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SSP - E. W. Scripps Co Acquires Digital-media Humor Brand Cracked from Demand Media Inc

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Scripps conference call.

(Operator Instructions)

As a reminder, today's teleconference is being recorded. At this time, I'll turn the conference over to your host, Vice President of Investor Relations, Ms. Carolyn Micheli. Please go ahead.

Carolyn Micheli - *The E.W. Scripps Company - VP of IR*

Thanks, Tony. Good afternoon, everyone, and thank you for joining us to discuss the EW Scripps Company's acquisition of digital media brand Cracked.

A reminder that our conference call and webcast include forward-looking statements, and actual results may differ. Factors that may cause them to differ are outlined in our SEC filings.

You can visit scripps.com for more information on this, including a PowerPoint presentation and a video containing background on Cracked, and details of this acquisition. You also can sign up to receive emails anytime we disclose financial information. And you can listen to an audio replay of this call. The link to the replay will be up there by morning and will be available until April 26.

We will hear today from Scripps Chairman, President and CEO Rich Boehne, and then from Adam Symson, our Chief Digital Officer. Also in the room today is Chief Financial Officer Tim Wesolowski. Now here's Rich.

Rich Boehne - *The E.W. Scripps Company - Chairman, President & CEO*

Good afternoon, everybody. Thanks for joining us. Sorry about the late notice. We were trying to coordinate things East Coast and West Coast so this looked like it was probably the best time.



As Carolyn said, we're announcing today the acquisition of a multi-platform satire brand called Cracked. Cracked has a long and proud history of informing and engaging its audiences on a variety of platforms. Adam Symson will give you more background in a moment about Cracked. Also, as Carolyn said, we've posted a presentation and also a video about Cracked at scripps.com. Just look under the investor information menu.

Cracked is the next step in our strategy to build out a portfolio of brands that take advantage of emerging over-the-top platforms. Now, while we are enthusiastic broadcasters and we continue to look for good opportunities to add to our station group, we also recognize that the over-the-top delivery of both video and audio is creating a marketplace where value can be built.

Cracked, which will further expand both our video and audio OTT networks, is a strong content brand that in addition garners a large and loyal web and mobile audience. Cracked video content will be an attractive adjacency to Newsy, and we expect to leverage what we are building through our industry-leading over-the-top podcast business, Midroll, to expand Cracked's audio storytelling. Through our new over-the-top brands we are also tapping into organic growth among younger millennial audiences. Bottom line, Cracked is a strong and already profitable content company that will check all the boxes for our OTT strategy.

We purchased Cracked in an all cash transaction for \$39 million. The deal is structured as an asset purchase. This results in tax deductions that we will use to reduce the net cash cost of the acquisition. We can talk more about that later. Under its current owner, Demand Media, in 2015 Cracked had revenue of approximately \$11 million, and was profitable. Demand Media will do a filing where you can pick up a little more information. On our May earnings call we will share our expectations for the business as well as updated guidance for our digital division for the full year and second quarter. We expect Cracked to contribute to segment profit in the first 12 months we own it.

Humor and satire a promising new content, it's a new content area for Scripps. We jumped into that space with the acquisition of Midroll last July and now, with its longstanding and well-respected brand, we add to our scale. Cracked provides a great vehicle by which we can diversify our audience and accelerate our over-the-top and broader digital strategy.

And one final reminder before I turn over to Adam, this small cash transaction will not put a dent in our strong balance sheet. With net debt under 2 times cash flow and projected strong cash flow for this year, we still have the financial oomph to acquire attractive businesses in both television and digital, as well as repurchase our own stock. Now here's Adam.

Adam Symson - *The E.W. Scripps Company - Chief Digital Officer*

Thanks, Rich, and hello, everybody. I am pleased to be here today sharing news of another national digital acquisition from Scripps. The satire and humor world of Cracked is an exciting area for us and will complement our existing national digital businesses. I'd like to talk first about Cracked and the world in which it plays, satire and humor, as well as the business opportunities for Scripps. Then I will go into some detail about how our strategy for Cracked aligns with our strategies for Midroll and Newsy. And, finally, I will talk about what we see ahead for the Scripps digital division.

Cracked is one of the most popular entertainment comedy and satire brands in digital media. Yes, it is the same Cracked you're probably thinking of. It was founded in 1958 as a comedy magazine, and that magazine kept printing for more than 50 years. Demand Media bought Cracked in 2007 to turn the brand's attention towards the web. Today Cracked is focused on serving the highly sought after millennial audience. There is just a ton of evidence that a good chunk of this audience of 18- to 34-year-olds uses humor as the lens through which they view the world. Witness the popularity of The Daily Show, Colbert Report and John Oliver.

