GCI - Q3 2014 Gannett Co., Inc. Earnings Call

(EDITED FOR CLARITY)

EVENT DATE/TIME: OCTOBER 20, 2014 / 10:00 AM ET

OVERVIEW:

Co. reported 3Q14 total Co. revenue of $1.4b and non-GAAP EPS of $0.59.

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PRESENTATION

Operator

Good day everyone and welcome to Gannett's third-quarter 2014 earnings conference call. This call is being recorded.

(Operator Instructions)

Our speakers for today will be Gracia Martore, President and Chief Executive Officer, and Victoria Harker, Chief Financial Officer. At this time I'd like to turn the conference over to Jeff Heinz, Vice President, Investor Relations. Please go ahead sir.

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

Thanks Jamie. 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 commentary we'll open up the call for questions. Hopefully you have had the opportunity to review this morning's press release. If you have not seen it yet, it is available at www.Gannett.com.

Before we get started, I'd like to remind you that this conference call and webcast include forward-looking statements and our actual results may differ.

Factors that might cause them to differ are outlined in our SEC filings. This presentation also includes certain non-GAAP financial measures. We 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 good morning everyone. And let me join Jeff in welcoming you to our third-quarter earnings call. Today I am going to provide a high-level summary of Gannett's performance in the third quarter, during which we reached some significant milestones in the continuing evolution of the Gannett Company. After that, Victoria will review the financial results of each of our segments, and provide some detail on special items, and cover some balance sheet items. And Dave Lougee and Bob Dickey are here with us as well to help during the Q&A session. So let's get right to it.

We achieved outstanding third-quarter results with each of our three businesses turning in solid performances during the quarter. Total Company revenue as you saw was $1.4 billion, an improvement of approximately 15% over the third quarter of 2013. On a pro forma basis, revenue growth of 4% once again outpaced expenses during the quarter, reflecting our unflagging efforts to ensure that we are operating at the absolute highest levels of efficiency.

With a sizable increase in revenue and expenses held in check, earnings per share were $0.59 on a non-GAAP basis, a substantial increase of 37% of over the third quarter last year. Our operating income and adjusted EBITDA showed meaningful improvement with double-digit growth on a non-GAAP basis and pro forma basis.

In addition, we achieved another strong quarter of free cash flow, generating an increase of 76% over the third quarter last year. Now we had an extremely busy and productive third quarter as you saw. That included some developments that you all are aware of such as the announcement we made in early August regarding our acquisition of all of Cars.com and our plans to separate into two highly-focused, industry-leading publicly traded companies of scale. But we also continued to advance our strategic transformation plan behind the scenes as you'll hear in a few moments.

And now I'd like to spend a few minutes covering each of our businesses at a high level, and I'll kick things off with our Broadcasting segment, which had a stellar performance in the third quarter and once again achieved a new high revenue of $417 million. Obviously the biggest contributor to this growth was the significant expansion in our television station portfolio over the last year, including our acquisition of stations from Belo and London Broadcasting.

As you know, many of these stations are in the top 25 markets including rapidly growing areas like Texas and the Pacific Northwest. This serves to not only enhance our Broadcasting scale and reach but it has also provided highly attractive new markets for G/O Digital, on which I'll comment further in a couple of minutes.

Broadcasting revenue was also up strongly on a pro forma basis, reflecting robust growth in retransmission revenue and political advertising across our television station portfolio. We had a particularly strong quarter for political-related ad demand, reflecting a very strong footprint as well as very effective inventory management and strong stations.

The fourth quarter is also shaping up very nicely. Our political footprint is larger than ever with Gannett markets covering the majority of key competitive Senate and Governor races across the country in states such as Arkansas, Colorado, Florida, Georgia, Louisiana, Michigan, and North Carolina. Our stations are also covering 10 active House races in cities including Phoenix, Denver, St. Louis, and San Antonio.

The surge of advertising in the next two weeks will have a big impact on our political revenue, but our initial numbers give us confidence that full-year 2014 political ad revenue can finish substantially above 20%, 20% higher than 2012 excluding presidential dollars, and up in the low teens compared to 2010's midterm total.

Broadcasting advertising remains absolutely essential to a successful political campaign. At the recent TVB Futures conference in September, a bipartisan panel of political media planners and spenders discuss the fact that political spending on television is at the very core of what gets people elected to office. There will, of course, always be supplementary overflow to other mediums like cable, radio, and perhaps digital, but the panelists were very forceful in their statement that politicians were, are, and for the foreseeable future will continue to be highly dependent on broadcast television to get elected, and we frankly see that in our numbers as well.

