GCI - Q1 2015 Gannett Co., Inc. Earnings Call
(EDITED FOR CLARITY)

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OVERVIEW:
Co. reported 1Q15 revenue of $1.5b and non-GAAP diluted EPS of $0.49.

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Dan Kurnos *Benchmark Company - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to Gannett's first quarter 2015 earnings conference call.

(Operator Instructions)

Our speakers for today will be Gracia Martore, President and Chief Executive Officer; Bob Dickey, President of US Community Publishing; and Victoria Harker, Chief Financial Officer. At this time, I'd like to turn the call over to Jeff Heinz, Vice President, Investor Relations. Please go ahead.

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

Thanks, Taylor. Good morning and welcome to our earnings call and webcast. Today our President and CEO, Gracia Martore; Bob Dickey, President of US Community Publishing; and our CFO, Victoria Harker, will bring you Gannett's first quarter 2015 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 may 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 Co., Inc. - President & CEO***

Thanks very much, Jeff, and let me join in welcoming you to our earnings call.

Today, I'm going to provide a high-level summary of Gannett's impressive performance in the first quarter and after that, Bob Dickey, who will be the CEO and President of our Publishing business once the split is completed, will give an overview of the Publishing business, including operational highlights and financial performance during the quarter. Then Victoria will review the financial results of the Company and our Broadcasting and Digital Segments, provide some detail on special items and review our balance sheet. Dave Lougee, President of Gannett Broadcasting, and Jack Williams, President of Gannett Digital Ventures, are also here to participate in the Q&A session.

The first quarter kicked off what promises to be a very strong and exciting year for us. Our exceptional results this quarter were led by significant revenue growth in our Digital Segment and solid growth in our Broadcasting Segment. Both segments achieved a record level of first quarter revenues. Our strategic acquisition of Cars.com continues to pay dividends and we're looking forward to the future growth of that business and the continued positive impact it will have on our Digital Segment. Broadcasting Segment revenues were also up, despite challenging comps given the absence of $51 million of Olympic and political ad demand that contributed to results in the first quarter last year.

Once again, we maintained our usual discipline with regard to expenses in the quarter. Expense growth was in line with our revenue growth. This was mainly due to the acquisition of Cars.com. On a pro forma, non-GAAP basis, expenses were down 3%, reflecting lower Publishing Segment expenses and flattish Digital Segment expenses. It's important that as we grow, we continue to leverage our scale and operate as efficiently as possible. We have been successful thus far and will remain laser-focused on this going forward.

Adjusted EBITDA for the quarter was up significantly to $325 million. Non-GAAP earnings per diluted share, as you read this morning, were $0.49 compared to $0.47 in the first quarter of last year; again, against tough comps. Overcoming those tough comps, Broadcasting revenue growth was driven primarily by a very strong performance by our expanded portfolio of TV stations. I should note that the integration of our newer stations continues to unfold quite smoothly and well ahead of our expectations. We're very excited about the potential for our portfolio of television assets. Our Broadcasting footprint puts us in key high-growth geographic areas and as you know, we benefited from our expansive reach during 2014's political season. So we are very well-positioned for what is shaping up to be a very robust 2016 political season.

The Digital Segment continues to perform better than even our expectations and achieved a record level for first quarter revenue. Cars.com had just a terrific quarter, with profitability up substantially, thanks to a 28% increase in total revenues and a slight decrease in total expenses. Revenue is bolstered by more favorable wholesale rates built into the new affiliate agreements, signed in conjunction with Gannett's acquisition of Cars.com, as well as increases in both the number of dealership customers and revenue per dealer. Growth in the number of dealerships that purchased Cars.com products is especially important as we continue to rollout new, innovative solutions for our dealers.

During the quarter, Cars.com launched two digital advertising products for its dealer customers. RepairPal Certified is the first program designed specifically to help differentiate dealership service departments. It was launched in partnership with RepairPal, the leading resource for consumer car care. In addition, Event Positions helps put dealership events in front of a local in-market shopping audience during a limited timeframe. As important as dealer relationships are, it's also critical to have the very best editorial content and to position that content in the optimal way to reach the maximum number of potential consumers. Accordingly, Cars.com replatformed its content from the Kicking Tires blog to the main Cars.com site.