Younger audiences are choosing new forms of journalism, storytelling, and social commentary to help them dissect world events, popular culture, history and science. And on digital platforms, Cracked is a leader in the genre. According to audience tracking services Cracked most often shares the top spots with satire brand The Onion. And, by the way, you might recall that Univision bought a 40% stake in The Onion back in January that valued that business at about \$200 million, another sign that the humor genre is in high demand.

Scripps is retaining the strong leadership team at Cracked, including VP and General Manager Mandy Ng Rusin, and VP, Editor-in-Chief and cracked.com's founder Jack O'Brien, as well as the many talented satirists and humor writers who provide the very soul of the Cracked brand. Their mission, and now ours as well, is to make you smarter while you are laughing.



The Cracked editorial focus is fairly broad-based. However, most articles and videos fit into several key categories -- news, entertainment, sports, technology, science, and sex. The content ranges from the seriously thought-provoking to more, shall we say, suggestive humor. Some of the content is single topic, such as the recent story 10 biggest lies from the Democratic debate; while other videos are part of a series such as the popular Cracked AfterHours which focuses on movies, or the dating-themed comedy sketch show rom.com.

Let's talk for a moment about Cracked's digital products. Cracked distributes its content through a very high traffic website. About 50% of the cracked.com traffic comes directly to the site, a remarkable proxy for brand loyalty in the age of social media outposts. The site receives about 20 million unique visitors per month, and they spend an average of eight minutes on site, a tremendous amount of time in the online world. Of course, Cracked also distributes its content through social networks such as Facebook and YouTube and through the popular Cracked podcast in partnership with our podcasting company Midroll.

Scripps naturally plans to continue to support Cracked's growth on web and mobile. Cracked, like so many of the national digital publishers that have scale, is getting more aggressive about connecting audiences with brand advertisers through native advertising. Industry forecasts show native advertising and branded content will grow to become an \$18 billion to \$21 billion business in the US by 2018.

Cracked is committed to fishing where the fish are. The strong brand equity of Cracked, its very loyal following, and its appeal to younger audiences make it a good fit with Scripps's digital, video and audio strategies. Remember, we are focused on building businesses with real value on the platforms where we see high organic growth -- OTT, television and podcasting.

As I said before, Cracked already has one very popular podcast on our network with Midroll. We plan to support Cracked extending its editorial voice even further to produce more audio content. From the momentum we are seeing with audiences and advertisers, we believe podcasting will be one of the important mediums in the future of entertainment and journalism, and Cracked will play a big role.

Cracked is well positioned to move into the emerging over-the-top video marketplace, as well. Today Cracked's videos are distributed through YouTube and draw an average of 20 million views monthly. We will accelerate Cracked's video production, distribution and monetization as the brand becomes Scripps's humor and entertainment vertical in OTT.

It will be a terrific complement to our already fast-growing OTT news and information product, Newsy. Newsy, by the way, has added a number of new distribution and syndication partners in recent months, and its content is now available in on-demand and linear formats on OTT services, including Apple TV, Dish's Sling TV, Watchable from Comcast, Pluto TV, Roku, Amazon Fire TV and Google Chromecast, on connected televisions through ZUMO, on all major smartphone platforms, and of course at newsy.com. It's receiving tremendous traction and we believe Cracked and Newsy will be good partners to grow audience together.

As Rich said, we will talk more on our May call about the contribution of Cracked to the digital division and its outlook for 2016, but I can give you a general division revenue update now. On our fourth-quarter call we had said that the revenue split in the division this year would break down to about 35% from the national digital brands, including Newsy and Midroll, and the other 65% from our local market digital products and marketing services. The acquisition of Cracked will move the revenue split in the direction of about 45% national and 55% local. As we have said, we expect our national businesses will outpace the growth of our local businesses in the coming years, and the addition of Cracked to our national portfolio is one more step in that direction.

Thanks for dialing in today. Operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)



Michael Kupinski, Noble Financial.

Michael Kupinski - *Noble Financial Group - Analyst*

Thank you. Congratulations. Giving the fact that television broadcasting doesn't appear to be delivering the millennial audience, it seems prudent that Scripps is focused on buying digital media OTT businesses that target this demographic. I suppose that has something to do with your thought in building out this platform, I would think.

