GCI - Q1 2014 Gannett Co., Inc. Earnings Conference Call

(EDITED FOR CLARITY)

EVENT DATE/TIME: APRIL 23, 2014 / 10:00AM ET

OVERVIEW:

GCI reported 1Q14 total Co. revenues of $1.4b and non-GAAP EPS of $0.47.

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PRESENTATION

Operator

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

(Operator Instructions)

We greatly appreciate your cooperation and courtesy. Our speaker for today will be Gracia Martore, President and Chief Executive Officer; and Victoria Harker, Chief Financial Officer. At this time, I would like to turn the call over to Jeff Heinz, Vice President, Investor Relations. Please go ahead.

Jeffrey Heinz - ***Gannett Company, Inc - VP of IR***

Thanks, Kim. 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 first-quarter 2014 results. After their commentary, we'll open up the call for questions. Hopefully you've had the opportunity to review this morning's press release. If you've not seen it yet, it's available at 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 have provided reconciliations of those measures to the most directly comparable GAAP measures in the press release and on the Investor Relations portion of our website. With that, let me turn the call over to Gracia.

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Thanks, Jeff, and good morning, everyone, and let me join Jeff in welcoming you to our call. This morning, I will provide a high-level overview of our very strong first-quarter results and the terrific progress we've made on our strategic initiatives and on the integration of the Belo acquisition. After that, Victoria will review the financial performance of each of our segments, as well as some balance sheet items.

We have a good deal of positive developments to report this quarter, but I would like to kick things off with the tremendous performance of our Broadcast segment, where we achieved record revenues of over $382 million, an increase of 20% over the first quarter of 2013 on a pro-forma basis.

Substantially increased profitability with adjusted EBITDA 40% higher to $182 million. One of our significant accomplishments of the quarter was the exceptional ratings we achieved during the Winter Olympic Games in Sochi. KARE-TV was the number one rated station in prime, late night, and weekends during the Olympics among large market TV stations.

Overall, Gannett NBC stations, including those we service, took the top four spots in prime and the top three spots in every Olympic day part among major market NBC stations within the most important demographic, adults 25 to 54. In prime, KARE was #1; KUSA, #2; KGW in Portland, #3; and KING in Seattle was #4. We also saw extremely strong carry-over from prime time to late night news, with WBIR in Knoxville achieving the gold with a household retention rating of 95% from the last quarter hour of prime time to the first quarter hour of late night news.

Our stations in Cleveland, St. Louis, and Minneapolis all tied for the silver at an 84% retention rate. KARE and KUSA both averaged a 27% market share for their late news during the Olympics; that means that of all the people watching TV at 10 pm in Minneapolis and Denver, more than a quarter of them were watching our stations. That's a staggering number in light of the number of channels available to the average viewer.

The huge viewing of the Winter Olympics, coupled with major weather events across the country, produced some dramatic February ratings, and Gannett stations, of course, capitalized. Overall, 24 stations were ranked number one or two in the late news in their respective markets during the full month of February. These strong ratings and market share numbers helped drive improved overall results for the quarter. I should also remind you that this is the first full quarter with Belo included in our results.

The tremendous results in broadcasting positively impacted the bottom and top lines in the first quarter. Earnings per share were, as you saw, were $0.47 on a non-GAAP basis, an increase of 27% over the same quarter in 2013. Total revenue was $1.4 billion, up 13%, and up 3% on a pro-forma basis, in part due to the inclusion of Belo.

We also achieved strong Olympic advertising demand, as well as some early political ad spending and substantially higher retrans fees. We kept our pro-forma expenses in check, as you would expect, and as a result, pro-forma adjusted EBITDA for the Company was up 15% and free cash flow nearly quadrupled year-over-year.

Our continuing efforts to stabilize Publishing operations resulted in a solid first-quarter performance for the segment, with revenue down just 3%, despite the impact of a tough winter on advertising sales and circulation demand in several markets, including Indianapolis, Cincinnati, and the New Jersey area.

Digital segment revenue increased 3%, driven, in part, by good results at CareerBuilder. Digital revenue Company-wide was boosted by growth at G/O Digital, our digital marketing services product suite, and at USA TODAY. I'll talk about both CareerBuilder and G/O Digital in greater detail in a few moments.

Our pro-forma non-GAAP expenses were essentially unchanged year-over-year. Publishing Segment expenses were lower, as we continue to raise the bar on operating efficiency. That decline was offset by higher expenses in the Broadcasting and Digital Segments associated with revenue increases.

Turning for a moment to our ongoing integration of Belo, I am very pleased to report that we are achieving great progress and we are very confident we will achieve our anticipated synergies of $75 million this year, if not a little bit better. As you know, we completed our sale of KMOV in St. Louis to Meredith at the end of February, and we expect to close on the sale of the Phoenix stations, KTVK and KASW, later this year.

At the end of March, we announced that Classified Ventures, in which Gannett owns a 27% interest, agreed to sell apartments.com to CoStar Group, Inc. for $585 million. The transaction closed on April 1 and our pre-tax distribution from the sale totaled approximately $155 million. Taxes associated are expected to be about $47 million.

We intend to use the net proceeds from the sale, for the time being, to reduce debt and for other purposes consistent with our capital allocation strategy. We expect the sale to have a small impact on our Publishing segment and equity income line results for the rest of the year, and Victoria will discuss those in her remarks.