Another key fact which I alluded to earlier is that Gannett Broadcasting has always been best in class at managing pricing and inventory. This is crucial at this time of the year because political advertising is purchased very close to air date and distorts market demand in ways that makes inventory management quite complex.

Our top-notch system for handling these intricacies and the reputations of our stations and their respective markets give Gannett a competitive advantage in a core capability for any Broadcasting business. We will take more than our fair share of political ads and our strong local news position is key to this revenue.

Now as you know, the huge demand for political advertising does of course displace some of our core advertising, as those advertisers will be seeing higher rates and could be crowded out in some markets due to all the political activity. What we've seen in past election years is our core advertisers save their money now and then come back and spend those dollars with us as we get past the elections.

Now let me switch gears and turn to Publishing where we achieved solid profitability during the quarter. Pro forma revenue declined 2.5%, largely the result of secular headwinds and a continuing soft but improved national advertising environment as lower advertising revenue was partially offset by circulation revenue growth.

We are very pleased that we were able to grow circulation revenue. This improvement clearly shows Gannett is receiving recognition for all the hard work we have done and continue to do to uncover new and better ways to reach our audiences and deliver content that they truly value.

Now we've talked in the past about our USA Today content additions and the terrific feedback we received from our subscribers in the markets where we launched this feature. We came up with a framework for our USA Today content additions by asking our readers what they wanted, testing that product, piloting the product in 4 markets, and later expanding it into 34 markets. The end result has been more highly-engaged subscribers that spend more time with their daily print editions, have increased ad recall, and ultimately have developed a stronger loyalty toward their local publications.

As I mentioned earlier, we are never satisfied and we want to build on the success we've seen with this initiative thus far. We recently completed a comprehensive market assessment project providing us information that has been tremendously insightful and frankly quite gratifying.

For one, we learned that introducing USA Today to our local papers made a substantial positive impact on overall impressions and satisfaction among current subscribers. Over half of subscribers said their overall impression of their local paper has improved across a number of areas, including quality, content, layout, and look and feel. Overall, about half are more satisfied with the local paper today as a result of this feature.

Second, the addition of USA Today sections has increased the amount of time spent with the paper. And readers cited a number of reasons for their increased engagement, including the fact that they have more information to share with others, they feel smarter about the important issues they want to keep up with, and they feel that they come up with more ideas about things to do. Ultimately, at least a half of subscribers believe the product is a better value now that it includes USA Today and other local content improvements, and this is contributing to a strong likelihood of renewing their subscriptions.

The creation of our USA Today content additions and the driving force behind our desire to conduct this market research stem from the same core idea: we keep our readers at the epicenter of everything that we do. That mantra has served this Company well for over 100 years and is something that we have been very focused on these last several years and are 100% committed to maintaining.

Now let's turn to our Digital segments where operating revenues were higher in the third quarter of 2014 compared to last year, driven by strong revenue generation, up 7% at CareerBuilder. G/O Digital, our locally focused digital marketing service business, continues to benefit from our expanded scale and is making inroads in each of the markets we have recently entered, including those to which we gained access through our expanded television footprint. G/O Digital again achieved terrific growth during the quarter for local, small- to medium-sized businesses, with revenues up 71% over the last year.

Growth at G/O Digital is coming in two equally important forms. First, the customer base is up more than 50% over last year. And second, average revenue per account increased by 12%. Growth is powered by a combination of search and social products, and we are focused on continuing to expand the products used by clients to even better meet their needs and drive results for them.

G/O Digital was also selected into the Strategic Ambassador Tier, the highest tier of Yahoo local ambassador program. This adds to our existing premier SMB partner status with Google.

G/O Digital also serves large retailers and brands, and continues to see traction across several key areas. For example, during the quarter, our mobile shopping app Key Ring launched Key Ring Express. The award-winning mobile app is now even more useful, curating loyalty cards, weekly sale ads, and coupons. With Key Ring Express, users also can receive notifications that are triggered by beacons and geo fence locations locally within 100 meters of their location. And for those of you who deal with feet, that is about 328 feet.

These features have been recognized by industry experts, including Digiday, which last week named Key Ring the 2014 recipient of best mobile app for e-commerce and retail. This speaks to both the dedication and relentless efforts of our talented sales force and also demonstrates the fact that businesses of all sizes are clearly seeing the value and tremendous flexibility that our customized, multivehicle approach to digital advertising affords them.

Finally, as you know we closed our acquisition of Cars.com on October 1. I'm sure many of you have questions regarding next steps and expectations related to the integration of Cars. We are absolutely thrilled to now be the sole owners of that business.

