GCI - Gannett Co., Inc. Joint Conference Call to Discuss Definitive Agreement to Acquire Belo Corp.

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OVERVIEW:

On 06/13/13, GCI announced that it has entered into an agreement to acquire Belo by paying $13.75 per share in cash for all outstanding shares of Belo plus assuming about $715m of existing debt.

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PRESENTATION

Operator

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

Jeffrey Heinz *- Gannett Co., Inc. - VP of IR*

Thanks very much. Good morning, and welcome to our conference call to discuss Gannett's agreement to acquire Belo. Before I turn the call over to Gracia Martore, Gannett's President and CEO, I need to remind you that this conference call and webcast includes forward-looking statements, and our actual results may differ. Factors that may cause them to differ are outlined in our SEC filings. With that, let me turn the call over to Gracia.

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

Good morning, and thank you, for all of you, for joining us on such short notice, to discuss our agreement to acquire Belo. I'm here today with Dunia Shive, President and CEO of Belo; Victoria Harker, our Chief Financial Officer; and Dave Lougee, President of Gannett's soon-to-be-expanded Broadcast group. Let me start by saying what a great day this is for both of our companies. We are bringing together two highly respected media companies with rich history of award-winning journalism, operational excellence, and strong brand leadership, in a transaction that delivers tremendous strategic and financial benefits, while creating great value for both sets of shareholders. As you know, since we announced our growth strategy in February of last year, we have been successfully transforming Gannett into a diversified multimedia company, with broadcast, digital, and publishing components across high-growth markets nationwide. We've been laser-focused on executing our strategic initiatives, and leveraging our key differentiator, our Company's unparalleled local connection and reach.

Our strategy is working. For three consecutive quarters, we've achieved year-over-year revenue growth, and made strong progress in a number of key areas. Today's announcement is another important step in the process, and one we expect to contribute to our growth in a very meaningful way. The combination, including the stations to be serviced by Gannett through sharing arrangements, nearly doubles Gannett's Broadcast segment, and creates the fourth-largest owner of major network affiliates. In other words, we have become a true Super Group. Importantly, Belo and Gannett share similar cultures, and a like-minded commitment to high-quality journalism and service to the communities we are in.

Now some of you may know that before joining Gannett, Dave Lougee was at Belo for nine years, with responsibility for all media operations, except Dallas. He is uniquely familiar with Belo's markets, stations, and very talented people, which we believe is a great advantage as we move forward. Financially, this transaction creates significant value for our shareholders, over both the short and long-term. We anticipate it will generate approximately $175 million in very achievable annual run rate synergies, within three years after closing. The transaction is expected to be immediately accretive to non-GAAP EPS, with as-realized synergies. Importantly, the deal provides significant value, while allowing us to maintain our strong and flexible balance sheet.

To that end, we are reaffirming our commitment to return value directly to you, our shareholders. We will continue our share buyback program, and have, in fact, replaced our existing remaining authorization with a new $300 million authorization, expected to be used over the next two years. And we will also of course maintain our current annual dividend of $0.80 per share. Given our balance sheet strength and increased cash flows from Belo's broadcast stations, we expect to promptly pay down the debt associated with this transaction, while maintaining significant financial flexibility, as well is our conservative financial profile going forward.

But let's now take a look at an overview of the transaction, and the benefit it provides to shareholders. As you saw in the release, we are paying $13.75 per share in cash for all outstanding shares of Belo, plus assuming about $715 million of existing debt. The transaction valuation implies a 9.4 times average 2011-2012 EBITDA multiple, prior to synergies, but only 5.4 times after synergies. We plan on funding the acquisition through a combination of cash on hand, accessing the rather robust capital markets, and bank financing. We expect to close by the end of 2013, of course, subject to a vote by Belo's shareholders, as well as FCC and antitrust approvals. Belo's directors and officers, executive officers, who collectively have approximately 42% of the voting power of Belo shares, have entered into voting and support agreements to vote their shares in favor of the transaction.

Now with that brief overview, I like to turn the call over to Dunia, who is truly one of the best operators and leaders in the industry, for some comments from the Belo perspective. Dunia?