Now I would like to quickly comment on one issue that has been getting a lot of attention lately. There's been significant discussion around the FCC's proposal limiting joint sales agreements, or JSAs. We do have JSAs in two markets, but they involve a broadcast station and a publishing property in the same market, in Louisville, and Portland, Oregon, but we don't have any JSAs between overlapping broadcast stations in the same market, so no impact from this for us at this time.

Now let me shift gears a bit and discuss our latest innovation within our Publishing Segment. As you know, we have been stabilizing Publishing over the last two years, in part through our all-access content subscription model. As we said on our last call, we are building on the success of that model and using the valuable feedback we've received from subscribers to extend those benefits even further through our new USA TODAY local content editions.

On average, we've added 70 pages per week of content to the print editions and e-newspapers, and these enhancements to national coverage, together with new, deeper local reporting features and coverage, have been extremely well-received. The rollout of the program in 34 of our largest publishing markets is now complete as of just a couple of weeks ago and customers are clearly seeing greater value from their subscriptions.

In fact, I have to tell you, in my 28 years, almost 29, here at the Company, I don't recall any initiative that has generated so much consumer enthusiasm so quickly. The testimonials we are hearing speak for themselves. A subscriber in Phoenix said the following, and I quote – “Wow, love it; when other newspapers are cutting back, The Republic goes the other direction to add content. I love reading a real newspaper. Thank you.”

Similar praise came from a News-Leader subscriber in Springfield, Missouri – “This is the best of both worlds; News-Leader can focus on local and USA TODAY can provide national news. Hooray.” And for the Press-Gazette in Green Bay – “I have never loved the Press-Gazette more than I do with the changes that took place Sunday. The expanded edition is truly fantastic.”

The success of the USA TODAY content editions is ahead of our projects. The program is also driving increased circulation at USA TODAY. In fact, we are anticipating that daily circulation for USA TODAY for the six months ended March 31 will be up about 1.6 million, or approximately 94% when the AAM Publisher's Statement is released.

The year-over-year growth is driven by increased verified digital non-replica growth of smartphone and tablet app, tablet traffic, apps, and of course the local printed editions, which contributed 40% of the growth. Our success is also reflected in better retention and fewer stops than we projected. In our pilot markets, which were live for just shy of six months at the end of the first quarter, we achieved the following: rate yield is 2 percentage points better than projected; permanent stops are 4 percentage points lower than projected, which is good; and new starts are 6% better than projections.

Because of these better-than-expected results, we are evaluating options for product enhancements that include USA TODAY content in additional [markets], as well as potential partnerships, as other publishers have seen the value of what we're doing and have expressed interest in adding USA TODAY content to their own publications. We're focused on bringing increased value to Gannett customers first, of course, but are beginning to explore smart partnerships as well.

We are also more tightly integrating USA TODAY's content into our digital platforms in our 81 local publishing markets, as we deploy our relaunch of our digital platforms. We have launched approximately 100 products in about 20 markets, including Phoenix, Indianapolis, and Cincinnati. By the end of April, we will have completed the relaunch across most of our top 35 markets and expect the balance of the deployment to be completed by the end of the third quarter.

As we continue executing the relaunch, which includes the addition of native applications for iPads in all markets, we are already seeing very strong results from the dramatic improvements to user experience across all of our digital platforms. Page views are up 20% year-over-year; click-through rates on ads are up 18% year-over-year; and time spent per visit, a key measure of engagement, is also up 23% on average.

We are seeing greater engagement with our customers on pages deeper into the sites, like individual articles and section fronts outside the home page. These improvements are clear signs that the redesign is working as expected, or perhaps better than expected, and that we are building stronger connections between our readers and our content.

Now turning to Newsquest for a moment, they are also doing similar work to enhance content in the UK, which is driving higher cover prices and contributing positively to our results. As well, their digital revenues were up very strongly in the quarter, about 18% year-over-year, in pounds.

Moving on to Digital, during the first quarter, revenue at CareerBuilder increased, primarily due to accelerating sales growth of talent management software. On April 1, CareerBuilder announced the acquisition of Broadbean, a leader in online recruitment software that enables job distribution, candidate sourcing, and big data analytics for employers.

Broadbean uses one interface to seamlessly search across various resume databases, and like CareerBuilder, offers powerful analytics around sourcing candidates and hires. It has more than 60,000 users and posts jobs on more than 6,000 job boards and social networks in 183 countries, generating more than 10 million job applications each month. This acquisition, when combined with the addition of EMSI in 2012, represents the next step in CareerBuilder's transformation, positioning it as the unparalleled leader in the rapidly growing software-as-a-service market for talent management solutions.

Let me turn to G/O Digital, our digital marketing services business, for a moment. Within that platform, we continue to build momentum and transform local digital marketing for customers across 112 markets. Revenue from small- and medium-sized businesses increased 85% year-over-year in the quarter, and we saw a substantial increase in our SMB customer base as well. Growth has been primarily driven by search and social products. We have fully established our G/O Digital sales presence in our new Belo markets and are taking significant steps to increase brand awareness across all of our markets.

During the quarter, we launched an updated version of the G/O Digital website that brings to life how we are transforming local marketing and to demonstrate how we provide one-stop shopping digital marketing solutions for businesses of all sizes. As G/O Digital continues to grow and expand its scale, we are and will continue to be relentlessly focused on product excellence and ensuring that our people, processes, and technology initiatives are operating as efficiently as possible.