There are many, many factors working in Cars.com's favor. It has an outstanding product suite and a keen ability to listen to its customers and deliver innovations that set it apart. It has fantastic growth dynamics as advertisers continue to shift more and more of their spending toward digital offerings. And as sole owners ofCars.com we expect to strengthen its operations and further accelerate its growth.

Cars is a business we know extremely well. In fact as I've mentioned before, Jack Williams, President of Gannett Digital Ventures, has been the one steady hand on Cars.com since its inception in 1998. It has truly terrific growth characteristics and has evolved from a business that was buttressed by the publishing operations of its owners into a standalone, leading-edge digital business and a strong competitor serving over 20,000 dealers.

From 2006 to 2013 Cars.com revenue grew at a compound annual growth rate of almost 20%, while EBITDA increased at a compound annual growth rate of almost 40% over the same period. To add to that, we believe we are gaining full ownership of Cars at the right time in the cycle as advertisers continue to increasingly shift more and more business to digital solutions.

Now with regard to the integration of the business, specifically, the great news is that we expect it will be very straightforward as there is not much operational integration that needs to occur. Unrelated to the integration itself but certainly worth mentioning is the immediate and substantial uptick in Cars.com EBITDA we will see as a result of the new affiliation agreements that went into effect at closing. So suffice it to say we were incredibly excited to announce the close of this transaction, and we've been hard at work ever since with a focus on accelerating growth at an already rapidly growing business.

Now before I turn it over to Victoria, I'd like to comment briefly on our intent to separate into two publicly traded companies: One focused on our publishing business and its related fast-growing digital components, which will be virtually debt-free, and another comprised of our higher-gross, higher-margin Broadcast and Digital businesses. As standalone Companies, each of these businesses will have even sharper management focused and resources that are more directly aligned with their individual needs and priorities.

As you heard me say back in August, all of our businesses have grown stronger as a result of the successful execution of our transformation plan, making this absolutely the right time to separate them into two financially and strategically strong Companies, with impressive scale and competitive positioning in their respective markets. While clearly we have a great deal of work to do on that front, we continue to expect to close and complete the separation transaction in mid 2015.

With that, I'd like to turn it over to Victoria who is going to provide a detailed review of our financial results. Victoria?

Victoria Harker *- Gannett Co Inc - CFO*

Thanks Gracia and good morning everyone. As Gracia has already mentioned, the third-quarter financial results highlight the outstanding progress we've made in the strategic transformation of our Company. Before I review the results by segment, as well as our capital allocation efforts during the quarter, I'd like to spend a few minutes reviewing several special items which are included in our results to help provide additional context for our recurring trends.

During the quarter our ongoing efforts to transform the business, initiated over two years ago, resulted in greater operating efficiencies and effectiveness across the portfolio as well as new revenue opportunities. To that end, this quarter we incurred $3 million in workforce restructuring expenses, coupled with $7 million in other transformation costs related to restructuring our real estate portfolio. These operating special items total $10 million with an EPS impact of about $0.03 per share.

From a non-operating standpoint during the quarter, we incurred $20 million in costs related to the London Broadcast and Cars.com acquisition, as well as our planned spinoff. As a result, total operating and non-operating special items for the quarter were $30 million, with an associated GAAP EPS impact of about $0.10 per share. In addition, during the third quarter, we also recognized a $6 million favorable tax adjustment on the sale of a television station with associated EPS benefit of $0.02 per share.

Beyond this, during the quarter we incurred $11 million in costs associated with our strategic initiative spending, which continue to drive significant cost savings. Our efficiency programs include further consolidation of our printing and distribution platforms as well as our real estate footprint, the hubbing of our financial support organization and streamlining our customer service efforts. As a result of the savings, we continue to invest in our new initiatives.

Now let's turn to total Company results. As a reminder, you can find all of our reported data and comparisons in our press release. As usual, I'll be focusing on our non-GAAP and pro forma numbers today. Across the portfolio, total Company revenues of $1.4 billion were up 4% year over year on a pro forma basis, reflecting the strength of our Broadcasting and Digital segments. On a reported basis, that's fully 15% above last year. Again this quarter, strong political advertising spending and retransmission revenues helped drive these results, propelling the Broadcast segment to a historical revenue high.

We could not be more pleased with how well the Belo integration continues to progress, with a third full quarter of results producing strong EBITDA synergies driving the full-year trajectory ahead of the $75 million we had previously projected and non-GAAP EPS accretion of $0.43 per share for this year.