Dunia Shive - ***Belo Corp. - President & CEO***

Thank you, Gracia, and good morning, everyone. Let me begin by echoing Gracia's sentiments. I am truly excited about this combination, which brings together two of the country's strongest media companies to create a leading broadcaster that will be well-positioned for future success. Simply stated, I believe this combination is both financially and strategically compelling. From a financial perspective, this transaction provides attractive value for Belo's shareholders. Belo's shareholders will receive the certainty of cash at an attractive premium of approximately 28% above Belo's closing price yesterday.

In a year with a significant increase in our stock price, this transaction still represents a 17% premium to our stock's 52-week high. The deal comes at an appealing multiple of about 9.4 times our 2011-2012 average EBITDA. From a strategic standpoint, Gannett represents the ideal partner for Belo. The transaction will create one of the largest broadcast groups in America, reaching nearly one-third of all US television households. The group will include a complementary portfolio of 43 television stations, 21 of which are located in the nation's 25 largest markets, including stations to be serviced by Gannett through sharing arrangements.

Not only do our operations fit well together, both companies also share a similar commitment to the highest level of journalistic integrity, and we are both active participants in the communities in which we serve. Ultimately, this transaction will enable our media businesses to become part of an even larger, more diverse, media organization that is focused on and committed to growth, which will deliver clear benefits to all of our stakeholders, including our viewers, online audiences, and advertisers. I'm extraordinarily proud of the path Belo has forged and the significant role that it has played in the broadcast industry over the years. Our stations have been a vital part of their communities, and their focus on quality journalism has resulted in numerous national awards over many years. I'm excited about the opportunities ahead for Belo's media businesses and believe that, with Gannett, they will be able to continue to build on their strong foundation, and that the combined assets of the Company will be well-positioned for future. With that, I'll turn the call back to Gracia.

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

Thanks very much, Dunia. You and your team have much to be proud of; you have built a truly top-notch local journalism station group. I'm going to provide a deeper look into what our combined broadcast operations will look like following this transaction. As you can see from the slide, we expect Belo's assets to add more than $680 million on our top line and to contribute over $230 million to EBITDA, an increase of more than 37%. Now this builds on our already successful initiatives to shift our business mix towards higher-growth, higher-margin assets, broadcast and digital. Following the close of the transaction, and based simply on 2012 financials, we expect more than 50% of our total EBITDA to come from our broadcast segment alone, and nearly two-thirds of Gannett's total EBITDA to come from our broadcast and digital segments combined, a significant shift in our business mix.

Now, if you look at slide 7, you'll see that after the combination, Gannett's reach will nearly double to almost one-third of all US households. Turning to slide 8, you can see that this combination gives us a significant presence, with 21 stations in the top 25 markets strengthening our footprint and enhancing our go-to market strategy overall. We become the largest player in the top 25 markets, meaning that among the Big 4 network TV station owners in the 25 largest markets, Gannett and Belo combined will be the largest owner-operator in terms of number of TV stations. And as you can see on the chart, Fox O&O's would be second, followed by CBS, then followed by NBC.

One other point: The stations that Belo contributes are extremely strong, with deep roots in their markets. The majority of them are ranked number one or number two in their markets, excluding the O&O's. Their top three stations, WFAA in Dallas-Fort Worth, KHOU in Houston and KING in Seattle are all number one in their markets. This combination, as slide 9 shows, significantly strengthens our position among the major networks. We will now become the number one CBS affiliate group, reaching 10% of the CBS audience. We will be the number 4 ABC affiliate group, reaching 6% of their audience, and our position as the number one NBC affiliate group will be further expanded, we will now deliver 15% of NBC's total audience.

Now, as you'll see on the charts on slide 10, the combination likewise diversifies our broadcast business mix, spreading our revenue more evenly across all three major networks. Our NIBT contribution from NBC, for instance, is reduced from about two-thirds to less than 50%. Our CBS contribution grows to almost one-third from 26%, and our ABC contribution grows to about 20%, from just 6%.

