significant portion of our cap ex spend this year in 2012 targeted on the new initiatives, and some of the Digital development, and even greater percentage next year. So, as we continue to enhance and define and refine what we have already delivered on, some of that is going to be embedded in cap ex in additional tools and development. So, it's not just on the operating side from an investment perspective; it's also on the capital side.

John Janedis *- UBS - Analyst*

Okay, one last quick one, if you don't mind. On the content subscription model, Gracia, based on when the model was rolled out, should we assume that circulation revenue growth will peak in the third quarter?

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

Let's think it through. It's going to be sometime between the second and third quarters. I can't give you the precise moment because we had some larger units go to the model a little bit later in the year, so it's going to be somewhere between the second and third quarter.

John Janedis *- UBS - Analyst*

Very helpful, thank you.

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

Bob, do you want to add anything?

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

Third quarter more than second quarter.

Operator

William Bird, Lazard Capital.

William Bird *- Lazard Capital Markets - Analyst*

Gracia, your financial leverage is pretty light. What are your thoughts on adding leverage to the balance sheet?

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

Well, I love to hear that you all think our financial leverage is light. That's great news. We think we've done a pretty terrific job of having what I consider to be a fortress balance sheet. We're blessed with an enormous amount of free cash flow. Our goal is always to invest that wisely. And so, we have the ability really to continue to invest in the initiatives that Victoria and I were just talking about. Continue to return additional dollars to our shareholders, either through share repurchases or dividends as we did last February, and as we said we would as we see increasing earnings and cash flow down the road. And also to continue to pay down debt.

We think that there are some investment opportunities out there that potentially could be additive, but we will always approach all of that with the same discipline we always have, with strict financial discipline. So, I think we're in a wonderful position, given where our balance sheet is, to do all of those things. And on the share repurchase and dividend front, as we said in December, early December, we'll take a look at that as we do every quarter, but we'll take a look at that again very, very carefully in the July timeframe, mid-year timeframe, and evaluate it.

William Bird *- Lazard Capital Markets - Analyst*

Great. Thank you.

Operator

Alexia Quadrani, JPMorgan.

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

Just following up on your earlier comments about the Digital sub growth going from about 46,000 to the 250,000 to 300,000 range. Is there any somewhat larger markets that are still locked up in subscriptions that are probably going to roll off, and that will help bump up that number? Or is it really going to be mostly on the marketing initiatives you have talked about, in terms of what's going to drive that?

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

Remember, we're not saying Digital-only subscribers are people that were home delivery subscribers and now are no longer taking home delivery and are taking Digital only. These are new subscribers, Digital-only subscribers that we haven't had for some period of time.

Bob, why don't you add to that.

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

Right now about two-thirds of where we are at are new, about one-third of those were former subscribers that came back to us with the Digital-only offering. So, going forward, Gracia is right, we're really focused on generating new customers. And so, it's not a reflection of where we are with the print subscription cycle. These are new marketing efforts that we're rolling out as we speak.

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

So, the first step, Alexia, was taking all of our existing subscribers and converting them to the new model, and retaining them and realizing higher revenues. We have, for the most part, accomplished that. Obviously we had some larger papers that rolled out in the fourth quarter that will have to go through the cycle of 13 weeks, and other things like that.

But the focus in 2013 is on retention of those, as well as a real focus on now bringing on new Digital-only subscribers. We certainly would be happy to take on new print subscribers, but our focus is to take on new Digital-only subscribers, and that's where our focus is going to be in 2013.

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

So, the large majority of that incremental sub growth should be from new subscribers?

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

Yes.

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

And just a quick follow-up on your comments on USA TODAY. I guess any updates on what you've seen since the redesign? Any positive spill over maybe to print copy? And any general sense, if you can provide it, on what the revenue split is between your Digital and the print at USA TODAY?

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

I would say that the feedback we have gotten, and Larry Kramer was just sending me a couple of emails over the weekend. The feedback we're getting has been actually very, very strong on the print side. We have always had, for instance, a very strong sports focus. I will tell you, I think that what the USA TODAY Sports Media Group has done with our sports content in the print product, as well as online, has been nothing short of spectacular. And advertisers are taking notice.

And so, I think what we're going to see is we're going to see even more traction than we've already had in growing that. I think we've seen page views go up. We've seen video streams triple. So, I think we've seen a lot of pieces. But it's still very early in this process, and as we said, it's true about USA TODAY as it's true about Gannett. This wasn't a one- or two-quarter transformation; this is a multi-year transformation.