Now let's turn briefly to cost- and efficiency-related efforts on both a Company-wide and segment-specific basis. During the third quarter, total Company operating expenses of $1.2 billion on a pro forma basis, excluding special items, were slightly lower year over year as a result of our continued focus on efficiencies as well as lower volume in the Publishing segment.

Now turning to segment-specific results: Pro forma Broadcasting segment revenues were up 19% year over year for the quarter, benefited by strong retransmission fees, political-related advertising, and digital revenue. Political campaign spending of $40 million was even stronger than anticipated for the quarter, an increase of $34 million compared to last year and 31% higher than 2010.

Political advertising spending of $40 million was even stronger than anticipated for the quarter, an increase of $34 million compared to last year and 31% higher than 2010, which is the best political comparison as 2012 was the political election year thanks to some hotly contested state and local campaigns. As a result, our stations in Denver, Little Rock, Tampa, Minneapolis, Phoenix, and Charlotte have significantly surpassed 2010 revenue comparisons.

Re-transmission fees continue to cycle upward as well by about 61% on a pro forma basis. That said, core advertising continue to trend softer during the quarter, mainly attributable to political displacement due to significantly higher demand for television advertising. Broadcasting Digital revenues were up 24%, driven by the digital marketing services that continue to see growing strength in the newly launched Belo stations as well as in the existing stations as these markets are all fully trained on G/O Digital products and starting to see strong sales traction.

Based on current trends and including a full quarter of results for the former Belo and London stations, we expect the increase in total television revenues for the fourth quarter of 2014, compared to the fourth quarter of 2013, to exceed 115%. On a pro forma basis, the percentage increase in total television revenues in the fourth quarter of 2014 is projected to be in the low 20%s compared to the fourth quarter of 2013. Broadcast segment operating expenses were up 3.6% year over year on a pro forma basis, driven by higher revenues from new and existing stations as well as reverse compensation and investments in sales and marketing tools in support of new digital growth initiatives.

The Publishing segment advertising revenues of $495 million were impacted by secular pressure, down about 4% on a pro forma basis excluding Apartments.com, with the year-over-year print advertising revenue decline partly offset by digital growth of 15%. Within the segment, domestic publishing advertising revenues decreased by 5.8% year over year. However, advertising revenues posted sequential improvements across many categories. While comparisons of auto and fleet categories have improved throughout the year, reflecting the recent strength of the US economy and the job market.

In the UK, Newsquest advertising declined by about 2% year over year. However, they saw second year-over-year quarterly bottom-line improvements.

Pro forma domestic online advertising revenue in the Publishing segment increased 13% year over year, with retail advertising up 19%, driven by G/O Digital with a growing base of customers seeking to diversify their marketing spend while increasing the efficiency of their online advertising solutions.

National Digital revenues also improved 16%. Newsquest online advertising was up a robust 20%, driven by retail and employment category advertising.

Overall, Publishing segment circulation revenue was up year over year by about 1%, driven by the ongoing strength of the all access content subscription model, as well strategic price increases in our local publishing sites which reported their first year-over-year increase this year. In addition, our local domestic publishing sites also continue to benefit from the 34 market integration of our USA Today content. This allowed us to strategically increase pricing, resulting in year-over-year home delivery revenue growth. USA Today grew circulation, which was down 2%, due in part due to planned volume loss.

In the UK, Newsquest circulation revenue decreased by approximately 5% local currency due to the cycling of cover price increases last year. Publishing segment operating expenses were below last year, down approximately 2% due to lower volume as well as efficiency gains generated by Gannett publishing services, sourcing, and other direct cost reductions.

During the quarter, Digital segment revenue increased by 4% year over year, driven by the continued growth at CareerBuilder, which was up 7% year over year. CareerBuilder's strong revenue growth continued to be driven by expanding sales of human capital software as a service, or SaaS products. Further reinforcing CareerBuilder's commitment to expanding its SaaS portfolio, CareerBuilder acquired Broadbean earlier this year, partly contributing to its strong year-over-year growth.

Beyond CareerBuilder, ShopLocal also had another very strong quarter, driven by search work for major advertisers and increased development revenue.

Digital segment operating expenses were up 1% in the quarter, reflecting incremental expenses occurred at CareerBuilder to leverage in their recently acquired asset, as well as increased investments to grow CareerBuilder's market-leading sales presence within the US and other digital investments, including technology development and human capital software solutions.

During the third quarter, Company-wide Digital revenues totaled $404 million, reflecting an increase of 7% year over year on a pro forma basis. Digital revenues contributed 28% of total Company's revenue during the quarter. Total Company adjusted EBITDA of $342 million increased by 22% on a pro forma basis, with year-over-year gains driven by both Broadcast and Digital segments, which generated about three quarters of total Company EBITDA.