On slide 11, we take a closer look at the broad geographic diversification, and associated geographic diversity of the new Gannett. We will go from having a presence in just four regions, the East, Southeast, Northeast and Midwest, to one in all regions across the country. We will now have access to areas such as Dallas, Houston, San Antonio, and Austin, as well as Seattle and Portland, which are some of the fastest-growing markets in the country, and ones we have been interested in entering for quite some time. It is also very important to note that with this combination, Gannett further amplifies its position as the largest local media company in the US, employing the greatest number of journalists, and with a significant presence in 110-plus communities nationwide. With Belo's 20 stations and our 23, plus our 80-plus publishing operations, we simply have an unmatched global reach, a distinction that provides us with unique access to millions of small and medium-size businesses, as well as a better place to drive home sports, digital marketing services, and other initiatives that are growing.

Now, I would like to address the issue of potential market overlaps, which frankly are quite minimal, given the size of this transaction. As part of this transaction, we are restructuring ownership of Belo stations in five markets. Now, after a very careful review, we are confident that we will able to own or service all of the stations. In the five markets where both Belo and Gannett have existing operations, that's Phoenix, St. Louis, Portland-Salem, Louisville, and Tucson, we expect to work with the new station owners through a combination of joint sales and shared service arrangements. We expect to consolidate all of the results from these stations into our overall financial results.

Now, I know I've talked a lot about the positive impact this combination will have on our broadcast segment, but we also see tremendous benefits Company-wide. Expanding our scope and geographic diversity will enable us to further maximize the investments we've already made across all areas of our business, including our innovative USA TODAY Sports, our newer USA TODAY Travel initiative, and our transformative digital marketing solutions, which continues to gain momentum in the marketplace, and frankly is a real game changer for us. We've already been successfully expanding our ability to sell digital products across more local markets, and extend our recognizable brand and national scale, and this transaction will help further advance those efforts. Now, I'd like to turn the call over to Victoria, who will detail the compelling financial benefits of this transaction. Victoria?

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

Thank you, Gracia, and good morning, everyone. As you can tell, we're very excited about this transaction, for all the reasons you've heard this morning, including both the strategic fit and its ability to generate substantial revenue and earnings growth, in the near and longer term. As Gracia discussed, we anticipate that it will be accretive to both earnings and cash flow within the first 12 months after closing.

On page 15, you'll find an overview of the key drivers of these financial projections. As the slide shows, revenue growth will be generated by increased retransmission opportunities with national distributors, and accelerated sales penetration, as a result of greater household reach. We also expect significant cost savings right up front, at the time of closing, purely from the elimination of duplicative public company costs. Beyond this, we will also gain cost efficiencies very quickly, by leveraging best practices and processes from both companies, to maximize efficiencies and leverage common platforms. In addition, our combined scale will provide for greater purchasing power, and allow us to become even stronger partners to our network affiliates.

As a result, we anticipate that this acquisition will be accretive to non-GAAP earnings per share by approximately $0.50 within the first 12 months. The cash flow produced by this combination supports our ongoing commitment to a strong balance sheet, while maintaining our dividend, our share buyback program, and investing in our ongoing transformation efforts. To that end, we remain confident in our ability to continue to return capital to shareholders, so much so that we announced today we are reconstituting our share buyback program, extending it 24 months from today, and targeting $300 million in repurchases over that same period. Clearly a lot is changing here at Gannett, as we continue down the transformation path we began just over a little over a year ago, but one thing remains an absolute constant, our financial discipline. This has positioned us well to take advantage of the tremendous opportunity today, and will provide us with even greater flexibility going forward.

Slide 16 provides you with a 30,000-foot view of the composition of the Gannett portfolio today, comparing it to a pro forma view of the Company at the time of close. As you can see, as a result of this acquisition, there is a very substantial shift in our segment and financial profile, with significant benefit to both the top and bottom line. At closing, the newly-combined broadcasting segment will produce more than 50% of the Company's earnings. Further, our higher-margin broadcast and digital segments together will contribute 62% of pro forma EBITDA, increasing EBITDA margins by approximately 400 basis points Company-wide. From a P&L perspective, this means we will see a pro forma increase in revenue of nearly 15% to $6.1 billion, with an associated increase of nearly $1.5 billion in adjusted EBITDA as a result of this combination. With the increased annuity-like cash flows the combination provides, new debt incurred will be easily serviceable. We will be leveraged at a manageable 2.3 times during our first year, and well-positioned to continue to retire debt, given the strong free cash flows generated by our combined businesses.