So in summary, we are very pleased with a very strong performance across the entire Gannett portfolio during the quarter. Our strong results are reflective of our relentless focus on our strategic initiatives, which have allowed us to implement innovative new digital offerings and deepen our connection with our audiences across all of our platforms, solidifying our position as the largest local media Company.

With that, I'm going to turn it over to Victoria to give you some more details. Victoria?

Victoria Harker - ***Gannett Company, Inc - CFO***

Thanks, Gracia, and good morning, everyone. As Gracia already mentioned, we are very pleased with our financial results again this quarter, despite some challenging weather-related impacts to our segments, as has proven to be the case for many consumer service and retail sectors. Before I dive into the details of our results for each segment, I would like to briefly mention several one-time events which occurred during the quarter.

In terms of special items, which impacted operating results, it is significant to note that our ongoing efforts to transform the business allowed us to perform with greater efficiency and effectiveness again this quarter. These initiatives drove $3 million in workforce restructuring expenses, as well as $19 million in transformation costs related to the facility consolidation and Belo integration costs during the quarter.

As you might expect, the integration of our recent acquisition of Belo impacted the quarter by about $5 million, including costs for software transitions, professional fees, and retained employees who were temporarily supporting our integration efforts. Transformation costs also included amortization for certain Belo intangible assets that we were required to fully amortize in the first quarter. When combined, all of these special items drove a $23 million impact to operating income for the quarter, or about $0.06 in earnings per share.

In terms of non-operating special items impacting the quarter, we incurred a one-time $17 million early redemption expense related to the calling of our 2017 notes, which will save us significant interest going forward. This had a de minimis impact in the first quarter, given the timing of the redemption, but will save about $18 million in interest expense over the remainder of the year.

Non-operating special items also included costs associated with gaining consent to eliminate separate reporting requirements in the future for the Belo debentures assumed during the transaction. When combined, all of these non-operating special items impacted results by about $20 million, or earnings per share of $0.05 for the quarter.

During the first quarter, we also recognized a one-time tax expense of $24 million, or about $0.10 earnings per share. This relates to the sale of our interest in KMOV-TV, which generated a tax gain due to the low tax basis for the assets carried over from Belo. The majority of the proceeds have been escrowed, pending like-kind exchanges we may complete in the next several months.

As Gracia already noted, the harsh winter conditions also impacted our Publishing business by about $7 million in revenue, with around $0.01 or so EPS impact as a result of canceled or deferred client advertising and some circulation delivery challenges in particularly hard-hit markets. Our efficiency programs, such as our consolidation of printing and distribution platforms, as well as our global sourcing and real estate optimization efforts, continued to generate significant cost savings, helping us fund new product initiatives.

As you heard earlier, we also completed the rollout of the USA TODAY local content editions during the first quarter. We are very proud of its financial performance already, which is reflecting lower-than-anticipated costs and the ability to generate higher-than-anticipated revenues as a result of both new sales, as well as retention of existing customers. Taken together, all of our transformation initiatives generated nearly $77 million in revenue during the quarter and $38 million in cost savings, which continued to provide fuel for new growth opportunities.

With our first full quarter of performance completed, we could not be more pleased with the financial performance we have seen from the Belo television stations. While aggressively driving integration activities, all of the Broadcast Segment teams have continued to produce strong results.

When combined with our existing Broadcast business, the Belo acquisition provides us with an even greater opportunity to leverage the strength of our combined platforms and our broader purchasing power. This is already being reflected in EBITDA synergies this quarter, which are right on target, trending toward our previously communicated expectation of $75 million and non-GAAP EPS accretion from the transaction of about $0.43 for the year.

Now, on to operating results for the quarter. Please note that in addition to reported results, I will also cover relevant year-over-year comparisons on a pro-forma basis, which include Belo in a prior period as well. These exclude any special items that I just covered and Captivate's operating results from last year.

Across the enterprise, as Gracia mentioned, total Company revenues of $1.4 billion were up 13% year-over-year on a reported basis, reflecting the strength of the Belo stations when combined with our own. On a pro-forma basis, year-over-year revenues were also up 3% as well.

Total Company expenses of about $1.2 billion were up 10% on a reported basis, supporting the increased revenues associated with our new broader broadcast business. On a pro-forma basis, total Company expenses were flat year-over-year, reflecting the strength of our ongoing efficiency efforts and reductions in Publishing Segment volume. Together, these results drove non-GAAP EPS to $0.47 per share.

During the quarter, Broadcast segment had record revenues of $382 million, which were up 20% on a pro-forma basis, an increase of 100% for the quarter on a reported basis, benefited by the Sochi Olympics, increases in political campaign advertising, as well as retransmission fees, and growth in digital sales revenue. Television core revenue increased by about 6% on a pro-forma basis, or about 88% on a reported basis.

Retransmission fees continued to increase, up 66% year-over-year, or 142% on a reported basis, resulting from renegotiated agreements, annual rate increases and existing ones, and the growing strength of our newly expanded broadcast business. Olympic advertising revenue of $41 million for the quarter reflected the strength of our breadth of coverage of the Sochi Winter Games.

Beyond this, advertising trends improved across most major categories, including auto, medical, telecom, and media year-over-year. Political advertising drove $8 million additional revenue this quarter, as many state and local campaigns begin to gear up for mid-term elections. Digital revenues in the Broadcast segment were also up 23% on a pro-forma basis, or 173% on a reported basis, compared to last year, driven by the growth of digital marketing services, albeit from a lower base, given the product and sales training launches earlier this year.