And I'd say that where we stand with USA TODAY right now is we're getting great feedback on the print side. We're getting terrific feedback on our Digital platforms. I think we've made a lot of great enhancements. I think our sports vertical is going to be a good one for us. I think our travel work that we're doing is going to bear fruit. But it doesn't just bear fruit in one quarter. It's going to take a little time, and we expect to see some really good traction as the year progresses.

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

Did you disclose how much of the revenue there is split between the print and the Digital?

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

We really don't.

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

Okay, thank you.

Operator

Joan Lappin, Gramercy Capital.

Joan Lappin *- Gramercy Capital - Analyst*

Good work, good work. I'm proud of you. I'd like you to talk, if you would, more about acquisitions. You did a CareerBuilder add-on. Should we look for more of those? You said you want to build Broadcast. Does that imply you would buy other stations? In the sports area, where you're making such a pronounced push, and you did buy a number of properties over the last 18 months, could we look for more there?

And just in general, what are you looking for in acquisitions? What are you willing to spend on acquisitions? Would you do a huge acquisition, as the previous person commented that your balance sheet is so much improved.

And also, I mean, this is sort of related to how you spend money, if you could just explain how you decide what's a better investment for shareholders, buying back shares or paying a dividend?

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

Sure. That's a lot of questions. But let me try to answer them as best I can. As I said earlier, we are blessed with an incredibly strong balance sheet and a lot of free cash flow. We have made a number of bolt-on acquisitions and investments this year in some of the very areas that you talked about -- in sports where we did some small acquisitions that helped us to take the number -- to be in the top five of digital media, sports digital media properties. Are there additional things that we would look at in the sports vertical, potentially in the travel vertical, in our Digital Marketing Services where we did BLiNQ and Mobestream Key Ring?

So, those kinds of acquisitions we certainly are focused on, where they fill in gaps, where they give us capabilities that we perhaps haven't had, or can propel us or accelerate our ability to get there versus our creating it ourselves internally. So, we'll continue to do -- look at and continue to do those kinds of acquisitions, assuming they make good financial sense for the Company.

On the CareerBuilder side, as you recall, we bought an additional 10% of CareerBuilder back in, I think it was late 2008 or early 2009, and that gave us control of CareerBuilder. And that was a very important piece for us. We were able to get it at a very attractive price, given the backdrop of the economy at that point and the seller's need to raise some cash at that particular moment.

At this point, we love CareerBuilder. We think it's a great asset. But for us to invest further, it merely comes down to a question of running the math and seeing whether it makes economic sense for us to do that, and it achieves the kinds of return hurdles that we have for investments that we make.

As to doing large acquisitions, we have more-than-sufficient capacity to do that. But that's something where we will be extraordinarily careful. For us to contemplate something like that, we would have to look at a situation where we could see clearly at the front end that the synergies, the real synergies -- not just five years down the road -- we can generate some additional revenue because we own it. But the real synergies, be they cost synergies or real revenue synergies that we know contractually we could get. We would have to make sure,, based on that, we could get a return out of that investment. And then anything over and above that on the synergy front would just be gravy.

But we would put a large acquisition, given all the work that we've done on our balance sheet and how careful stewards we are of our balance sheet, it would take a very specific situation where it would add nicely to the Company, but would be probably accretive, if not right from day one, pretty darn close to day one. I hope that was helpful in kind of positioning where we would want to take the Company.

Joan Lappin *- Gramercy Capital - Analyst*

Okay. And the only thing you didn't reply to out of that long list was how you decide share repurchase versus increasing the dividend.

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

I think Victoria can give you chapter and verse on that.

Victoria Harker *- Gannett Co Inc - CFO*

We've got a fairly disciplined process here by which we actually look at a couple of different ways of evaluating, but primarily looking at some of the parts relative to, in any given period of time, particularly at the quarter, relative to where we think we are trading and what a discount to the market looks like at that point. And then what the other alternatives are in terms of use of cash from an allocation standpoint.

And we look at it in a fairly granular level. Obviously, we're tracking the new investments fairly closely. So, those are the kinds of metrics we look at, and then make the decision relative to what is the best use of capital, cash in particular, before we go to make buyback in a particular quarter.

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

Thanks, Joan, very much for the question. I think we are at 1 minute past 11, so I think we should probably wrap it up. Thank you all for joining us. If you have any additional questions, I know that you can reach Jeff Heinz; he's at 703-854-6917. Thanks very much for listening, and have a wonderful day.

Operator

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