Now, let me turn the call back to Gracia for some closing comments, and then we will take your questions.

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

Thanks, Victoria. In closing, I want to remind you why we, including our Board, our leadership team, and me, are so enthusiastic about this combination. The acquisition of Belo provides a unique opportunity for Gannett to increase its broadcasting scale and deliver significant synergies, creating a new super group. This transaction will strengthen our broadcasting business by improving network and geographic diversity, accelerating new business initiatives, and supporting a strong revenue and profit trajectory. For Gannett overall, this combination is immediately accretive, enhances growth, margin expansion, and cash flow, and improves our mix of revenue, EBITDA, and NIBT toward our faster-growing broadcast segment, while supporting our overall transformation program, and providing a more favorable balance to our portfolio. I am confident in our ability to achieve the synergies outlined today, and execute a smooth and seamless transition to bring these companies together, and create significant value for shareholders.

With that, we would like to open the call up to your questions. Aisha?

QUESTION AND ANSWER

Operator

(Operator Instructions)

Alexia Quadrani, JPMorgan.

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

Just one question in terms of how should we think about the retrans opportunity going forward? Will the Belo stations come under your existing contracts, both on retrans and also on the reverse comp side?

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

Thanks for that question, Alexia. The vast majority of the Belo stations and retrans agreements will come under our after-acquired clauses. Obviously, that will ramp up during the course of the year and then we will have the great opportunity with the combined might of our two companies to look at those other deals, as they come up in future years.

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

Okay and is Belo currently paying a reverse comp already? Can you comment on that?

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

Dunia, would you like to answer that?

Dunia Shive - ***Belo Corp. - President & CEO***

Sure. We do. We pay reverse comp at our ABC affiliation agreements, and under our CBS affiliation agreements and our Fox affiliate. Our NBC affiliation agreement expired at the end of 2012, and we are currently in negotiations with them.

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

And just to remind you, Alexia, while the Belo stations are paying reverse comp, the Gannett stations do not. The Belo stations will continue to pay reverse comp, even after our acquire clauses, but as you know, our affiliation agreements don't expire, NBC until early 2017, CBS in late 2015, and ABC, the small number of ABC stations we have, in late 2014. Early 2014, excuse me.

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

Okay, thank you very much.

Operator

Michael Kupinski, Noble Financial Group.

Michael Kupinski - ***Noble Financial Group - Analyst***

Congratulations. I was curious, Gracia, that you're stating that you are not going to be selling any particular stations, particularly, you mentioned, in a couple of your markets, you have duopoly situations which are terrific, and the economies there could be significant, but in some of those markets, you have the top-rated networks in those markets, can you explain how you plan -- I know you're talking about doing some JSAs, but can you talk a little bit about how you plan to navigate the regulatory environment, on those types of stations?

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

Sure, Mike, and it is Mike Kupinski, I believe.

Michael Kupinski - ***Noble Financial Group - Analyst***

It is, thank you.

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

Let me start with a little bit of an overview, and then I will have Dave come in with all the details around this. But basically, in those five markets, we will put in place variations of SSAs, and depending on the markets, we will be able to do more or less shared services. So for instance in three of the markets, we would expect to have fairly robust service sharing, and in a couple of those markets, it will be less service sharing. But our FCC counsels, a couple of them, have given us great confidence that we will be able to do that, and we feel very good about that opportunity. But Dave, if you wanted to add anything?

David Lougee - ***Gannett Co., Inc. - President, Gannett Broadcasting***

I think Gracia said it well. I would just add a little color. So the two markets that you might focus on would be Phoenix and St. Louis. And effectively, those operations will remain. They will be owned by another licensee and operated by that licensee. And they will be almost completely independent operations that will compete head-to-head with each other in those markets, but will be consolidated in the financials.

Michael Kupinski - ***Noble Financial Group - Analyst***

Perfect, and just one quick question. Obviously, this gives you a broad reach now across the United States. Any plans to develop into programming a little bit more forcefully, and maybe eventually syndicating type programming? Is that the eventual plan here?