Overall, we were very pleased with our Broadcast segment results again this quarter and look forward to a very strong year from all of our stations. Based on current trends and including a full quarter of results for the former Belo stations, we expect total television revenues for the second quarter of 2014 on a percentage basis to be up in the nineties compared to the second quarter of 2013 on a reported basis. On a pro-forma basis, the percentage increase in television revenues in second quarter of 2014 is projected to be in the mid-teens year-over-year.

In the Publishing segment, total revenues of $842 million were down approximately 3% in the range we had previously projected, driven by advertising revenue declines of 4.8%. Domestic online advertising revenue increased by 18% year-over-year, with the retail category showing good growth, up nearly 19%. This was driven by our digital marketing services business, G/O Digital, which provided many commercial customers with efficient and effective online marketing and advertising solutions again this quarter.

In the UK, Newsquest advertising revenue was down 5.2% in local currency due to a continued fragile economy there, but it was notable that Newsquest online advertising revenue grew 16% in pounds both year-over-year and sequentially, driven by retail categories across a small, but growing base. Overall, Publishing Segment circulation revenue was down slightly, by about 1%. This is primarily due to the cycling of the all-access content subscription models launch, as anticipated, which impacted circulation revenue nearly 3% across our local publishing operations.

That said, circulation revenue improved within the quarter, reflecting the enthusiastic response we have seen with the launch of our USA TODAY content in our top 34 local publishing markets. We are also very pleased to report that the all-access content subscription model has now engaged over 1.6 million digitally activated subscribers and fully 64% of all the subscribers participate in EZ-PAY, enabling them easy access to content-rich products with lower support costs and also drives longer retention.

Not to be outdone, the USA TODAY Group also continues their drive for richer content and broader appeal during the quarter, which supported single copy and home delivery price increases. This enabled them to sustain revenue at the same levels as last year, despite planned volume losses from the transition from digital platforms within their hotel partner programs. Newsquest was able to sustain similar pricing changes, driving a circulation revenue increase of almost 7% in local currency, their fourth consecutive quarter of growth.

In the Digital segment, revenues increased almost 3% year-over-year, driven by growth again this quarter within CareerBuilder. There was another strong quarter there, delivering 4% increase in revenues. The growth of CareerBuilder was driven by accelerating sales of human capital software solutions, as well as their recent vertical acquisition of Oil and Gas Job Search and their expansion into Vietnam.

Overall, Company-wide digital revenues totaled $376 million, reflecting a 6% increase year-over-year on a pro-forma basis. Digital revenues comprised nearly 27% of all Gannett revenue, driven by higher revenue associated with digital advertising and marketing solutions across all segments.

Now, turning to expenses for the quarter, on both a Company-wide and segment-specific basis. Once again, this quarter, we were very pleased to see ongoing expense reductions as a result of our efficiency efforts, as I previously mentioned. On a reported basis, total Company expenses of $1.2 billion were up 10%, reflecting the higher revenue base generated by our larger broadcasting segments, which was up 111% on a reported basis.

On a pro-forma basis, the Broadcast segment's expenses were up 5%, reflecting increased revenues, as well as investments in new digital growth initiatives, as well as broad-based sales and marketing training for the newly combined teams. On a pro-forma basis, total Company expenses were essentially flat to last year, reflecting our ongoing efforts to optimize our spending, as well as the impacts of declining Publishing Segment volume.

The Publishing Segments expenses were down 2% due to efficiency gains generated by Gannett Publishing services, sourcing, and other direct cost reductions. Expenses in the Digital Segment were up 3%, reflecting higher costs at CareerBuilder for hiring and training sales personnel in new and existing markets, as well as technology investments. Corporate expenses increased by 6%, reflecting increased marketing and training efforts related to the first full quarter of Belo TV stations and a slight increase in stock-based compensation.

During the quarter, total Company Adjusted EBITDA was $285 million, a year-over-year increase of $76 million, with well over one-half of it attributable to the broadcast segment. Free cash flow for the quarter was $149 million, which nearly quadrupled from the same last quarter last year, due again, to the addition of Belo TV stations and Olympics revenue. Each of our segments continues to be solidly profitable.

Also during the quarter, we invested $22 million in capital projects, primarily related to ongoing digital development, product enhancements, and integration for the Belo sites, including technology enhancements at CareerBuilder. This was in line with our projections, as many of the first-quarter capital investments were made in the Broadcast segment projects necessary for greater automation and integration of systems as a result of the addition of the Belo stations. CapEx for the quarter was in line with our prior estimate, trending toward a full-year projection of $140 million to $150 million.

As previously discussed, during the first quarter, we carried a heavier interest expense of about $70 million, largely related to the debt associated with the Belo transaction incurred in the second half of last year at historically low rates. As Gracia mentioned, the sale of apartments.com closed on April 1. It's important to note the sale will have a slight impact on our Publishing Segment going forward.

We expect revenue and operating income impacts of $12 million and $9 million, respectively, through the end of the year, lowering expected second-quarter operating income by about $3 million. In addition, the balance of the year equity income will be reduced by about $6 million.

During the quarter, we acquired 1.3 million shares of Gannett stock for $38 million, reflecting our ongoing commitment to our previously announced $300 million stock buyback program, and paid $45 million in quarterly dividends. With that, I'll turn the call back to Gracia for her closing remarks prior to Q&A.

