

GCI - Q1 2013 Gannett Co., Inc. Earnings Conference Call

(EDITED FOR CLARITY)

OVERVIEW:

Management discussed 1Q13 results, reporting total revenues of \$1.24b, up 2% vs. 1Q12 and EPS, excluding special items, of \$0.37.

CORPORATE PARTICIPANTS

Jeff Heinz *Gannett Co Inc - VP of IR*

Gracia Martore *Gannett Co Inc - President and CEO*

Victoria Harker *Gannett Co Inc - CFO*

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

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

CONFERENCE CALL PARTICIPANTS

William Bird *Lazard Capital Markets - Analyst*

Kannan Venkateshwar *Barclays Capital - Analyst*

Alexia Quadroni *JPMorgan Chase & Co. - Analyst*

John Janedis *UBS - Analyst*

Doug Arthur *Evercore Partners - Analyst*

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

Michael Kupinski *Noble Financial Group - Analyst*

Craig Huber *Huber Research Partners - Analyst*

PRESENTATION

Operator

Good day, everyone. Welcome to Gannett's first-quarter 2013 earnings conference call. This call is being recorded. Due to the large number of callers, we will limit you to one question or comment. We greatly appreciate your cooperation and courtesy. Our speaker for today will be Gracia Martore, President and Chief Executive Officer, and Victoria Harker, Chief Financial Officer. At this time, I'd like to turn the call over to Jeff Heinz, Vice President of Investor Relations. Please go ahead.

Jeff Heinz - Gannett Co Inc - VP of IR

Thanks, James. Good morning and welcome to our conference call and webcast. Today our President and CEO, Gracia Martore, and Victoria Harker, our CFO, will review Gannett's first-quarter results. After their prepared commentary, we'll open up the call for questions. Hopefully, you've had the opportunity to review this morning's press release. If you have not seen it yet, it's available at gannett.com.

Before we get started, I 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. This presentation also includes certain non-GAAP financial measures. We have provided reconciliation of those measures to the most directly comparable GAAP measures in the press release and on the Investor Relations portion of our website. With that, let me turn the call over to Gracia.

Gracia Martore - Gannett Co Inc - President and CEO

Thanks, Jeff. Good morning, everyone, and let me add my welcome to our call. First off, I'm going to discuss some highlights from our strong first quarter and provide a brief update on the progress of our growth plan, and then I will turn it over to Victoria who will provide additional color on our results and the performance highlights of each of our business segments. After that we will move on to your questions. Now, as you saw in our press release this morning, we are delighted to announce today that our earnings per share were up 9% in the quarter to \$0.37 per share, excluding special items. Several factors contributed to our growth including the initiatives we announced last year.

We have made smart investments to implement these growth initiatives while keeping our expenses in check. As you saw, total revenue was \$1.24 billion, an increase of 2% over the first quarter of 2012 representing our third consecutive quarter with year-over-year revenue growth. And, as importantly, it is also the first quarterly increase in total revenues in a non-Olympic or political quarter since the second quarter of 2006. Our digital and broadcasting segments drove top-line growth again this quarter, and, most notably, our publishing segment generated revenue roughly in line with last year's first quarter on the growing contribution of the all access content subscription model. As a result, operating income for the quarter, excluding special items, was approximately \$161 million, an increase of 3%. And operating cash flow totaled \$209 million. This growth was primarily driven by strong results in digital and broadcasting. These numbers include the impact of almost \$12 million of investments in our strategic initiatives during the quarter which we expect to ramp up to total \$35 million to \$40 million over the course of the year.

We are extremely pleased with the strong performance across our businesses, especially in light of a continued tepid economic recovery in the US. And while recent gains in the stock market and increasing home prices give some positive signs of a turnaround, the percentage of Americans in the workforce dropped to its lowest level since 1979 and consumers remain cautious. While these conditions are certainly not ideal, our strategy is strong. We are succeeding with our superior execution.

In 2012, we achieved outstanding results, including record revenue and profitability in Broadcasting, despite publishing industry headwinds and tepid economic backdrop. During the same time, we designed, implemented, and began the execution of the digital initiatives that serve as our roadmap to sustained revenue growth, improved profitability, and increased shareholder value. So, while today's uncertain economic landscape presents us with challenges, we have a long history of using our financial and operational strength to counter weak macroeconomic conditions. And 2013 will be no different for us.

And we are happy to note at our one year milestone along this multi-year journey that we are gaining momentum in achieving steady progress on all fronts with each of our business segments performing well during the quarter. In our Publishing segment, revenue held steady in the quarter as circulation revenue overall increased almost 9% to \$286 million, including a 15% increase in our local community publishing group. Circulation revenue now represents a third of our publishing revenues and growing. The 9% increase is our third consecutive quarter of higher circulation revenue, and the driver of this growth is due almost entirely to the success of our all access content subscription model. Circulation growth resulted in an increase in total revenue at our domestic publishing operations. Now, that's our first increase since mid-2006, despite declining advertising demand of about 4.5% company-wide. That said, the year-over-year comparisons for advertising were the best since early 2007.

We are, frankly, encouraged by the early successes of our initiatives, but we are in the early innings. We know that customers are demanding more choice than ever before, and we've worked hard to uncover new ways of meeting their needs. In fact, a new study from the Newspaper Association of America and Nielsen found that overall newspaper media -- print and web -- scored highest of all media on overall engagement. As well, that same study noted that where newspapers and their websites stood out most was in the efficacy of advertising.