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

Well, Mike with 43 stations that we own or service, and given that, in the social media world that we are all in today, I think there are certainly going to be opportunities for us to look at those sorts of things. Our ability to pilot in a subset of markets, and then have carriage in a substantial number of markets, almost one-third of the country, is certainly a new and amplified opportunity for us. So, certainly, you should be thinking about that. We would expect with the size of our Broadcast group now, that a lot of innovative folks would be wanting to talk to us first on a lot of those innovative ideas.

Michael Kupinski - ***Noble Financial Group - Analyst***

Perfect, thank you. Congratulations, again.

Operator

Marci Ryvicker, Wells Fargo.

Marci Ryvicker - ***Wells Fargo Securities - Analyst***

A couple of questions, first of all, congratulations to both of you. I just want to know the impetus for this, I guess, acquisition or merger. Are you looking to get even bigger in terms of M&A, and can you just tell us what your coverage might be from an FCC perspective? I don't know how many how many UHF stations you have, so from an FCC definition, that might be less than one-third of the country.

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

Right, honestly, it is a bit less than -- Dave do you have that number?

David Lougee - ***Gannett Co., Inc. - President, Gannett Broadcasting***

It would be in the mid to low 20%.

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

So, obviously there is opportunity, and I think the impetus of it is pretty much as we have outlined. This gives us an enormous amount of scale. We think scale is very, very important in an evolving media market place. It is important in all of the relationships we have, to have the scale that we will now have. It is important for our

Company and the Belo company, because we have, as you may know, invested in -- over the last 1.5 years, a number of transformative digital initiatives, such as our digital marketing services, which obviously are very important opportunities for small and medium-sized businesses in the communities we serve.

Opening those digital marketing services and then amortizing them over a bigger platform of communities, especially in high-growth markets like Dallas, and San Antonio, and Austin, and other markets that the Belo properties bring to us, is just an enormous opportunity for us to amplify the success that we are already seeing there. And we just think, all around, it gives us great geographic diversity, great network diversity, as I mentioned, and it just gives us a lot of opportunities to innovate against a large-scale broadcasting footprint.

Marci Ryvicker - ***Wells Fargo Securities - Analyst***

It sounds to be me more like this is organic growth, and that you may not be looking to target other TV station groups. Is that the right way to take away from your comments?

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

Well, we certainly believe that there is an enormous amount of organic growth that we are going to have, as a result of the combination of these two companies. But if there is one thing I've always learned, you never say never. I will tell you we've looked at a lot of television opportunities, but the Belo stations and the sharing of the same cultural values and heritage, and focus on local quality, local journalism, made this a unique opportunity to bring two great companies together. There may be other opportunities, but this was a unique one.

Marci Ryvicker - ***Wells Fargo Securities - Analyst***

Great, thank you.

Operator

Doug Arthur, Evercore Partners.

Douglas Arthur - ***Evercore Partners - Analyst***

Yes, Gracia, the $175 million in synergies seems like a big number to me three years out. Can you elaborate on that? And, how much of that $175 million, you talked about the digital marketing aspect of leveraging these new stations, how much of that is attributable to other, how it will benefit other Gannett initiatives right now? Thanks.

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

Sure thanks, Doug. I'll give an overview, and Victoria, if you would jump in with more specifics. Basically out of the gate, in the first year, we expect to have about $75 million of synergies. Most of that is locked and loaded, for lack of a better word, in terms of after acquiring clauses and opportunities that we have on the retrans front. And then obviously, there is going to be opportunities from duplicative public company costs and other synergies that you would expect for us to receive from that standpoint. We will continue to ramp those retransmission opportunities going forward, and that, believe me, provide a good chunk of the synergies that we are talking about. There are also other opportunities we have, virtually on everything that we will be looking to do, going forward from capital to, you name it. There will be opportunities there.

But this also is a revenue opportunity, and you rightfully honed in on our digital marketing services. And that -- from the success we have already seen in the broadcast markets, where we have rolled out our digital marketing services, we believe that clearly that is a huge opportunity. This combination opens up literally millions of new small and medium-sized businesses for us to talk to, and to help in a one-stop shopping environment, for their digital marketing needs. And so that is a huge opportunity, although we have been very careful in our modeling of those opportunities. These synergies are not hoped for and dreamed for revenue opportunities. They are based in a very careful look at what the opportunities are, the successes we have seen so far with digital marketing services, but the predominant part of this is the retransmission synergies, and the expense synergies around things that we believe just make huge sense from this combination, but I don't know if you want to add anything, Victoria.