Free cash flow for the quarter was $186 million, which was 76% higher than last year due to our strong operating results. As Gracia noted, we closed our Cars.com acquisition on October 1.

With respect to the near-term financial impact, in the fourth quarter we expect an impact of Publishing segment EBITDA in the range of $7 million as a result of the new affiliation agreements that went into effect October 1, with significant increases in Digital segment EBITDA. Overall, equity income will be lower by about $6.4 million now that we own Cars.com in its entirety. As a result, we expect the addition of Cars.com to be about neutral to net income and EPS in the fourth quarter.

During the quarter we invested $40 million in capital projects, primarily related to ongoing digital development as well as product integration, automation, and enhancements at CareerBuilder. CapEx spend for the full year is now projected to be closer to $160 million, reflecting previously unbudgeted items such as Cars.com, and several local publishing real estate initiatives, which generate operating cost savings. Again this quarter, the majority of our capital investments continued to support development of digital products and platforms, as well as our efficiency projects.

Beyond this, in tax the non-GAAP income tax rate for the fourth quarter is now estimated to be just under 30%. With the completion of our $675 million senior notes offering last month to finance the Cars.com acquisition at highly favorable rates, our outstanding debt is $4.1 billion as of the end of the quarter, and cash on the balance sheet stands at $1.4 billion at the end of the third quarter.

Also during the third quarter, we continue to carry heavier interest expense of $66 million, largely due to the debt associated with the Belo acquisition. As previously indicated in our last call, our share repurchase program has been temporarily suspended as of the end of the second quarter in support of the Cars.com acquisition. That said, we have already completed over 50% of our $300 million commitment to share repurchases. With that, I'll turn the call back to Gracia for her closing remarks.

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

Thanks Victoria. We have clearly momentum building across many areas of our business. And we are relentlessly focused on finding every opportunity to better serve our audiences. Our strong, predictable cash flows and healthy balance sheet provide us with the financial flexibility necessary to fuel these efforts and to make investments that will continue to drive growth.

We feel really good about the way each of our businesses is positioned amid today's increasingly digital media landscape. Clearly our Publishing and Broadcasting businesses are buttressed by strong digital strategies. The needs and preferences of our readers and viewers may be changing, but we have used that dynamic to our advantage as we have developed and continue to develop new and innovative ways to reach them.

We are also very optimistic about where we are with digitally-focused offerings especially given the addition of Cars.com to our portfolio. We expect to close out 2014 on a very good note. And while we are looking forward to the closing of our separation transaction, for the next few quarters we remain laser focused on executing the strategies we've outlined and delivering consistently positive results across each of our business segments.

Before we move to Q&A, I want to remind everyone that next Wednesday, October 29, we are hosting an investor meeting focused on our newly expanded Digital portfolio, specifically the two major pieces, Cars.com and CareerBuilder as I mentioned earlier. The meeting will be held at 9 AM at Le Parker Meridien in New York City, and we are looking forward to seeing many of you there. If you have any questions about the event, please call Jeff Heinz, and you can reach him at 703-854-6917. Now I'd like to open it up for questions. Operator?

QUESTION AND ANSWER

Operator

(Operator Instructions)

William Bird, FBR.

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

Good morning. Gracia, where does your ABC renewal stand? Is your reverse payment in the expense base yet? And though it wasn't under ownership, do you have a sense of how Cars performed in the quarter? Thank you.

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

Let me start with the ABC negotiation and with respect to whether the expected expense for reverse retrans. We have been accruing at what we think is the appropriate level since the expiration of the affiliation agreement earlier this year, so that is in fact baked into our expense numbers in the quarter.

We have been having a very collaborative and good set of conversations. I think we are soon to conclude those negotiations, and I believe that they will be good for both of our Companies and reflect the strong partnership and good feelings we have towards ABC. Dave, I don't know if you want to add anything.

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

Yes. I would just add that obviously for the Belo stations, that agreement doesn't end until the end of this year, so those numbers were also already in there as you pointed out. So as you said we've been accruing for the Gannett stations and it's not uncommon for ABC in the past for those deals to go on for many months as they work through a lot of issues.

But we worked through an enormous amount of issues, more than I think that have been done perhaps in the past, and some signed agreements. So as Gracia said, we are working through them and it's been a very good process and we should be wrapping up very soon.

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

And on Cars.com, I frankly haven't seen the numbers, but I believe that they have done exactly what we had hoped, if not slightly better.

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

Thank you.

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

Thanks Bill.

Operator

Jim Goss, Barrington Research.