Our all access subscription model is just one example of how we are adapting to the changing habits of our readers and capitalizing on the fact that news consumption is at an all-time high thanks to an explosive increase in the use of digital and mobile devices -- even while many consumers continue to subscribe and engage with their local newspapers. Now, at the end of 2012, we completed the rollout as we told you in all 78 publishing markets of our all access content model. Our subscribers now have access to our content on any platform, and 1.3 million of our home delivery subscribers, about 45%, have already activated their subscription's digital access. Now, waves that launched over a year ago are meeting or exceeding our goal of 60% activation. We are especially encouraged by this as it validates what we've long suspected, that today's readers want their information via more than one platform during different times of their daily consumption of the news on brands they trust.

A growing portion of our subscriber base are existing power users of our local websites. More importantly, we are reaching demographics that previously we underserved. The majority is male and as a group they over index the market, profile for home ownership, incomes over \$100,000, and college education.

The first markets in which we launched our all access model have now cycled through their first year. And their results are tracking with and, in some cases, exceeding our expectations. Many of our digital-only subscribers have also upgraded their subscriptions to include home delivery of the Sunday print edition. We are thrilled to see such a strong conversion rate so early in the rollout. It underscores the fact that the appeal of the traditional Sunday newspaper experience is still very much alive.

Our digital-only subscription base has been ramping up steadily, growing a next generation of subscribers who may not ever read us in print but builds our sustainability. In fact, nearly 50% of our current digital subscribers are under the age of 45. Of course, we obviously had younger people reading our content digitally before the subscription model was launched. What's different now is that we can count them as subscribers, gain a better understanding of their news consumption habits, and use that knowledge to help our advertisers target and engage our readers more effectively.

Expanding our digital-only subscriber base will continue to be a strong focus this year and we are accelerating our marketing efforts with the goal of growing our digital subscribers by five to seven times 2012 levels by the end of the year. To achieve this, we're making strategic investments in talent, marketing, and the development of sales tools to ensure we continue to build on this momentum and reach our goals. We are also bolstering our pipeline through highly targeted and multifaceted marketing efforts. Specific tactics include search engine marketing, special offers remarketing, performance-based display media, and an aggressive Facebook campaign that is already netting good results. In addition, in-app subscriptions for native iPad and iPhone apps will be rolled out this summer, providing us with a new channel for attracting digital-only subscribers.

The customer response to our all access model has been overwhelmingly positive. And as you can see, it's contributing to top-line and bottom-line growth. But there's still more work to be done. We continue to look for new ways to better engage our subscribers, both digitally and in print.

Now, let me move onto our Digital and Broadcasting segments. These businesses, once again, delivered revenue growth of approximately 4% and 9%, respectively. Together, digital and broadcasting accounted for over 65% of this year's operating income, excluding special items. The 4% revenue growth in our digital segment resulted in revenue of \$175 million in the first quarter driven in large part by CareerBuilder's strong performance this quarter gaining more than 5% over last year, netting a 45% increase in segment operating income.

As you know, because Gannett's digital revenue transcends all segments of the Company, it isn't solely reported in our digital segment. Digital revenues companywide totaled over \$350 million in the quarter. That reflects an increase of almost 29% and represented more than 28% of our total revenues. And while our content subscription model is a primary driver of this growth, our digital revenues also include revenue from digital products and services, including our digital marketing services offerings which are reflected in our publishing and broadcasting segment results. Digital marketing services are in increasing demand within our community publishing and broadcasting businesses, and we continue to build out solutions that we believe will further accelerate adoption.

Revenue from small and medium-sized businesses is up significantly year over year and continues to have a very strong and active pipeline. Overall, we saw about an 80% year over year increase in digital marketing services revenues across the Company, albeit over a modest base in 2012, but there's much more to come. In addition, BLiNQ, the social media marketing solutions and services company we acquired last year, launched a social circular during the quarter that allows retailers to locally activate their circular content at scale on Facebook. This solution, which is being integrated into GannettLocal, leverages the BLiNQ platform to deliver highly targeted Facebook ads in an efficient, fully automated manner.

Now, our total digital audience company-wide continues to grow reaching over 63 million through desktop and mobile devices in February, according to data from comScore. We ranked number six in the News and Information category and USA TODAY was also ranked sixth in the General News category. The increase in the number of digital users is driven really a large part by mobile phone access to our rich local content. Downloads of the USA TODAY app continue to climb and reached 18 million devices across iPad, iPhone, Android, Kindle Fire, and Windows through March.

According to comScore mobile metrics, unique visitors to our mobile sites and applications have increased nearly 75% since March of last year. This is tremendous mobile audience growth and a clear sign that our investments are paying off. And to ensure that this growth continues, we will enhance our digital portfolio on an ongoing basis, including key investment in tablet device content platforms and technology and an expansion of our iPad apps which we expect to roll out in the summer. Let me turn quickly to broadcast where revenues were \$192 million, up almost 9% primarily due to substantially higher retransmission revenue and stronger core advertising that more than offset lower advertising associated with the Super Bowl, which to remind you, moved to CBS where we have six stations from NBC where we have 12 stations, as well as lower political advertising.