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

Sure. We had a pretty detailed analysis that we went through, looking at it contract by contract, and as you might imagine, the first year we have the retrans contractual after acquired clauses providing a significant amount of the revenue upside, but obviously, over the span of the three-year period, that grows as the negotiations on other agreements, with the additional might that we bring to it from additional subs. So I think that we go from about 18% of the initial synergies from that, and it then drops to about 4% as costs and other types of revenue upside, in terms of digital revenue upside increase, spot revenue increase over the three-year period. The 2014 first 12-month period is really an elimination of cost around duplicative, where we have duplicative corporate or public company costs, and over time, obviously, the cost structure will change as we get the benefit of the combined group looking at leveraging platforms and efficiencies to do greater purchasing power, greater discount as a combined group, so that is also a significant amount of synergy that we benefit over the span of the 36 months.

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

Thanks, Doug. Do you have another question?

Douglas Arthur - *Evercore Partners - Analyst*

No, I'm good.

Operator

Barry Lucas, Gabelli & Company.

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

A couple of quick ones, some housekeeping. Any back story in terms of, was this an auction process, and maybe you could identify what the break-up fees are, if there are any?

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

Sure, it was not an auction process and Dunia can add to anything I'm saying. Conceptually, Dunia and I have talked for a long time about what we perceived to be the value of a super group, particularly in an evolving digital marketplace, and an evolving media landscape. And we thought that it made great sense, that scale really matters. And then as we got to look at the shared values of our companies and the shared cultural focus on great local journalism, we thought that there might be a great fit here.

And then we worked on it and realized that what we had was a unique opportunity to put together two great franchises that have that focus on local journalism, and understand that quality local journalism leads to success in the marketplace. And the ability for Belo stations now to scale across all of the various initiatives we have was a unique opportunity for them. So, I think it was a lot of conversations and the realization that this would really be a powerhouse, the fourth largest broadcaster in big four network affiliates, the number one leading media and broadcast company. So it was a great opportunity, but Dunia, you should probably talk from your perspective.

Dunia Shive - *Belo Corp. - President & CEO*

Yes, we did not set out to sell the Company. As Gracia said, we've talked over the years about looking for ways to increase scale, and particularly to us, increase Belo's scale and this opportunity with Gannett allows our stations to achieve that scale benefit, while providing our shareholders an attractive returns.

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

It was a compelling financial opportunity for both the shareholders of Belo, as well as for Gannett. I believe this is a true win-win, I know that is often talked about, and often said about a lot of transactions, but I can tell you, that is absolutely true in this case.

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

And looking at other opportunities that you haven't touched on yet, looking at the balance sheet, one when expect a refinancing with a couple of maturities upcoming. Any thoughts from you or Victoria in terms of where your cost of debt could go in the current environment?

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

Actually, as I said, it is a very robust financing market. We are probably looking to -- we will probably be looking to take advantage of that very quickly. I know Victoria has a few plane rides in her future the next few days, but from an interest rate perspective, compared to our existing all-in cost of debt, this will be quite attractive, and we would expect, in fact, in the aggregate, to lower our cost of debt. You also asked about break-up fee. The breakup fee is 3.5%, and we all believe that to be the appropriate level for this transaction. As well, I mentioned the other deal protections of the 42% of the voting power from the Board, and the executive officers voting in favor of the transaction.

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

Great. Gracia, if I can squeeze one more in, and this is longer-term and maybe bigger picture, you are also acquiring a very meaningful amount of spectrum, which might have other uses down the road, in some very large markets. So maybe either you or Dave, or even Dunia, could touch base on what those spectrum opportunities might be, and whether or longer haul, could you be a seller or different user of spectrum, that might be more advantageous to wireless providers?