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Thanks, Victoria. As you heard, the first quarter was a terrific start for what we anticipate will be an exciting and strong year for Gannett. The fundamental changes we've been making to position Gannett to thrive in the digital age are meaningfully impacting our top and bottom lines. Momentum continues to build around these initiatives and we continue to adjust them constantly, based on the incredibly valuable feedback we receive from our audiences, which serves to ensure that we will stay abreast of the content and features that matter most to our valuable audiences.

No other Company has the deep local connections that we have, and we will continue to use this to our advantage to ensure we are providing the news and information that our audiences value most via the platform that suits their needs. We believe that a continued, relentless focus on executing this strategy, combined with our strong and flexible balance sheet and rising cash flow that is even now stronger and more predictable, thanks to the higher contribution from broadcast EBITDA, will make for an incredibly productive and promising year ahead for Gannett. With that, I'll open the call for questions, Kim.

QUESTION AND ANSWER

Operator

(Operator Instructions)

And we'll take our first question from Doug Arthur of Evercore.

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

Yes, thanks. Two questions. I don't know if Dave Lougee is on the line, but I'm wondering, if you look at the Broadcast revenues -- retrans, political and Olympic, all quite strong. So I'm wondering what the crowding-out effect might have been on core. And if you can ferret through those numbers to delineate what a pro-forma core number was, exclusive of the three things I just mentioned?

And then on the USA TODAY content initiative, can you just elaborate on your price increase plans in those markets? You talked about higher yield. Are you intending to increase price? Have you? And how is that going to play out? Thanks.

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Dave, why don't you go first?

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

Doug, first on your question, it's difficult for us in Olympic quarters, especially, and political, as well, to get to an extracted core number because for the reasons you mentioned. Especially in February with Olympics, because of the amount of inventory it takes. So you're absolutely right. That $41 million in Olympic is not all incremental, so we put that -- that number varies and we can't get to an exact number. Based on what we see around the industry and what we think, we think that it probably is somewhere in the range of 3 or 4 points positive on core, but it's hard for us to put an exact number on . Political, the number is not high enough at this point, Doug, that it's having a really, a crowd-out effort, both in the markets where it is -- it is pretty much distributed across our larger suite of markets, so it's not really at a crowd-out stage yet.

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Then Doug, on your second question with respect to USA TODAY content inclusion in our local community newspapers. Yes, we are, as we have said, as we have increased the value of what we are providing subscribers. You heard the tremendous acceptance that our subscribers are sharing with us, we have seen this as an opportunity to appropriately gain value from those editions.

By the end of the year, we should see in the vicinity of about a $15 million increase to our -- net increase to our operating income as a result of this in the markets that we have rolled out to date. But Bob, do you have any further color on the pricing increases and the staggering of those?

Bob Dickey - ***Gannett Company, Inc - President, US Community Publishing***

Sure. Most of those increases will start to impact and benefit us the second half of the year. Doug, the big question, or the big reason for this expected increase is that we've changed our pricing methodology and we are not doing a market-wide pricing action, as we've done in the past.

This is a very strategic approach, looking at length of subscriptions and our subscribers' history with us, which means about 60% to 70% of the market at any given time will be receiving price increasing as we go forward. It's allowed us to be more selective, but also really be able to reach for greater value from our subscribers.

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Thanks, Doug.

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

Thank you.

Operator

We'll take our next question from William Bird of FBR.

William Bird - ***FBR & Company - Analyst***

Good morning. Gracia, I was wondering if you could just talk about the TV M&A environment, your goals, and really the potential maybe more acquisition opportunities as the JSA rules affect others? Thank you.

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Sure. Thanks, Bill. With respect to TV M&A, we are as enthusiastic as we have ever been on our Broadcast business. Obviously, with the Belo acquisition, a lot of folks come and visit with us about various opportunities on that front. We will continue to see M&A activity being relatively strong in the Broadcast sector.

We'll have to see how folks react to the JSA rules once they go into effect. There's a couple of years over which they can do things, so obviously, that will increase potentially the supply of television stations on the market. But what I would say to you is that, as with any investment or acquisition, we are incredibly disciplined when we look at them.

Similar to the Belo situation, that was a unique opportunity. It fit the criteria we have for acquisitions on every dimension. If there were other opportunities like that, not necessarily just in the broadcast arena, then we have a wonderfully strong balance sheet and huge flexibility to opportunistically allocate capital to those kinds of situations. Thanks for the question, Bill.

Operator

We'll take our next question from Alexia Quadrani of JPMorgan.

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

Hi, thank you. My first question is on the Broadcast Segment. If you look at the robust retrans growth you guys are benefiting from on a pro-forma basis, is that a good run rate we should assume for the rest of the year? And on the same lines of topic, when you look at your reverse comp -- and I know you guys are largely insulated from paying reverse comp, except for I believe the Belo and ABC affiliate, how should we assume that expense line is trending?

Gracia Martore - ***Gannett Company, Inc - President & CEO***

With respect to retrans, there was a little bit at the end of the year and into the first quarter, there's always a little bit of catch-up as the audited sub-numbers come through. So there's a smidge of that in there. But call it $1 million or $2 million of that kind of noise in the first quarter, but absent that, that is a very good run rate for the year. We obviously have some agreements that come up at the end of the year, but those won't have any impact of any consequence this year.