Now, let me shift gears and spend just a few moments discussing our growth strategy. As I said a little over a year ago, we announced a new capital allocation strategy that was fully integrated with our transformation plan. The plan had been carefully crafted to play to our unique strengths, our hometown advantage, our brand advantage, and our financial advantage. We have made remarkable progress implementing the initiatives critical to our planned success, and some like our all access content subscription model, as you can see, are already beginning to have a significant impact on our results. But it is still early in this game, and while the theme for 2012 was implementation, in 2013 it is all about superior execution.

Many of our initiatives are aimed at changing the way we do things. We are delivering our valuable content to customers in new ways and across multiple platforms. We are providing innovative results-driven solutions to our advertisers, and we are connecting with our audiences and communities on multiple levels, locally, virtually, and around their passions such as sports and travels. To show just how we are building and leveraging these community connections and to paint an accurate picture of where we're headed, we held our inaugural GannettFront, our own upfront event in February. We hosted key members of the advertising community, told them our story, and explained the new Gannett.

We are undergoing a radical transformation and we were ready to get in front of the advertising and consumer communities and show them that we are very different from the Gannett of the past. Our overall theme was "building communities through connections" and we highlighted how we understand, connect with, and deliver for different audiences in different communities. The response from our advertisers has been overwhelmingly positive and it has helped us create a better dialog with them about the full spectrum of tools and solutions Gannett now offers and how those resources can be best integrated into a successful advertising strategy.

If you look back at Gannett's history, we have taken every opportunity to expand and evolve the way we engage with our audiences starting with print, then adding television, now with digital. Our goal is to keep expanding, keep evolving, while never losing sight of the fact that keeping our content fresh, appropriate, and useful will always be of paramount importance. Another of our guiding tenets is a commitment to maintaining a strong balance sheet and a financially disciplined approach to

the allocation of capital. We continuously assess our capital allocation opportunities and, of course, that includes potential investment and acquisition opportunities, the continued return of capital to our shareholders in the form of dividends and share repurchases, and debt repayment.

As a Company, we remain 100% committed to executing on our initiatives and we are confident that we can continue on an improving trajectory. We look forward to much more execution and potential for growth ahead of us in the remainder of 2013. And with that, I'm going to turn it over to Victoria for a more detailed financial review. Victoria?

Victoria Harler - Gannett Co Inc - CFO

Thanks, Gracia, and good morning, everyone. Now that you've heard the highlights for the quarter, I'll provide some additional detail on drivers of financial performance for each of our reported business segments including several of our new initiatives underway. I'll then conclude with an update on capital allocation and balance sheet metrics for the quarter.

As Gracia already noted, we are very pleased with our strong financial results again this quarter. Total revenue was up across the portfolio and expenses remained in alignment, balancing continued investment in 2013 initiatives, as well as ongoing base support for those already launched in 2012. As anticipated, this drove higher operating and net income as well as earnings per share.

Before I drill down into business segment results, I'd like to detail several special items which occurred during this quarter impacting the quarter by about \$14 million on a pretax basis, or about \$0.04 a share. The majority of these items reflect our ongoing efforts to create a more efficient and effective workforce while optimizing our real estate portfolio across the businesses. As a result of these actions during the quarter, there was approximately \$10 million that impacted operating income while the balance, or about \$4 million, impacting non-operating income. During the quarter, we also realized a \$28 million tax benefit, or approximately \$0.12 a share, as a result of several favorable Federal and State tax resolutions generating credits to the income tax provision. You will note that in the press release we've also included a reconciliation of our GAAP to non-GAAP results to help provide context and clarity on these drivers.

Now, moving to the Publishing segment. As Gracia already mentioned, the favorable impact of the all access content subscription model was a significant driver of revenue stability again this quarter, despite advertising declines of 4.5%. This is such a noteworthy impact that I'd like now to provide some additional color on the performance metrics we track for the all access subscription model to help provide context for the benefits we're seeing across the customer base. As previously mentioned, the all access content subscription model continues to perform as well or better than we originally projected at launch across all 78 US community publishing markets. Not only are the features of the model compelling for new and existing customers but is also generating subscriber retention increases of nearly 2 percentage points on a year-over-year basis.

In addition, EZ Pay customer penetration continues to grow. The all access content subscription model now boasts more than 61% of all customers on automatic payment methods, a 9 percentage point year over year increase. As a result, both the ease of access to content rich digital news as well as the ease of payment continued to generate both customer satisfaction and longer-term loyalty. We anticipate that we will continue to see the benefit of all of these aspects of the all access content subscription model in the quarters to come as it becomes an even greater portion of our business. That said, given last year's staggered launch schedule, we expect cycling will drive somewhat less dramatic prior period comparables over the span of the year.

As already mentioned, these publishing circulation benefits were significant enough to nearly offset all of the decline in advertising revenues during the quarter, which continued to reflect the slow growth of economic recovery. That said, year-over-year comparisons for the retail, real estate, and national advertising revenue categories were all better than the prior consecutive quarter, even though they decreased by mid-single digits from the prior year. By contrast, classified auto and employment advertising revenues continue to reflect sluggish economic trends.

Further muddying the water on a year-over-year comparative basis was the timing of the Easter holiday advertising. As a result of these varying trends within the quarter, advertising results were mixed and provide little visibility into drivers with trends. Overall, it appears that April has begun in line with our first-quarter results. For your reference, additional category specific detail is contained in our press release.