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

Barry, we are very focused, at this point, on operating the fourth largest broadcast group in America, the largest player in the top 25 markets in America. We think this business is a terrific business. What opportunities come down the pike, we are open to. We run our company to increase value for our shareholders, but we are focused on running a terrific broadcasting operation.

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

That says it nicely, Gracia, thank you very much.

Operator

Kevin Cohen, Imperial Capital.

Kevin Cohen - ***Imperial Capital - Analyst***

Congratulations on the contemplated transaction. Maybe, Gracia, if you could just elaborate a little bit further on potentially accessing the capital markets, target leverage, and maybe if you could elaborate a little bit further on the bank financing component mentioned in the press release?

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

Sure, and then I know that Victoria, who is much more steeped in this will jump in, but I think number one, as we said, our financial position, even after this transaction, will continue to be very, very strong. Pro forma leverage of 2.3% at closing, obviously including synergies, gives us a very strong balance sheet and a continuing opportunity to be opportunistic about other things that come down the road. But Victoria, why don't you address it more specifically?

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

Sure, and we have every expectation that we will be able to continue, obviously, to use the increased annuity-like cash flows, as Gracia mentioned, to both look at new investments in the Company, as well as to continue our capital allocation programs that we have in place, and we have every expectation of even dropping below the 2 times level over the next series of months ahead of us. I think the -- as Gracia also had discussed -- the current marketplace presents us with a unique opportunity to access it at a time where rates are conducive and certainly lower than our current effective rate of interest that we are paying, so we have some positive opportunities there. Certainly this transaction provides some nice discussion points behind that, where we expect to be able to leverage that discussion, even over the next few days and weeks prior to the transactions close.

Kevin Cohen - *Imperial Capital - Analyst*

And I guess, would Gannett be guaranteeing any of the Belo debt, any reason to think that, or would Gannett be potentially be assuming the indentures of the three Belo bonds?

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

As we said, we will be assuming the debt. We won't be guaranteeing the debt. This is a stock transaction, we're assuming all the liabilities of Belo.

Kevin Cohen - *Imperial Capital - Analyst*

Thanks a lot and good luck with everything.

Operator

William Bird, Lazard.

William Bird - *Lazard Capital Markets - Analyst*

Congratulations. A couple of questions, first, on the $175 million in synergies, just wondering if you could isolate how much of that is the retrans step-up that you referred to? And then second, what is not in the $175 million in synergies, what are some of the things that could really create upside to that?

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

Let me start by saying that with respect to the synergies, we've talked about that a little bit earlier, but just looking at the first year of synergies, which we expect to be about $75 million or so, as I said earlier, the vast majority of those synergies are from, I hate to use the word, but pretty mechanical things. After acquire clauses our ability to negotiate in a more meaningful way, as well as the elimination of duplicative public company costs, and those sorts of cost, that are associated with it. The retrans contribution will continue to grow over this three-year period, and be a substantial part. There are obviously always opportunities to consolidate things, to use technology in better ways, to achieve the same result that we're doing now. And so, a lot of the synergies will be reflective of those opportunities.

And then as I said earlier, we certainly see a piece of this opportunity as revenue opportunities, particularly in things like our digital marketing services, where that has had great success in our broadcast stations. We expect to fully replicate that across the Belo markets, and they are, as I said earlier, some great markets. Dallas, Houston, San Antonio, Austin, Portland, Seattle, wonderful growing markets that will give us access to literally millions more small and medium-sized businesses, who I believe are going to be -- find our digital marketing services offerings very compelling. So it is a combination of all those three, but I think that a lot of this is fairly mechanical, but gives us great opportunities to do even more.

There are obviously other opportunities that we certainly haven't modeled in this. We talked a little bit that earlier in terms of opportunities on the programming side and social media side, that we simply did not, in any way, include in these numbers, but we feel gives us a great opportunity with the might and scale that we will have across these 43 television stations. So it is things like that we are incredibly excited about, but we are smart enough never to model into synergies at this point, but we believe will give us some great upside going forward.

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

And just to clarify, on the adjusted EPS accretion, $0.50, I just want to make sure I have the definition of adjusted EPS.

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

I think it is a combination of Belo with us, and the accretion to our existing EPS will be about $0.50, not our existing -- incrementally, it will add about $0.50 in accretion in 2014, assuming we close at year-end.