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

Thanks. I've got a couple of them. One relating to Broadcasting. CBS and Fox have both been more aggressive in terms of programming cost payments or reverse comp demands, and I'm wondering also in terms of affiliation agreements. And I'm just wondering your view of the impact on the industry environment in terms of acquisition potential and revenue opportunities.

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

Yes. Let me start and then I'll ask Dave of course to jump in. First off, I can't really speak to Fox because we don't have any -- we have two small Fox affiliates, but that's clearly not an issue for us. With respect to other affiliation agreements, the only negotiations we have had are with ABC, so I really can't speak specifically to CBS or for that matter NBC at this point.

To refresh everyone's memory, our CBS agreements don't come up for renewal until the end of next year and NBC in early 2017. But I think I would say conceptually that there's been a lot of speculation by a lot of folks with emphasis on speculation, but not necessarily a lot of facts, and there have been a lot of different sized groups and individual stations that we hear lots of things about in the marketplace.

But I have to tell you I think we all have to remember that there are really two pieces to this equation. First, the retrans side where we continue and will continue to work on closing the gap between what we are paid for our content and the value we provide, versus what others such as some sports folks are paid. And we are working each and every time we negotiate to close that gap and appropriately reflect our value.

Now on the reverse retrans side, there's lots of different formulations out there that we are hearing, but I think it all boils down to we believe in having strong relationships with our network partners. We believe in them getting fair value for what they bring to the table. And we particularly appreciate the great job that Les has done with respect to programming and NFL football. We appreciate the great job that NBC has done in extending the Olympics to 2032 and NFL football and other and they're great news programming. And so we believe that they bring things to the table and to the partnership just as we bring things to those partnerships.

And our strong stations and the distribution and the promotion that they provide, I think about just this year -- earlier this year with the Olympics. The fact that Gannett stations I believe were four of the top five performing stations for NBC. And KARE Minneapolis was the number-one station across the entire NBC affiliate group for their performance from sign on to sign off.

So I think there's a lot of things that we provide. There's a lot of things that our partners provide and we will negotiate with our network partners, collaboratively, but we will negotiate in private.

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

Okay. Thanks. I was looking more for that philosophical side than specifics.

The other question I'd have would be involving circulation experience. Have you noticed any difference within your group by market size or maybe the USA Today effort has trumped this a little bit. But I'm wondering if you've noticed any difference by market size, and has there been any impact on the ad trends in those markets as you have stabilized circulation? Have smaller markets done better than the bigger markets within your group is the primary issue.

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

I'll begin it but then I'll smartly turn it over to Bob Dickey. What I would like to say and reinforce is that the addition of those USA Today sections as you heard me talk about earlier, and the impact that we are seeing on the value that our subscribers feel and have expressed, and the less likelihood to churn their subscriptions. And their engagement with this content, both the USA Today section and the paper as a whole, I think bodes very well for not only our circulation revenue but I think it bodes well for our conversations with advertisers. But Bob why don't you jump in here?

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

Yes. We are very, very happy with the results in our larger markets. Frankly they've performed slightly better than we had projected. And into Gracia's point, in the markets in which the local USA Today edition is included, those markets, our top 30, 35 markets are performing a number of percentage points better than the smaller markets that at this time do not have the full USA Today local editions.

So from a circulation standpoint, we are very happy with both the volume, the retention, at this point in time. Starting with our largest market, Phoenix, which is doing very well with their most recent price increase.

As it relates to advertising trends, that is really not as much a market size as a geographic issue. Certain parts of the country, like the Northeast, are more challenged than where we are seeing some great results like in the Midwest and the State of Florida.

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

All right. Thank you very much.

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

Thanks Jim.

Operator

Doug Arthur, Evercore.

Doug Arthur *- Evercore Partners - Analyst*

Gracia, you lost me a little bit on your expectations for political in the fourth quarter. You were making various comparisons to the last midterm and then to 2012. Can you just go over those again? And then I'm wondering if Dave could breakdown the other category, $33,964 that you broke out on in terms of TV. How does that breakdown? Thanks.

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

Yes. Let me start and I apologize for any confusion that I caused. For the third -- let me start by saying we had record political and we will have record high fourth-quarter political for non-Presidential year this year.

In the fourth quarter what we're looking at is an expectation that political will be anywhere to high singles to even potentially, depending on runoffs and the like, low teens above 2010's fourth quarter. And against 2012, if you exclude Presidential, which is typically I think around 35% of political, then we will see a nice increase against what we accomplished ex-Presidential in 2012. So we feel extremely good about political and believe that once again political is really an important -- political spending finds strong affiliate television in those markets where there are competitive races to be the compelling vehicle to advertise on.