Moving on now to digital performance. Digital revenues companywide as well as within the Publishing segment continued to grow again this quarter buoyed by the success of the all access content subscription model as well as our digital marketing solutions offerings. Digital revenues in the Publishing segment alone were up 76% higher, while local domestic publishing digital revenues were up 98%. USA TODAY and its associated business digital revenues were at 9% higher than the same quarter last year. Newsquest also experienced a 17% increase in digital revenues during the quarter.

As I noted earlier, we are excited by the early successes we are seeing in the initiatives and continue to invest in them. Total strategic investment and new initiatives is approximately \$12 million during the quarter with just over \$10 million spent in the Publishing segment with an additional \$17 million spent on the customer base

training and marketing support. As you may recall, we invested over \$74 million in the initiatives in 2012 and continue to support them to ensure the very best customer experience. In addition, on a comparative basis, last year we benefited from \$8 million in cost reductions due to furloughs during the first quarter which did not repeat again this quarter. Altogether, Publishing segment expenses including these new 2013 initiative investments as well as ongoing support path costs were relatively flat, up just 1.5% to \$801 million, excluding special items.

As I noted, this would've been even a better comparative without the \$8 million furlough cost benefit to last year. On the same basis, operating income was \$70 million and operating cash flow was \$98 million for the quarter. Within the digital segment, specifically, positive trends also continued there as well driven by CareerBuilder's continued product expansions as well as its acquisition of the EMSI which contributed to both domestic and international growth. Expenses were down by less than 1%, which when combined with revenues results, drove a sharp uptick in profits for the quarter.

Turning now to the Broadcast segment. It was another terrific quarter there in spite of the year-over-year revenue comparative declines due to the Super Bowl shift from NBC to CBS this year, and a decline of \$3.4 million in political advertising compared to last year. Overall, however, Broadcast revenues were still up 9% and reflect a very strong 59% increase in retransmission revenues. In addition, higher core advertising was driven by automotive, Broadcasting's largest ad category. It's important to note that Broadcasting segment core advertising revenues would have been almost 4% higher year over year excluding the impact of the Super Bowl shifts. In addition, excluding political variances year-to-year, television revenues would've been up 11% as we had projected.

Expense growth was in the mid-single digits supporting these revenue increases as well as investment in digital marketing solutions within the Broadcast segment. As a result, Broadcast segment operating income and operating cash flow growth were exceptionally strong in the mid-teens. As you might expect, the significant ramp in last year's political advertising broadcast spending due to national and state-level campaigns will provide some more challenging comparatives as the year progresses. For example, television revenues during the second quarter of 2012 benefited from nearly \$12 million in politically related advertising. Despite this challenging comparison, we expect to see fairly significant television revenue growth in the second quarter due in part to retransmission revenues. Based on current trends, we expect second-quarter total television revenue growth to be in the mid-single digits compared to last year. Excluding the incremental impact of political ad spending last year, we project total television revenue growth to be in the high single digits.

Now, turning to balance sheet and capital allocation. Free cash flow for the quarter was impacted by \$75 million in pension contributions made during the quarter to the Company's principal retirement plans in both the US and the UK, as well as by significantly higher cash tax payment. Cash tax payments were greater this quarter than for the same period last year due in part to the timing of deductions year over year. As you know, we announced the capital allocation plan during the first quarter of last year which included 150% increase in the annual dividend to \$0.80 a share, and a \$300 million share repurchase plan targeted for completion within two years. To this end, during the first quarter of this year we repurchased approximately 1.6 million shares for \$32.8 million bringing our total repurchase to 11.9 million shares for \$186.7 million since the beginning of last year. We remain confident in and committed to both our dividend and share repurchase programs as yet another component of providing ongoing value to our shareholders.

Total debt outstanding at the end of the quarter was \$1.4 billion with capital expenditures in the first quarter of just over \$16 million. As I noted last quarter, a growing and significant percent of our overall capital budget is now spent on investment in our digital products, platforms, and businesses company-wide. During the first quarter, these areas comprised nearly two-thirds of our capital expenditures. Just as a reminder, we expect capital expenditures to be in the \$110 million range for the full year, with expected ramps over the following quarters as we develop and implement new products and features. All in all, these capital allocations are both fueling growth in our businesses as well as near-term shareholder value.

We look forward to updating you on our progress on all of these efforts in the quarters to follow. With that, let me turn the call back over to Gracia for some completing remarks before we start to take questions.

Gracia Martore - Gannett Co Inc - President and CEO

Thanks. I think what we want to do is to go to the questions right now.

QUESTION AND ANSWER

Operator

Thank you, Ms. Martore.

(Operator Instructions)

We will take our first question from William Bird with Lazard.

William Bird - Lazard Capital Markets - Analyst

Good morning. Question on circulation. Gracia, if we adjust out the extra week in Q4, it looks like your circulation revenues in Q4 were above Q1. Can you just help us understand how and why this is and how you see circulation revenues developing going forward? Thank you.