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

Right, it's a 12-month look and it's not different definitionally that we have provided in our previous releases, when we do the same GAAP to non-GAAP reconciliation, so the same definition.

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

Which would exclude one-time items and the like.

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

Great, thank you.

Operator

Kannan Venkateshwar, Barclays.

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

Just one question, on the synergies, the $75 million that you mentioned, did that include the retrans negotiation that Belo is presently in, and also the $175 million, does that include -- there was retrans across both the companies?

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

Absolutely, it is all of those numbers are net reverse retrans that obviously Belo is paying at this point.

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

And just to further clarify, it is also net on the new revenues that are produced, expenses associated with those, so it has had a gross synergy number and is the net.

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

Great and the next question was on the leverage. You alluded to the fact that over the course, that leverage number may come down below the 2 times, that you might go over right now. So, that essentially precludes I guess any other acquisitions. Would you say that is fair?

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

No, absolutely not. I think what we have is tremendous financial flexibility. We have added a lot of cash -- a very cash generative business to our already very cash generative business, and we have a balance sheet that is actually even financially stronger today, based on the fact that we are adding those businesses, that with retransmission that's an annuity-like stream, it is another leg to the stool of the revenue streams that broadcast has. So, no, if anything I think that gives us great opportunities, great flexibility in our balance sheet, but as you know, we have always been very financially minded, and we will be very careful. We don't expand our balance sheet just on whims. We expand our balance sheet when there are unique great opportunities to add tremendous value to our Company, such as the acquisition of the Belo Company.

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

And this is Victoria, just to clarify further, the reason we gave the metric relative to the 2 times is to give a sizing of the capacity, even within the first period of time, in terms of the cash production. Should we choose to pay down the debt, we would be below the 2 times. But we could certainly choose to make other investments and another decision in the interim.

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

All right, thank you.

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

Thanks very much, Kannan. I think we have time for just one more question.

Operator

Joseph Stauff, Susquehanna.

Joe Stauff - ***Susquehanna Financial Group - Analyst***

You had answered this in a couple of pieces partially, but I just want to clarify. So the transaction, especially on the Belo side, did it trigger any change in control provisions again, with respect to the network affiliation agreements or retrans? Can you just talk to that one more time?

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

No, there are no affiliation agreement issues. They don't have change in control clauses. The only thing that you might be referring to is with respect to the retransmission agreement that Gannett has, which allows us to move newly-acquired stations to whatever our prevailing rates are, under the retransmission agreements. Those are after acquired clauses, and we have them, and we will take advantage of them, but there is nothing to -- in any way impact our affiliation agreements from a change in control standpoint.

Joe Stauff - ***Susquehanna Financial Group - Analyst***

Got it, and is that a -- does that assume, on the stations again, that get folded into your retrans agreement rates, is that a favorable trade for you?

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

I'm sorry, is it a favorable trade for those folks to go into our retransmission agreements?

Joe Stauff - ***Susquehanna Financial Group - Analyst***

Yes.

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

Absolutely, yes, as I mentioned earlier, in the first year, in the $75 million of synergies, a good chunk of that is exactly from that. So, it is a very favorable trade for us. Now, getting back to the networks, we obviously need their consent, but there is no change in control issue, and given the good relationships that all of us enjoy with them, and the strength of the stations, and the power of the audiences that these stations have, we believe that will be forthcoming.

Joe Stauff - ***Susquehanna Financial Group - Analyst***

Got it, and just one more clarification. Can you just state, I probably missed it, but did you shop this? Did Belo shop this outside of just the negotiations that you had specific between Gannett and Belo?

Dunia Shive - ***Belo Corp. - President & CEO***

We did not run an auction process. We talked about that before. We did not set out to sell the company, and during our discussions with Gannett, we were approached with a very attractive and compelling offer, and the offer represents a full and fair value.

Joe Stauff - ***Susquehanna Financial Group - Analyst***

Thank you.

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

Thanks very much and thanks all of you for joining us this morning. This is a great day for the Gannett Company and a great day for the shareholders of Belo. If you have any more questions, you can reach Jeff Heinz at 703-854-6917. Thank you, and have a great day.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day.