The move allows for a better consumer experience across devices through responsive design and this is a perfect example of how we are leveraging our expertise as content providers to expand the breadth of Cars.com and attract new users. Expanding Cars.com's reach to new dealers and customers and enhancing the experience for both new and prospective users will help drive revenue growth throughout 2015 and well beyond.

The other primary component of our Digital Segment, as you know, is CareerBuilder, the global leader in human capital solutions, which continues to be an integral part of our Digital portfolio. It provides unmatched reach from employers by offering the largest online career destination in the US for job seekers and maintains the largest online recruitment sales presence in North America. CareerBuilder has been making significant investments over the past few years to further our transformation into a global leader in the HR software as a service arena. As I mentioned last quarter, this is a growing source of CareerBuilder's increasing revenues.

CareerBuilder has built the only global pre-hire software as a service platform that addresses virtually all of an employer's significant pre-hire needs from attraction to candidate acquisition to internal workflow, to candidate remarketing. CareerBuilder is uniquely positioned to provide this one-of-a-kind service. Having been a leader in recruitment advertising for years, the folks at CareerBuilder have invaluable insights into the needs of employers and the reasons why the efforts to fulfill those needs sometimes fail. By bringing together advertising software and data into one integrated pre-hire platform, CareerBuilder is bringing a complete solution to the market that no one else in the industry can offer.

Moving onto G/O Digital, this business again saw strong Q1 revenue traction year-over-year from small to medium-sized business customers. Revenue from local advertisers rose over 32% versus last year, led by increases across key product solutions including search, email, and social marketing products. G/O Digital, which has won awards for its work on behalf of customers, has seen its client roster grow significantly over the past year. In light of the strong success of G/O Digital, the next logical step in its evolution is to create two distinct business efforts: G/O Digital Local and G/O Digital National, with separate leadership dedicated to each, along with a common shared services group to support both units.

As innovation, excellent products, and top-notch services have allowed G/O Digital to expand, each of these distinct revenue sources has evolved and become capable of thriving as a standalone business. Reorganizing G/O Digital's businesses drives better alignment with these two distinct markets and customer sets that we serve. Both the business units have tremendous potential as high-growth, large revenue businesses.

I mentioned earlier, 2015 is shaping up to be a defining year in Gannett's history. The event we're all looking forward to is, of course, our planned separation into two publicly traded companies which is on track to be completed in mid-2015. When our Publishing Segment becomes a standalone company later this year, one of the many strengths on which it will thrive is its exceptional leadership team led by Bob Dickey as CEO and President. He and his team have launched some terrific initiatives that are driving both audience engagement and revenue generation for Publishing. Bob's going to review Publishing's first quarter performance and he'll also talk a little about the soon to be independent company. Bob?

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

Thanks, Gracia. First, let me say how honored and excited I am to have been chosen to lead the new Gannett. I've been at this Company for more than two decades and I can tell you firsthand this is a very exciting time, not only for Gannett, but for publishing, specifically.

We've made significant strides in the past few years to provide our audiences with fresh content, to keep them engaged, and serve as an integral member of their local communities; all while continuing our long-held tradition of being a very strong operator. The response to new key concepts we've launched recently has been overwhelmingly positive and it encourages us to dig deeper and provide our audiences with increasingly unique ways to consume the news and information they crave. We will continue to focus on innovation, finding creative approaches to producing and delivering superior content; all along engaging with subscribers and our communities and servicing, of course, our advertising partners.