Gracia Martore - Gannett Co Inc - President and CEO

Well, let me start and I have the good fortune of having Bob Dickey here with us as well as Dave Lougee. But let me start and then, Bob, if there's anything else you want to add. When looking at circulation revenue adjusted in the fourth quarter for the extra week compared to circulation revenue in our local community publishing, which is really where the full access content model impacts – actually, revenues were up about 15% in the fourth quarter and are up again a similar level in this quarter. And I think with respect to circulation revenue in the first quarter of this year versus last year, I think the slight difference may be in Newsquest. There is obviously some currency drag from the lower currency rate in the first quarter versus the fourth quarter last year.

And then at USA TODAY, as they are transitioning more of their model, especially with some of the hotels like Hilton, from a pure print model to a digital access and a digital portal as we are doing with Hilton through The Point, that's gaining a lot, a lot of traction. It's in over 3000 hotels.

They are seeing some slippage, obviously, on the print side, which is planned slippage, given the combination that we are getting with the digital access in some of those hotels and the portals that we are doing.

William Bird - Lazard Capital Markets - Analyst

Let me ask it in a simpler way, because it sounds like I didn't ask the question very well. If I take that \$313 million of circulation revenues from the December quarter and I take thirteen-fourteenths of it, I get about \$290 million in circulation revenues. And then if I look at Q1, it looks like you are at \$285 million. So, I'm looking at the absolute number and the run rate and just trying to understand why it would have ticked down?

Gracia Martore - Gannett Co Inc - President and CEO

Right. And again, as I said, you are looking at a total circulation number for the entire Company. I have just been dissecting the pieces of it which would suggest that Bob's number, in fact, is doing what we had hoped it would do.

Newsquest is impacted a bit by the currency being weaker in the first quarter so, therefore, even on a same basis of revenue in pounds, it would be less in dollars. And then as I said on USA TODAY, we are managing a transition there with some of our hotel partners like Hilton where it was simply a print-only solution we were providing the hotels.

There is a diminishment in the print number, but there is an addition of a digital portal that is being offered in 3000-plus Hilton Hotels. And so, when you take the combination of all of those factors, that I think addresses the issue that you raise.

William Bird - Lazard Capital Markets - Analyst

Okay. Thank you. So clearly, there's the puts and takes.

Gracia Martore - Gannett Co Inc - President and CEO

Yes.

William Bird - Lazard Capital Markets - Analyst

And then, I'm just curious where are you at in terms of the number of paying digital subs?

Gracia Martore - Gannett Co Inc - President and CEO

On a digital-only basis. Bob is here. Just a quick comment. What I think that we are very pleased about on the digital-only subs is the fact that we are seeing folks who are beginning with digital-only then upselling them to digital plus the Sunday newspaper.

So, really, the digital-only number now is a net of all of those upsells that we are obtaining. And I think we are in the 50,000 plus range. Bob?

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

Yes. When you take into consideration that a number have upgraded that started at digital, digital-only, that's right around 54,000 digital subs, about 50,000 today are digital-only. So, we've upgraded just over 4000, actually. That's about 8% conversion rate at this point.

We are doing a number of, as Gracia pointed out, we have a number of new digital channels that are new to us because of this new approach to business, and we are doing A/B testing, introductory offers, a number of things to see how we can best resonate with these new younger consumers, and we are very happy that about half of them right now, to date, are under 45 years old.

William Bird - Lazard Capital Markets - Analyst

And one final question. Can you give us the absolute number for retrains in the quarter?

Gracia Martore - Gannett Co Inc - President and CEO

The absolute number for retrains in the quarter I think was around \$37 million, \$36 million or \$37 million.

William Bird - Lazard Capital Markets - Analyst

Okay, great. Thank you.

Gracia Martore - Gannett Co Inc - President and CEO

Thanks, Bill.

Operator

Next we will hear from Kannan Vankateshwar at Barclays.

Kannan Venkateshwar - Barclays Capital - Analyst

Thanks. So, I have a couple questions. First, on the publishing front. Obviously, you have the benefit from the price increase last year, but with 50,000 digital-only subs, and that's clearly not an additional source of revenue.

It's not new revenue line that you are adding. As the price increase cycles through in late this year and early next year, we should expect the effect to wear off. So what's the longer-term plan on the publishing side once the price increase wears off?

Gracia Martore - Gannett Co Inc - President and CEO

Well, perhaps we haven't explained it in the way as we should. Those digital-only subscribers are paying subscribers, so they are incremental to our subscriber base. In 2012 we spent all of our time, frankly, rolling out 78 locations, simply moving them to the full access content model. As we said at the end of 2012, we really didn't focus on picking up new digital-only subscribers.

We were, first and foremost, in 2012 focused on taking the existing subscribers we had and moving them to this new model. We have subsequently gained an additional 50,000 -- actually, a net 50,000, because we've gained more than that because some of those folks have been new digital-only subscribers and then converted to digital-only plus Sunday, so those are incrementally new subscribers.

And as I said in our prepared remarks, our plan is that we are going to see that number increase five to seven fold by the end of 2013, so those are all brand-new subscribers.

Kanna Venkateshwar - Barclays Capital - Analyst

That's true, Gracia, you know the broader question is you are still losing subscribers on the print side? So, overall, when you look across the whole subscriber base, the 50,000, and even if that continues to grow it's not enough to offset what you are losing on the print side. So, to that extent, we should expect I guess to some extent the affect to wear off next year?

Gracia Martore - Gannett Co Inc - President and CEO

Well, if you assume that the only thing we are doing around our subscribers is the price increases that we did last year, that would, obviously, be the case because you would cycle those pricing increases. But there are a number of additional platforms and, Bob, why don't you talk a little bit about that.