I do have a question, though. You mentioned that business is profitable. Can you give us a little idea of what the margins are and what could be the achievable margins for this company? And then while we are on that subject, if you can just give us the type of revenue growth rate the company has had over the past few years and some thoughts about that going forward.

Rich Boehne - *The E.W. Scripps Company - Chairman, President & CEO*

Sure, Michael. It's Rich. Let me mention the first part and then will let Tim talk about the financials. The good news about broadcast TV is its audience is enormous. So, while it might skew a little older it's got millennials lumped in there with everybody else. It is just a big broad audience.

But, like many emerging audiences, they start with younger consumers who then go into it over time. So, yes, we are definitely trying to find pockets where we can build those millennial audiences because at some point they're going to look very different than millennials, and we would like to have a variety of products to serve them with. Go ahead, Tim.

Tim Wesolowski - *The E.W. Scripps Company - CFO*

Michael, this is Tim. We bought Cracked from Demand Media, and Demand is a publicly-traded company. They will be making an 8-K filing here very shortly. I think there will be some information about the financial performance of Cracked there. So, I would encourage you to look at their filings. And then, also, we will be having our normal quarterly call on May 6 and we will be talking more about our entire digital segment, as well as how Cracked might be impacting 2016 and beyond.

Michael Kupinski - *Noble Financial Group - Analyst*

I suppose that more investors are probably going to ask, your focus is still to look at TV acquisitions, as well. I would imagine, too, that this increases the trajectory of profitability in your digital media businesses going forward, as well. I think that investors are looking at that focus, as well.

Rich Boehne - *The E.W. Scripps Company - Chairman, President & CEO*

Yes, agree. Again, as we often say here at Scripps, more than one thing can be true at the same time, which means we can like broadcast a lot and continue to look for opportunities, at the same time we just can't ignore the opportunity that we see developing in over-the-top.

Tim Wesolowski - *The E.W. Scripps Company - CFO*

And, Michael, we have been saying for a while, as you know, that we intend to make acquisitions of these national digital brands in the same size as Newsy and Midroll, and this is really a good example of us executing on that strategy we've been talking about for a while.

Michael Kupinski - *Noble Financial Group - Analyst*

Okay, great. Congratulations.



Operator

(Operator Instructions)

Tracy Young, Evercore.

Tracy Young - *Evercore ISI - Analyst*

Hi. If you could elaborate a little bit more on how you think this will roll out. I know you're going to be talking about it on the conference call, but in terms of mobile, is that where you think the opportunity is?

Rich Boehne - *The E.W. Scripps Company - Chairman, President & CEO*

Adam, why don't you go ahead and talk about the distinct opportunities you see ahead for Cracked.

Adam Symson - *The E.W. Scripps Company - Chief Digital Officer*

Sure. Cracked.com already has a very sizable audience on web and mobile. I think we said earlier about 20 million unique visitors a month. And today that means they've got the scale to monetize that business with a move towards more aggressive native advertising and direct sales of those kinds of campaigns.

The opportunity ahead that we think Scripps can bring also includes now taking them further into the OTT video space. So, looking at the same playbook that we have used to accelerate Newsy's business, adding in that humor and content vertical to bring the Cracked brand and that content to the platform is where we see younger audiences emerging, the folks that today are watching their content, watching television and watching video through set-top boxes, like Roku and Apple TV, as well as those virtual MVPDs like Sling TV and Comcast's Watchable.

Rich Boehne - *The E.W. Scripps Company - Chairman, President & CEO*

Just a reminder, some of the audience information is captured in that investor deck that is on our website.

Tracy Young - *Evercore ISI - Analyst*

Okay. Thank you.

Operator

We do have a follow-up in queue from Michael Kupinski.

Michael Kupinski - *Noble Financial Group - Analyst*

Thank you. Just wondering, are there any particular cost synergies from owning Newsy and having Cracked?

Adam Symson - *The E.W. Scripps Company - Chief Digital Officer*

There aren't so much cost synergies as much as I would say opportunities. There is a lot of work that has been done with Newsy that we think we can now bring over to Cracked, and pretty quickly seize the opportunity in a space, over-the-top video, where there are nice barriers to entry.

Newsy has done a great job of jumping up over those barriers to entry and getting distribution in an environment that we see as a shelf space land grab. And having an additional brand, especially a brand that is so popular with younger audiences seeking that kind of content, we think we can really accelerate Cracked, as well as grow Newsy with the two of them bundled together.