Not only will the new Gannett continue to push the envelope in terms of products and services, but we will begin our life as an independent Company with strong financial footing, positioning us to be a successful consolidator of local market publishing and related digital operations in the future and invest in products and services that will drive growth. We will be financially disciplined, maintaining a strong, flexible balance sheet through conscientious cost management, conservative financial policies, and strong and efficient operations. The new Publishing Company will remain committed to preserving financial flexibility and maximizing cash flow to allow investments that enhance our Company. Focusing now on the first quarter, our combination of award-winning journalism and innovative distribution methods kept Gannett atop of the industry.

The all-access content subscription model continues to help drive circulation revenue as home delivery revenue was up in the quarter. It is also contributing to circulation volume and USA TODAY's position as the number one in total daily circulation. USA TODAY local content editions have become must reads in all the markets in which we've rolled them out so far. As we've mentioned, we've been partnering with other publishers to expand the reach of USA TODAY's high-quality content beyond Gannett's already expansive footprint. Since our last call, USA TODAY content has started running in a number of widely read news outlets, including the Chicago Sun-Times, the Knoxville News Sentinel, the Colorado Springs Gazette, and the American News out of Aberdeen, South Dakota, the birthplace of USA TODAY's very own founder Al Neuharth.

Total additional daily circulation is approximately 275,000 copies, while Sunday circulation is just over 891,000 additional and negotiations continue with several other non-Gannett publishers. It's clear that the demand for our outstanding USA TODAY local content edition is significant. We are leveraging this popularity by incorporating them into third-party news outlets, expanding our reach, and gaining access to new communities that value USA TODAY's award-winning journalism. The industry is still up against a tough display advertising environment, but our talented team has done a great job of weathering the current environment to create value and provide our audiences with the critical news and information they demand from us on a daily basis on all platforms.

Turning to the quarterly results for the Publishing Segment: overall, Publishing Segment revenues were down approximately 5% on a pro forma constant currency basis; a sequential improvement from the year-over-year comparison in the fourth quarter from 2014. Several factors unfavorably impacted year-over-year comparisons, primarily continued softness in display advertising, the change in the Cars.com affiliate agreement economics, the absence of revenue associated with USA Weekend, Gannett Healthcare group, Apartments.com, and a commercial printing operation, as well as a year-over-year decline in the UK exchange rate.

While display advertising was down, Digital revenue continued its substantial growth. The Digital properties associated with the Publishing business continue to perform very well. Pro forma domestic online advertising revenue in the Publishing Segment increased 7% year-over-year, with retail advertising up 10% year-over-year, driven by G/O Digital with a growing base of customers seeking to diversify their marketing efforts while increasing the efficiency of their online advertising solutions. National Digital revenues also improved 11%. Newsquest online advertising was up an impressive 15%, mainly reflecting the strength of local and national display advertising.

Publishing Segment advertising revenues were impacted by secular pressure again this quarter and the absence of USA Weekend, as well as the sale of Gannett Healthcare Group and Apartments.com. On a pro forma constant currency basis, Publishing Segment advertising was down approximately 7%, with the year-over-year print advertising decline partially offset by Digital growth of 7%. Within the segment, domestic Publishing advertising revenues decreased by 8% year-over-year, which was negatively impacted by lower advertising demand and harsh winter weather impacts on retail sector advertising.

In the UK, Newsquest advertising declined by 4% year-over-year in local currency, but retail and national categories showed sequential improvement. Publishing Segment circulation revenue was down 3% year-over-year, due primarily to declines at USA TODAY and Newsquest. The ongoing strength of the all-access content subscription model, as well as our strategic pricing, resulted in our local US Publishing sites home delivery circulation revenues to be higher compared to last year and helped USA TODAY maintain its number one position in daily circulation.

We continue to focus on cost efficiencies during the quarter and as a result, pro forma non-GAAP expenses were 4% lower. While we continue to operate in a challenging environment, we are optimistic about the initiatives we have in place and the reception has been even better than anticipated. We look forward to further stabilizing our Publishing business as we continue to make positive progress executing our current strategies. Importantly, the Publishing company also will have the financial flexibility to capitalize on new opportunities, backed by the brand trust, strong operations, and journalistic talent that come with the Gannett name. Our team is incredibly excited about what lies ahead for the new Gannett.