That we are introducing and we see more opportunities to impact pricing with new ways and additional content that we are going to provide. But, Bob, why don't you?

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

Certainly. And that's very important because as noted earlier, we have just over 1.3 million digital active subscribers as well on top of the 50,000 that are digital-only. So, our current subscribers are clearly performing and using our content across all the various platforms.

Mid-year we will be launching native iPhone apps followed by Android and iPad. We believe that product enhancement will be very well-received by our subscribers. Later in the year, we will be relaunching a new desktop experience for all of our subscribers. Another opportunity.

And we have gone through extensive training with our editors to create new content following a broadcast model of really day parting that content against the various platforms, taking in mind how the consumer uses those various devices. And we are seeing a number of product improvements on existing products across all of our markets.

That is a major focus. So, the combination of all of those will lead us to an opportunity to look at what pricing leverage that will bring to us later in this year and certainly early in 2014.

Kanna Venkateshwar - Barclays Capital - Analyst

Thanks.

Gracia Martore - Gannett Co Inc - President and CEO

Thanks for the question, Kannan.

Kanna Venkateshwar - Barclays Capital - Analyst

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I have one more question, which is on the digital side. It looks like, if I just look at the trend over the last eight or so quarters, it's been consistent -- the grow rates have been consistently coming down year-over-year. Just wanted to get some clarity on what's driving that?

Gracia Martore - Gannett Co Inc - President and CEO

Well, I think number one, obviously, we are comparing against higher and higher base numbers. It also depends on the mix of digital revenues. You may be just looking at our digital segment only, rather than the totality of our digital revenues across the Company. Because, in fact, those digital revenues across the Company have accelerated in their growth pattern over the last two to three quarters rather than diminished over the last two to three quarters.

Kanna Venkateshwar - Barclays Capital - Analyst

Yes, just the digital segment.

Gracia Martore - Gannett Co Inc - President and CEO

Okay. Just the digital segment. They have achieved strong growth rates which are going to vary quarter by quarter, depending on where employment opportunities are and employment numbers are combined with their new opportunities.

So, the digital segment only is just a small microcosm of all of the digital revenues around the Company that, in fact, are where we are seeing accelerated growth over these last few quarters. Thank you for your question. We probably need to move onto the next person.

Operator

Yes, we will move onto Alexia Quadriani with JPMorgan.

Alexia Quadriani - JPMorgan Chase & Co. - Analyst

Thank you. Just a couple questions. Circling back to the USA TODAY comments and the little slippage you saw in circulation revenue coming from there and the migration to more of a digital platform. I guess, could you talk a bit about how you can monetize that migration to the digital platform through the hotels like Hilton, because I think there's no pay wall right now? So, is it more through the advertising opportunity?

Gracia Martore - Gannett Co Inc - President and CEO

Well, it's a combination of things, Alexia. That's a great question. It's a combination of charging for the digital portal. So, this isn't something that we are giving away free to the hotels. And we have a number of other hotels that we are talking to about it.

So, it's a combination of charging for it and, as well, additional advertising opportunities that we anticipate will arise from our penetration of hotel rooms across the country. We are already in over 3000 with Hilton and we're looking at other opportunities with others. So, it isn't the pure circulation revenue but it is a combination of paying for the portal as well as additional ad opportunities.

Alexia Quadriani - JPMorgan Chase & Co. - Analyst

And you get revenue for being paid for the portal. Will it fall under circulation revenue or fall under just pure digital?

Gracia Martore - Gannett Co Inc - President and CEO

I believe it falls under pure digital revenues.

Alexia Q uadrani - JPMorgan Chase & Co. - Analyst

And then just a second question. If you can remind us when you circle some of the larger market rollouts from last year, and do you believe you have any room for further price increases, either of similar size or just price increases in general on the print product when you circle those markets?

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

The second half of the year we will start to cycle the larger sites -- fourth quarter, actually, our three largest sites in Phoenix, Indianapolis, and Cincinnati.

I would suggest that based on what I mentioned a moment ago, we will be looking at pricing but it's not for the print product but for all of the new products that we are bringing into the marketplace, so it's all about increasing and enhancing subscription value across all of those. So, in the second half of the year it's really going to be an opportunity to look at the new desktop product as well as the native apps that we are going to launch and what that might mean in regards to a pricing action.

Gracia Martore - Gannett Co Inc - President and CEO

Thanks, Alexia.

Alexia Q uadrani - JPMorgan Chase & Co. - Analyst

Thank you.

Gracia Martore - Gannett Co Inc - President and CEO

Why don't we move onto the next question.

Operator

Our next question will come from John Janedis with UBS.

John Janedis - UBS - Analyst

Thanks. Good morning. Gracia, sticking with circulation, I understand the model. But is there any difference in renewals between your small and large markets? And maybe along those lines, is there anything to highlight on churn in big versus small markets?

Gracia Martore - Gannett Co Inc - President and CEO

Bob would know all those details, so I'm going to ask him to respond.

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

John, there's not a wide variance at this point. We are very happy that our retention is up 2%. You can appreciate in the metro markets, there is definitely more competition for content for the consumer. But it's really a little early for me to answer that. I can gladly get back to you.