On reverse retrans, we included that in our line on programming expense, so that's included in the totality of the expense increase in the Broadcast division. And you're absolutely right, that with respect to Belo, they are paying reverse retrans under their affiliation agreements to all the major networks. As we were able to increase their retrans fees under our after-acquired clauses, then those affiliation agreements obviously required us to pay some of that in retrans dollars. But we've got that accounted for in that expense line.

Victoria Harker *- Gannett Company, Inc - CFO*

And just as a reminder, for reverse retrans fees, the bulk of which was obviously for the Belo stations, it will be about $62 million

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Alexia Quadrani *- JPMorgan - Analyst*

Okay. That's very helpful. And then I'm sure you get this question a lot -- we get it a lot -- is your strategic interest in keeping the newspapers and the broadcast businesses under the same umbrella. It might be helpful if you could just remind us what synergies or benefits you have, having those two different operations in the same parent Company?

Gracia Martore *- Gannett Company, Inc - President & CEO*

Well, let me start by saying that, number one, right at the moment -- as we've said previously, the most important thing that we are focused on is -- and we believe will create the most shareholder value certainly in the short-term, is achieving all the great synergies that we anticipate from the Belo acquisition. And completing that integration to set ourselves up well for not only 2014, but for the years ahead.

As a Board, we evaluate everything regularly, from capital allocation decisions to the appropriate structure for our businesses and our Company as a whole, and every permutation and combination in between. But in the short-term, our time and attention is on Belo, but we always look at all of those kinds of decisions through the prism of what creates sustainable shareholder value in the intermediate- to long-term, not just what can create shareholder value for a day or two. So those are the things that the Board broadly evaluates on an ongoing basis every time we meet.

That being said, there are obvious benefits that we have in the local markets by having the two together at the moment. We are the largest local media Company in the US. Our Gannett G/O Digital marketing services business, that you heard is growing very dramatically and very nicely, is equally as important in our Publishing, as well as our Broadcasting markets, and our ability to amortize the cost of that platform and the investment across all of those markets is important to us.

We've talked a lot about the sharing of content that we are doing among all of our groups, both broadcast, as well as USA TODAY, and US Community Publishing. We consider that an important advantage that we have as a Company. So lots of positives, but obviously, these are the kinds of things that the Board is evaluating regularly and we will, as a Board, do whatever creates the most shareholder value on a sustainable basis going forward.

Alexia Quadrani *- JPMorgan - Analyst*

All right. Thank you very much.

Gracia Martore *- Gannett Company, Inc - President & CEO*

You're welcome.

Operator

We'll take our next question from Craig Huber of Huber Research Partners.

Craig Huber *- Huber Research Partners - Analyst*

Yes, good morning. Thank you. Gracia, first I would like to ask, do you guys have any interest in buying in more of cars.com or is the timing just not right, given the Belo transaction? And I have some follow-up questions.

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Sure. With respect to cars.com, number one, it needs to be for sale. Number two, we own 27% of it. As with every asset that Gannett owns, we look to maximize shareholder value and so if we believe that in the intermediate- to long-term, we maximize shareholder value by buying it at a certain price, we'll certainly consider that. If we believe we can maximize shareholder value by selling it at a different price, then that's what we will look at.

That's a hypothetical question right at this nanosecond, but we look at it as we do any other investment. It's a fantastic business, great growth characteristics; the team there has done a great job of building that business. But we look at it through the prism of our capital allocation decisions going forward.

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

Then a housekeeping questions, Gracia, please. For newsprint, what was the consumption percent change year-over-year on an average price? And also your US Publishing operations ex-USA TODAY, what was the daily and Sunday print circulation volume changes year-over-year, please?

Victoria Harker - ***Gannett Company, Inc - CFO***

Newsprint, we were down about 6.3%, about 4.7% on usage, and about 1.7% or so on price.

Gracia Martore - ***Gannett Company, Inc - President & CEO***

If you look on the circulation side, and probably the better month to look at is March, because even though we did have some weather impacts in March, February was a very, very difficult month, as was January on the weather front. So looking at March, on US Community Publishing on a daily basis, down about, on volume, about 8%; on Sunday, less than 2%. That's excluding USA TODAY; obviously, USA TODAY had fantastic growth.

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

And then Gracia, what was the digital-only subs in the US this last quarter, quarter end?

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Yes -- well, I would answer it in two ways. One is, of all of our subs, 1.6 million subs have activated their digital products under our all-access content subscription model. So we have 1.6 million paid digital subscribers. They also may get the print copy on Sunday or on seven days a week or three days a week.

What we have found is that, and what works best frankly for the consumer, as well as for us, is the Sunday-only plus digital is, rather than just digital-only., Most of the folks that we encounter like that combination of getting the Sunday newspaper combined with the digital-only. Frankly, those are the metrics and the ones that frankly we continue to track. But Bob, why don't you add anything you would like?

Bob Dickey - ***Gannett Company, Inc - President, US Community Publishing***

I would just add we intentionally [raised] that focus to go after the Sunday digital package and that, [see], based on the numbers you have stated there in March, we have shown some real nice improvement. It's important to us because that has a better reading combination for the consumer. It also helps with our preprint revenues, which the trends have remained stable because of it.

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

Just because I do get asked by investors, do you have -- the digital-only number, is it roughly 100,000to 125,000, in that range, if you could ballpark it?

Gracia Martore - ***Gannett Company, Inc - President & CEO***

It's probably closer to the low end of that range.

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

Okay. My last question, please, Gracia, I appreciate your time here. How is your April newspaper ad revenues trending here in the US, please?