Getting to the portfolio, it depends on your footprint a lot. And in Little Rock for instance, we are having a tsunami of political this year. Whereas in 2012 and 2010, there was virtually nothing. In Denver we're ahead of 2012 in the third quarter, which included Presidential last time. And well ahead -- I think double what we achieved in 2010. And I could go on and on.

But really it's the footprint, it's the strength of your station in the market, and then it's really smart inventory management. And we are blessed with the fact that we have all three of those teams going at the same time.

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

Doug to your second question, the majority of that $33 million is Digital, and a few various other revenue streams that we've got at some stations, but the vast majority of that is Digital.

Doug Arthur *- Evercore Partners - Analyst*

Okay. And just as a clarification Gracia, when you are comparing Q4 2014 to 2010, is that pro forma?

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

Yes. Absolutely.

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

Yes.

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

Yes. Totally.

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

Okay. Thank you.

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

Thanks Doug.

Operator

John Janedis, Jefferies.

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

Hi, thank you. Good morning, Gracia. I'm just wondering, back to reverse retrans for a moment, would there be any benefit, or would you consider negotiating with CBS or NBC early? And then are you increasing your hours of local news?

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

To be honest with you, on CBS the affiliation agreement is coming up at the end of next year. So we will be talking with them into 2015, so I'm not sure there's anything really early that we would be doing there. And we'll just have to see how these things play out. Dave, do you want to talk about additional hours of news programming?

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

The answer is yes. We are. I don't have that number in front of me, but each year we add more and more news programming. Not just news programming, but also local non-news programming. So we continue on a pro forma basis to the last question, we are adding them all the time.

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

Great. Thank you.

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

Thanks John.

Operator

Joan Lappin, Gramercy Capital.

Joan Lappin - ***Gramercy Capital - Analyst***

Good morning and congratulations on more good work. I have one question about Digital. Which is it grew 4% but at some point aren't we expecting that growth to accelerate to a higher percentage than that if that's your future?

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

Absolutely, and I think you're going to see that begin -- see that even more manifest in the fourth quarter as we fully consolidate Cars.com, and on a pro forma basis that accelerates, certainly that growth rate. I think also at CareerBuilder where they've done a fantastic job as Victoria pointed out in not only ramping up their new product development in what I think we would all argue has been at least until very recently a fairly tepid job environment.

And I think in the acquisitions that they have done over the last couple of years that Victoria mentioned in Broadbean and in EMSI . They are very much focused on the faster growing software as a service business and data analytics around employment solutions. So I think what you're going to see is absolutely that steady progression of increasing Digital segment revenues over the next several years as many of the investments we have been making in that business continue to ramp up.

Joan Lappin - ***Gramercy Capital - Analyst***

And one segment, Gracia, that you had made a big fuss about three years ago was sports. And you don't talk about that much anymore. So is that one of those segments? Or is that -- ?

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

Well actually, sports would not be in the Digital segment. Let me just go back. In our Digital segment, we include CareerBuilder -- our ownership -- our 53% ownership of CareerBuilder and ShopLocal, PointRoll, and a couple of other smaller digital businesses. The Digital revenues with respect to our sports initiatives and other initiatives that our Broadcasting group and our Publishing group do are embedded in their numbers. So when we talk about the growth of Digital and Publishing for instance and in Broadcasting, that would encompass those kinds of initiatives.

And in fact I think we talked about Digital growth at USA Today being very, very strong this quarter. So we are seeing that Digital growth in those divisions, and then the segment itself has merely -- includes the businesses that we own like CareerBuilder, soon to be Cars.com, ShopLocal, PointRoll, and a couple of other small businesses.

And then, obviously, Broadcasting's Digital revenues were up 20% in the quarter. So I think you see that as we mentioned those numbers, that we are seeing the growth in Digital in our divisions as well as in our Digital segment.

Joan Lappin - ***Gramercy Capital - Analyst***

Thanks.

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

You're welcome.

Joan Lappin - ***Gramercy Capital - Analyst***

See you next week.

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

Yes. Look forward to it.

Operator

Alexia Quadrani, JPMorgan.

Alexia Quadrani - ***JPMorgan - Analyst***

Hi. Thank you. Gracia, you mentioned, I think, in your opening comments about the crowding out of the core advertising due to the strong political in the Broadcasting segment. Is there any more color you can give on the health of the underlying advertising? Obviously the softness seems to be skewed because of political, I guess any color on the overall health of that market just in general, would be great.