We need a little more time in Cincinnati, Indianapolis, and Phoenix to really give you a solid answer on that. And we are probably another month away from being able to speak more to that as people start to cycle out of that first 13, 26 week cycle. But overall, our churn number is holding and our retention is actually better.

Gracia Martore - Gannett Co Inc - President and CEO

And I think we are helped by, as Victoria mentioned, on the EZ Pay front. We are continuing to see that number, I think is 61% or 62% now, that has continued to grow as we have been launching and as we do additional things. So, that helps with all of those metrics on retention and the like. So, we feel very, very good about being at or better than all the metrics that we had talked with you about last February.

John Janedis - UBS - Analyst

Okay thanks, Gracia. Victoria, if we annualize the 1Q retrans, it would seem it's trending above the top end of the guidance range. Was there any kind of true up in there, or is that maybe \$50 million above as we go through the year?

Victoria Harler - Gannett Co Inc - CFO

I think it's probably a little early to look at the full year impact. Obviously, we have some end of your benefit that we talked about I think in December. And so we had some carryover to first quarter, but I'm not sure that we are seeing anything that would be above the high end of guidance at this point for the full year.

John Janedis - UBS - Analyst

Thank you very much.

Gracia Martore - Gannett Co Inc - President and CEO

Next question, please.

Operator

We will hear from Doug Arthur with Evercore.

Doug Arthur - Evercore Partners - Analyst

Victoria, question on the publishing segment clause. The \$35 million to \$40 million I think for full year 2013 of which \$12 million has been spent, is that incremental to the \$74 million-ish number last year, or is that, in essence, the new investment cost coming down year-over-year?

Victoria Harler - Gannett Co Inc - CFO

We have -- let me address it in two categories. We spent \$74 million last year on new initiatives. All of those initiatives are now embedded in our base. And so we have ongoing cost of support for them, whether it is travel programs, whether it's the all access content subscription model for customer service.

In addition to that, we have \$13 million that we spent in new initiatives which would be comparable to last year's \$74 million in new initiatives for this year.

Doug Arthur - Evercore Partners - Analyst

Okay. I'm sorry, the \$13 million -- how does that fit in the context of \$34 million to \$40 million for the year?

Victoria Harler - Gannett Co Inc - CFO

We are still within that range of expected incremental spend for new initiatives.

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Doug Arthur - Evercore Partners - Analyst

Okay. And then last question. Gracia, the 50,000 digital-only, I don't want to beat a dead horse here. And, obviously, you've had some conversion to print, so it's maybe not an apples-to-apples comp, but when you say five to seven times over the next, I don't know, three, four, five quarters, you are basing that off the 50,000?

Gracia Martore - Gannett Co Inc - President and CEO

I think we were in the 40s when we talked about that at the end of last year, so we expect to be in the 250,000 to 300,000 range by the end of 2013 into early 2014. There's going to be a big ramp up. We have been working on it. First quarter is never a significant quarter, Bob, on starts and alike.

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

It's just like anything, people coming out of the holidays, and so consumers – plus, on top of all the changes that were happening, the consumers definitely, we saw a slowdown in some of the sales channels. But, we are happy to report that we have seen that turn back around the first few weeks of April. That is the goal that we are shooting for, absolutely.

Gracia Martore - Gannett Co Inc - President and CEO

And we are feeling pretty good about it.

Doug Arthur - Evercore Partners - Analyst

Great. Thank you.

Gracia Martore - Gannett Co Inc - President and CEO

Thanks, Doug. Next question?

Operator

Next we'll hear from Jim Goss with Barrington Research.

Jim Goss - Barrington Research Associates, Inc. - Analyst

Thanks for taking my question. A couple of things – I'd like a little more color on retrans, if that's possible. You mentioned \$36 million, \$37 million as the current number. Can you talk about the stage of that development? Have you gone through all of the negotiations and you are coming up on renewals and what would be the timing of renewals? And maybe even discuss a little of the pricing trends on the first deals versus the newer deals? If you can lay out how that's developing?

Gracia Martore - Gannett Co Inc - President and CEO

We are happy to talk about the deals. We cannot talk about the rates, as you can appreciate, but Dave Lougee is here and he can address that.

David Lougee - Gannett Co Inc - President, Gannett Broadcasting

So, I think if I understand the question correctly, we will have another major deal up at the end of this year as well as a lesser one. And the market is continuing to move up and appropriately so. As we said in the past, the market and our market is still not aligned with what our share of audience is, and so that appropriate rearrangement of the marketplace continues to take place. And, so, we still see good upside for ourselves as well as the industry.

Jim Goss - Barrington Research Associates, Inc. - Analyst

And the dollar amount you talk about right now reflects at least some transaction with all of your markets to this point?

David Lougee - Gannett Co Inc - President, Gannett Broadcasting

Most of our retrans, most of our distribution comes from eight or nine large players that cover the whole country, so they're in all of our markets. So, only probably 8% or 9% of our distribution comes from smaller operators who don't cover all of our markets.

So, when we do these larger deals, often one major cable MSL may be in a third to half of our markets, another one might be in a third to half, and then the satellite guys are in all, if that answers your question.

Gracia Martore - Gannett Co Inc - President and CEO

So, we did two large ones at the end of last year, that's what drove the increase this year. As Dave said, we have another large one coming up next year. We have been in retransmission mode across the company for two or three years, so everyone is touched by it across the company. As these deals come up and as you appropriately asked, we have a big one coming up at the end of this year and then we will cycle more deals –

David Lougee - Gannett Co Inc - President, Gannett Broadcasting

They are relatively evenly spaced.