Michael Kupinski - *Noble Financial Group - Analyst*

Adam, explain to me -- you'll probably follow the same playbook as what you have done with Newsy as you pivot it towards this distribution platform on OTT. Are there thoughts that you would have to make some investments in growing Cracked at this point, much like you have done with Newsy? Or can you just give us some thoughts on that?

Adam Symson - *The E.W. Scripps Company - Chief Digital Officer*

Yes. The nice thing about Cracked is Cracked already has a very strong web business. The revenue is moving in the right direction. We think Cracked will continue to contribute to segment profit. So, we think there is plenty of opportunity, even within the business, to invest through the P&L without having to change the trajectory of the business. So, we can both simultaneously grow the opportunity in the OTT, audio and video space without in any way negatively impacting the trajectory of the native advertising and the programmatic business on the web and mobile side of things.

Michael Kupinski - *Noble Financial Group - Analyst*

Okay, great. Thank you.

Operator

(Operator Instructions)

Steve Birenberg, Entermedia.

Steve Birenberg - *Entermedica Growth Partners - Analyst*

Hello, everybody. Can you talk a little bit more about the a mobile site? Do you expect to [upgrade] specifically the mobile app? I think Mike or Tracy might have mentioned that. We didn't really get any specific commentary. I'm curious if you feel that you need the investment or there is upside there? Or is the real primary focus here at OTT?

Adam Symson - *The E.W. Scripps Company - Chief Digital Officer*

I think there does need to be some refreshing of the website and the app. And I think that is something that Scripps can bring without it entailing specific monetary investment. The beauty of what we've got back in Cincinnati is scale. We have already done a lot of the work to develop out best-in-class products that deliver content in the way that consumers want them, that have been tested and that work really well from a monetization perspective. So, moving Cracked's content into those platforms, we think, is going to be one of the opportunities, I'd say, to be able to help build the business on the web and mobile side.



We think there is a lot of upside on the website and mobile for us to accelerate the growth of the brand. They have not had the resources, I'd say, in order to focus on social distribution or even a mobile first approach. And, as we all know, young people, particularly high content consumers, are using their phone as the first access point for content, usually through social. So, there is a tremendous amount of opportunity that we think we can unlock on the web and mobile side while we are actually continuing to accelerate the business through video in the over-the-top and audio space.

Steve Birenberg - *Entermedica Growth Partners - Analyst*

Thank you.

Operator

Kyle Evans, Stephens.

Tommy Moll - *Stephens Inc. - Analyst*

This is Tommy in for Kyle. Congratulations on the deal. I wonder if we could circle back to the tax advantages that you mentioned earlier on the call.

Tim Wesolowski - *The E.W. Scripps Company - CFO*

This deal has been structured as an asset purchase. As Rich said, it's \$39 million in cash. And as a result of the asset purchase we'll generate some tax deductible amortization of \$2.5 million a year or so, and that is over 15 years. We value that on a present value basis at about \$7.5 million. So, it's nothing fancy, just plain tax benefits from amortization of intangible assets.

Tommy Moll - *Stephens Inc. - Analyst*

Got it. And as a follow up I wonder if you could give us any background on the deal -- when the conversation started and any background would be helpful.

Adam Symson - *The E.W. Scripps Company - Chief Digital Officer*

We began talking to the folks at Cracked and getting to know the people on the editorial side and the leadership last year when we acquired Midroll. As you will recall, Cracked actually has a very popular podcast that is co-owned by Midroll, so that opened the door. And then I'd say somewhere in probably third or fourth quarter we began having conversations with Demand Media about whether or not they might be interested in parting ways with the asset.

Tommy Moll - *Stephens Inc. - Analyst*

Great. Thank you.

Operator

(Operator Instructions)



Allowing a few extra moments here, I'm showing no additional questioners in queue. Please continue.

Carolyn Micheli - *The E.W. Scripps Company - VP of IR*

Thank you, Tony. Thanks, everybody, for joining us. Just a reminder again that there is a lot of information on our website under investor information. There is a video about Cracked, an investor presentation and also the full press release. Thanks so much for joining us. Back over to you, Tony.

Operator

Thank you very much, ladies and gentlemen. This conference will be available for replay after 7 PM Eastern time this evening, running through April 26 at midnight. You may access the AT&T executive playback service at any time by dialing 800-475-6701 and entering the access code of 391020. International participants may dial 320-365-3844. Once again those phone numbers are 1-800-475-6701 and 320-365-3844, using the access code of 391020.

That does conclude your conference call for today. We do thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

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