And then just a follow-up on your newspaper commentary. Your ability to generate the nice increases in circulation revenue because, in part because of the insertion of the USA Today. I guess when you circle all of that, do you think there's still room for further price increases on that copy?

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

Let me start with the Broadcast question, and I'll certainly ask Dave to jump in as well and then I'll ask Bob Dickey to share with you pricing opportunities.

With respect to the core, I think universally folks were disappointed with national advertising in the second quarter, it was softer. There are a variety of reasons including the World Cup and other events that perhaps muted national advertising. At the time and during our second-quarter earnings call, we indicated that we saw improved Broadcasting results. Not necessarily positive for the third quarter because of that displacement, but certainly improved from the second quarter. And that is, in fact, exactly what happened.

In fact, in July, national advertising was up a few percent. And then obviously as political crowded out and pricing, obviously, for political goes up, we saw national being more tempered. But again, national in totality in Broadcasting for the third quarter was better than what we saw in the second quarter, and similarly for USA Today. They saw a better national outcome in the third quarter than they saw in the second.

So it'll be a little tough in the fourth quarter, obviously, to be able to demonstrate that underlying strength in our core business, because when you think about the level of political that we will write primarily in a month and a week, it's extraordinary. And so I was just in Little Rock a couple weeks ago, and frankly I was tuning into our station of course, and I have to tell you it was political ad after political ad after political ad, which was wonderful to see. Great for democracy. But, obviously, didn't leave a lot of room for other folks who wanted to advertise their products and services. But Dave, why don't you add anything you'd like?

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

Yes. Just to expound on what you said about national; national was better in the third quarter on an absolute basis even with political displacement, which is significantly higher in the third than the second. So what we had said on the last call that national was improving on an absolute basis is true.

Alexia Quadrani - ***JPMorgan - Analyst***

Thank you.

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

Local as well.

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

Yes.

Alexia Quadrani - ***JPMorgan - Analyst***

Thank you.

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

Thanks Alexia.

Operator

Craig Huber, Huber Research Partners.

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

Yes. Good morning Gracia. Just a few simple questions here. First one if I could, what was the organic auto TV advertising percent change there in the quarter, and how is that tracking for the fourth quarter?

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

Obviously, auto advertising like many of our other categories was impacted and that's particularly a category since it is about 25% or so of our advertising spend in Broadcast. That's particularly a category that's going to be impacted by that phenomenon that I just talked to about that I saw in Little Rock. So it's really hard for us to give category numbers because I'm not sure that they are in any way meaningful.

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

Okay. And then can you talk a little bit further, if you'd just maybe update us on your outlook for the Belo cost savings and synergy numbers versus what you originally gave investors; obviously it closed about 10 months ago, but how has that number changed please?

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

We are very, very pleased with what we have been accomplishing with the Belo stations. As we said at the time that we acquired them, these are incredibly strong stations and we could take advantage of, number one, our after-acquired clauses in many as our retrans agreements, but as well obviously some corporate expense and some other things that we just could consolidate as we have already consolidated them in the Gannett stations. And so I think at the time we said we would achieve synergies of about $75 million Victoria?

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

Right. A little bit -- even better than $75 million as noted in my remarks and about $0.43 or right on target.

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

Yes. If not ahead of that number. So that's a real home run for us and we're delighted with the progress that we've made there. And we've got the New London stations in Texas that we're all equally as excited and enthusiastic about, and they are doing a wonderful job integrating into the family over these last few months. And we'll be doing a lot of work there, as well, to help them with integrating into the scale of the Gannett Company.

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

And then lastly Gracia if I could ask you on the network compensation, you touched a lot about this today. But is there anything you're hearing from the broadcast networks where if you see it play out this way that the TV station affiliates will maybe take on some more inventory during the primetime hours rather than what had been traditional broadcast network hours for more advertising inventory you would take on, but you would have to pay a higher network compensation? More so perhaps than what you expected.

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

I am going to ask Dave Lougee to speak to that.

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

Craig, we have always had good dialogues with the networks about where there may be a better traded inventory -- when we did a deal with NBC on the Olympics a few years, there was some inventory they coveted that maybe was of more value to them than to us. So that's always going on at an affiliate board level across the industry, not on a group-by-group basis as part of any discussions. So those would not really be tied into affiliate contracts, but it would be part of the overall affiliate relationship and does happen all the time.

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

Thank you. And we very much appreciate all of you joining us today and sharing in the great news that we had to deliver today. If you have any lingering questions, please give Jeff a call. And thank you all so much for joining us and spending time with us.

Operator

Again, that does conclude today's conference. We do appreciate your participation. Please have a great day.