Jim Goss - Barrington Research Associates, Inc. - Analyst

Okay. And just one follow-up to a lot of the discussion you had about the circulation. All things being equal and assume churn levels don't really change, my recollection is that there should be an upward bias on a year-over-year comparison to your circulation dollars over the course of this year, as you cycle through this program. Is that a correct perception?

Gracia Martore - Gannett Co Inc - President and CEO

If we did nothing else on pricing, obviously, by the fourth quarter we would be cycling the lion's share of it, but as Bob and I have alluded to a couple of times now on the call, there are additional opportunities as we are providing more platforms and deeper and richer content across our local markets to certainly look at pricing and other opportunities towards the latter part of the year.

Jim Goss - Barrington Research Associates, Inc. - Analyst

Okay. Thanks, Gracia.

Gracia Martore - Gannett Co Inc - President and CEO

Thanks, Jim. Next question.

Operator

We will hear from Michael Kupinski with Noble Financial.

Michael Kupinski - Noble Financial Group - Analyst

Thank you for taking the question. Just a couple questions, Gracia, on your appetite for broadcast properties at this point. I know that there are some on the market.

I was just wondering in terms of the fact that you have renegotiated some of your retransmission rates that if those rates seem to be higher than what may be some of the stations are currently on the market? And if that presents an opportunity for you? And if you can just talk about maybe what multiples there might be in terms of stations if you are interested in buying more there?

Gracia Martore - Gannett Co Inc - President and CEO

Okay. I will try to take them in the order that they were dealt out. On the TV acquisition front, as you can appreciate, lots of stations are coming up and we're getting lots of calls on them. In some situations, these are the overlap situations or other things. They don't necessarily make sense for us to do.

But I would say as a general comment, as you know, our broadcast business had its best year in its history last year. We believe conceptually in the fact that more scale and a bigger footprint matters in the broadcast arena, given retrans conversations and other things.

We have very, very good scale now, but improving on that scale could only be a positive going forward. But, as always, we would be incredibly disciplined in what we would look at and what multiple we would pay. It would depend a lot on our ability to have a deal that was accretive very quickly, value adding very quickly.

We have a high standard for allocating capital in that arena. So, it would have to be an interesting situation for us that would meet all of our fairly stringent hurdles that we have. You know, I can't comment on multiples because, frankly, it really depends.

If you are buying a station that has low margins and there's no opportunity, then that's a difficult -- that may be an interesting multiple compared to somebody else that might be buying in a duopoly situation. So, it's kind of difficult to really pinpoint multiples at this point.

Certainly, we have heard of some others who have purchased stations that they have asked for acquired clauses in their retransmission agreements that allow them to move up the acquired properties to higher rates. I certainly couldn't comment specifically about Gannett, but I would think we've done a good job.

Michael Kupinski - Noble Financial Group - Analyst

Okay, great. Thanks, Gracia. I appreciate it.

Gracia Martore - Gannett Co Inc - President and CEO

Thanks, Mike. Next question. I think we have time for one more question.

Operator

Our final question will come from Craig Huber with Huber Research Partners.

Craig Huber - Huber Research Partners - Analyst

Yes, good morning. Thanks, Gracia. A few housekeeping questions. I believe last quarter your daily and Sunday circulation volume for US Community Publishing was down year-over-year. What's the update on that number first, please? And I have some follow-ups.

Gracia Martore - Gannett Co Inc - President and CEO

Yes, on the daily, down about 7% and on Sunday, down about 4%, which as you may recall, is right in the sweet spot of where we thought, if not a slightly lower on the Sunday side, where we thought that circulation would be as a result of the all access model.

Craig Huber - Huber Research Partners - Analyst

Okay. And can you, also, on the cost side just give us the metrics around newsprint. What the percent change was there plus consumption and average price percent change?

Victoria Harler - Gannett Co Inc - CFO

Well, we continue to see some improvement relative to our expected – the specifics on it for the quarter. We have been able to see some improvement there about almost 10%. So, I think that we continue to see better trending than we had originally anticipated and I think that's flowed through nicely.

Craig Huber - Huber Research Partners - Analyst

So what was the pricing consumption difference there if the total was down 10%?

Gracia Martore - Gannett Co Inc - President and CEO

Price close to where it was last year and usage down almost consistent with how much expense is down.

Craig Huber - Huber Research Partners - Analyst

Okay. Gracia, your \$75 million contribution to your pension so far this year. Are you planning to put any more in later this year?

Victoria Harler - Gannett Co Inc - CFO

We have no requirement to at this point. Obviously, we will continue to look at it from just a pure capital allocation standpoint. But at this point, we have already put as much in as we would be required to.

Gracia Martore - Gannett Co Inc - President and CEO

More, in fact.

Victoria Harler - Gannett Co Inc - CFO

Yes.

Gracia Martore - Gannett Co Inc - President and CEO

Thanks, Craig. We appreciate your questions. Really appreciate all of you joining us this morning for the call, and I know that if you have any additional questions that Jeff Heinz at 703-854-6917, will be delighted to hear from you. Thank you all for your attention and time this morning.

Operator

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