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Probably what I can give you a better sense of in total for Publishing is that we'll probably see a little bit of a lift because, as you know, Easter shifted from the first quarter, March last year, into April this year. So you would expect to see a little bit of lift with respect to that. I would guess we would expect total advertising should be a little bit better trend-wise, year-over-year, this quarter than it was in the first quarter.

Publishing on the circulation side, we probably will see, as Bob alluded to with the rolling out of additional pricing, we'll see a better year-over-year comparison on circulation revenue than we saw in the first quarter. And so unless, Bob, you want make any comments?

Bob Dickey - ***Gannett Company, Inc - President, US Community Publishing***

No, that's exactly what we are forecasting for the second quarter at this point.

Gracia Martore - ***Gannett Company, Inc - President & CEO***

And then you also recall, as Victoria pointed out, that apartments obviously will be a slight negative since it was sold for $585 million, so it will be a slight negative to the Publishing numbers, as well as to our equity line numbers.

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

Great. Thank you.

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Thanks, Craig.

Operator

We'll take our next question from Kannan Venkateshwar of Barclays.

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

Thank you. Gracia, the Supreme Court heard the Aereo case yesterday and it looks like the [hub] was separated from cloud services and so on. Have you thought about the scenario where this gets closed and there is no way out for the Supreme Court and probably Aereo has a win? What do you do in that case, from a business model perspective?

And the second question is, in the last year, you had mentioned some real estate sales that you had been doing for some time. We haven't heard about that for some -- over the last two or three quarters. Just wanted to see where you are in that process?

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Well, let me start with real estate, since that's easy. We are constantly -- we don't mention them because they are just simply part of our DNA to do them. We didn't just start this a couple years ago. We've been looking at optimizing our real estate portfolio for at least the last several years, and every quarter, there's activity – but you can't time real estate sales, so sometimes they get bunched up in one quarter and you don't do any for a couple of quarters.

So it really is episodic, but what I can tell you is that we are laser-focused on optimizing our real estate portfolio. We can cite lots of examples where we've taken what was an old building, a couple of hundred thousand square feet, sold it, rented new space that might be 70,000 square feet. So those are just constantly part and parcel of the things that we do around expense management on a regular basis.

Now getting to probably the more important question, which is Aereo. What I can tell you is that, I'm not a lawyer, but I've listened to all the pundits who paid attention yesterday and have looked at all the arguments. We believed all along, as we've said before, that the copyright laws of the United States will be upheld.

I think that Chief Justice Roberts summarized it the best yesterday, when he said that Aereo's technology model is based solely on circumventing legal prohibitions that they simply don't want to comply with. I don't think I can say it any better. That's what this case is all about and we await the final resolution in June.

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

All right. Thank you.

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Thanks.

Operator

We'll take our next question from Michael Kupinski of Noble Fin.

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

Thanks for taking the question. Gracia, I was wondering, what is the timing of the use of the escrow proceeds from the station sales? How soon do you have to deploy those funds and do they have to be deployed on TV acquisitions?

Gracia Martore - ***Gannett Company, Inc - President & CEO***

We actually have a staggered schedule because KMOV closed, Victoria, in March?

Victoria Harker - ***Gannett Company, Inc - CFO***

March.

Gracia Martore - ***Gannett Company, Inc - President & CEO***

So we have several months with respect to that one, but the Phoenix stations, which are a meaningful piece of that transaction, have not closed yet. I can't give you any precise timing; better question for the folks at Meredith. But then we would have several months from then to deploy that part. Yes, it is like-kind exchanges, so you would have to match it up with like-kind assets.

Victoria Harker *- Gannett Company, Inc - CFO*

On average, it's about six months, so if we have a fairly good time frame in order to transact.

Michael Kupinski *- Noble Financial Group - Analyst*

Okay. Perfect. Then looking at the discussion on the Publishing Group in a different way. Given that the Publishing Group seems to have moderated revenue trends and could be on the cusp of returning revenues, getting pretty close to that, and the fact that it appears to be uniquely positioned with local and now boosting national content with USA TODAY.

Does it make sense for the Company to look at newspapers for possible acquisitions, given that the fact the valuation of the newspaper group are so low? They're still throwing off from some significant cash flow and could be on the cusp of maybe a little turn in revenues?

Gracia Martore *- Gannett Company, Inc - President & CEO*

Michael, we believe strongly in the transformation that we have been undergoing at the Gannett Company in really looking to stabilize our Publishing operations. I'm incredibly proud of the work that Bob Dickey has done in US Community Publishing, Larry Kramer has done at USA TODAY, and our folks at Newsquest have done in the UK.

Obviously, we would never say never to anything. The thing we have to focus on is creating shareholder value and if we felt, under the appropriate circumstances, we could do that, then certainly we would look at those opportunities. But you're absolutely right; the work done by this team in stabilizing Publishing has been simply fantastic.

Michael Kupinski *- Noble Financial Group - Analyst*

Thank you. That's all I have. Thanks, Gracia.

Gracia Martore *- Gannett Company, Inc - President & CEO*

Thanks, Michael.

Operator

We'll take our next question from Barry Lucas of Gabelli & Company.

Barry Lucas *- Gabelli & Co. - Analyst*

Thanks very much, and good morning. Staying with the newspaper segment just for a second. Gracia, you've provided a lot of information on the incremental benefit from the new initiatives, and as well as the highlighting the cost cuts. Would it be possible to, since the top line is really tough, to talk a little bit about the goals or targets of total expense reduction on an adjusted basis for the full year in Publishing?

Gracia Martore *- Gannett Company, Inc - President & CEO*

Yes. Overall, we just are incredibly focused on continuing to align our expenses with revenues. There are a number of initiatives that we have, from recent announcements on outsourcing printing, where we can variablize costs that we think are an important part of that equation. I know that we continue to, as we said earlier, look at real estate, look at opportunities really to use technology to drive additional efficiencies in our operations.

But what I can say to you is that we'll continue to do the very strong job that we've always done in aligning expenses with revenues. In the second quarter, there are some things that we'll see the benefit of that will probably help us a little bit more even on the expense side. So it's a little hard to just give an annual rate because, quite frankly, every quarter we're just always looking at it -- Victoria's leading the charge -- and always looking at opportunities to rationalize our expense structure. So we just continue to make progress on it.

Barry Lucas - ***Gabelli & Co. - Analyst***

Okay.

Victoria Harker - ***Gannett Company, Inc - CFO***

Just a little more color on that, what was already successfully implemented in terms of printing and distribution relative to a shared platform, we're doing now in a number of different support areas, across Publishing more broadly. That will bear fruit at the latter half of this year and into 2015 and beyond. So we've seen a successful model implemented and that will benefit us even as we start to see other new initiatives that need funding, as well.

Barry Lucas - ***Gabelli & Co. - Analyst***

Great. Thanks, Victoria, for that color. Two quickies for Dave -- on television. Body language is certainly that the synergies are coming through, perhaps better with the Belo stations and $75 million looking good for this year. Any change to the $175 million total and/or the timing, number one? And then number two, given the political activity that we saw in Florida and Virginia, any conclusions or highlights that you can draw about political for the latter part of 2014 when it should be a little bit more material?

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Well, I'll speak for Dave on synergies because I know he would be very modest. But he and his team have obviously done a great job so far of really giving us clear line of sight to the synergies that we had expected this year and a bit more. It's probably a little early for us to declare anything more than the $175 million annualized run rate in 36 months, but we certainly will keep you posted.

What I can only tell you is that fortunately all the surprises that you normally get in a transaction like this so far have been positive surprises. Which is a testament to the great job that the Belo management team and the folks at Belo did in running those stations. So far, only positive surprises, which is always good. I'll keep Dave off the hook and just say stay tuned and if there's updating to be done on the $175 million, we'll do it when we have a clearer line of sight to it.

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

And Barry, your question is on point around political; it is heating up. Florida, our footprint, as we've always indicated is a good one; it was a good one prior to the Belo transaction. The original Gannett properties, frankly, continue to have a very good footprint this year, with the big race in North Carolina, where we've also added the Charlotte market to our Greensboro station.

We've got a big race here in the DC-Virginia area, where both Norfolk and WUSA will capitalize. The Senate race in Colorado which we didn't probably think six months ago was going to be competitive, now appears to be competitive, with its competitive Republican candidate. And of course, we have the Senate seat in New Orleans, Senator Landrieu's seat, which is very much a contested seat. So we have a good mutual fund footprint as it relates to the political cycle.

Barry Lucas - ***Gabelli & Co. - Analyst***

Thanks very much, Dave.

Gracia Martore - ***Gannett Company, Inc - President & CEO***

Thanks, Barry. We have time for just one more question.

Operator

We'll take that question from Dan Jenkins of the State of Wisconsin.

Dan Jenkins *- State of Wisconsin Investment Board - Analyst*

Hi, good morning. You mentioned that you had a redemption of some high coupon debt. I was wondering, you have a couple other high coupon issues that are either matured or callable later this year. I was wondering how you think about managing the balance sheet and lowering your interest and expense. Would you tend to pay those down or refinance them or what's the plan?

Victoria Harker *- Gannett Company, Inc - CFO*

We talked on our end of year call. We do have another tranche that will come up in the third-quarter timeframe. At this point, we haven't made any decisions relative to that, but there would be benefit in either paying down or refinancing, just depending on our cash needs at that point.

Gracia Martore *- Gannett Company, Inc - President & CEO*

We do have the 8.75% that are due November 15, which obviously, we will repay.

Dan Jenkins *- State of Wisconsin Investment Board - Analyst*

Okay, and then secondarily, I was wondering as we think about the retransmission on a pro-forma basis, that was still up pretty strong at 66%. How should we think about that going forward as a normal type of growth rate around those retransmission revenues?

Gracia Martore *- Gannett Company, Inc - President & CEO*

Yes, as we said earlier, our line of sight for this year is that, in first quarter, there's a little adjustment, but that run rate, absent $1 million or $2 million, is good for the remainder of the year. We have some contracts that will come up at the end of the year and we'll have to see where the market is at that point.

But we don't believe that the value of what we provide has yet been reflected fully in retransmission fees, so obviously, we would expect to increase that value at the end of the year. But as we get towards the end of the year and we have better clarity on that, we'll share what the good news is for 2015.

Dan Jenkins *- State of Wisconsin Investment Board - Analyst*

Okay. Thank you.

Gracia Martore *- Gannett Company, Inc - President & CEO*

Thank you, Dan.

Okay, I want to thank you all for joining us today. Appreciate all your time. If you have any questions, you can reach Jeff Heinz at 703-854-6917. Have a terrific day. Thank you for joining us.

Operator

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