With that, I'd like to turn it over to Victoria to provide a detailed review of the financial results for the Broadcasting and Digital Segments.

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

Thanks, Bob, and good morning, everyone. As Gracia already mentioned, we're very pleased with our first quarter financial results, testament to the outstanding progress in the strategic transformation journey of our Company.

Before I review our financials, as well as our capital allocation efforts during the quarter, I'd like to spend a few minutes reviewing several special items which impacted the quarter to help provide additional context for recurring performance trends. Our ongoing efforts to transform the business continue to generate greater operating efficiencies and effectiveness across the portfolio. These initiatives drove workforce and other restructurings across several of our businesses for a total of $13 million with an EPS impact of about $0.03 per share. Total non-operating special items totaled $26 million with an EPS benefit of $0.03 per share, mainly related to a gain on the sale of Gannett Healthcare Group earlier this year.

Now, let's briefly review the ongoing operating results for the quarter. As reminder, although I'll be focusing on our non-GAAP performance today, you can find all of our reported data and comparatives in our press release. As Gracia mentioned, the year-over-year comparisons reflect the absence of significant Olympics and political advertising in Broadcasting, as well as $27 million of revenue previously associated with USA Weekend and the sale of Gannett Healthcare Group, which comprised about $20 million of the total with remainder comprised of Apartments.com and the sale of the commercial printing business.

Additionally, the pound to dollar exchange rate declined by 8% year-over-year, impacting revenues by about $10 million and EPS by $0.01. Despite this, total Company revenues of $1.5 billion were up 5% year-over-year. During the quarter, total Company operating expenses of $1.2 billion, excluding special items, were up 4% year-over-year, reflecting the addition of Cars.com, partially offset by our continued focus on efficiencies, as well as lower volume in the Publishing Segment.

Now, let's turn to more detailed review of Broadcasting and Digital Segment results. As I mentioned, last year, we had $51 million of Olympics and political advertising in Broadcasting during the first quarter; a challenging hurdle to overcome. Despite this tough comparison, we're very pleased with Broadcast Segment revenues, which were up 4% year-over-year, benefited by strong retransmission fees and record Super Bowl advertising revenues. Retransmission fees continued to grow substantially, up 26%, as a result of newly negotiated agreements at the end of last year, as well as annual increases within the existing agreements.

Broadcast Digital revenues were up 11%, driven by digital marketing services which continue to gain traction across our television stations, as the newly acquired stations are now fully trained on G/O Digital products and seeing good sales results. Based on current trends, Broadcast revenue in the second quarter is projected to be up in the mid-single digits compared to last year; again, despite very difficult year-over-year comparisons of $17 million in political advertising last year. During the quarter, Broadcast Segment operating expenses were up 6% year-over-year, due to increased programming costs related to reverse compensation and investments in our digital sales initiatives.

During the quarter, as mentioned, Digital Segment revenue increased about 85% year-over-year, driven by both the acquisition, as well as the strong operating results of Cars.com, which was up 28%. On a pro forma basis, Digital Segment revenues were 10% higher, driven by the growth of Cars.com and continued growth at CareerBuilder, up 4% year-over-year. Digital Segment operating expenses were flat compared to last year on a pro forma basis, reflecting lower lead generation costs and better affiliate economics at Cars.com, as well as cost efficiencies at CareerBuilder offset by higher sales costs supporting associated revenue growth. During the first quarter, Company-wide Digital revenues totaled $513 million, reflecting an increase of 7% year-over-year on a pro forma basis. Digital revenues contributed fully 35% of total Company revenues during the quarter; another historic high for Gannett.

Total Company adjusted EBITDA in the quarter of $325 million increased 14% over last year. Broadcasting and Digital Segments accounted for nearly 85% of total Company-wide EBITDA. Free cash flow for the quarter was approximately $130 million and each of our segments continues to be solidly profitable. During the quarter, we invested over $19 million in capital projects, primarily related to several local publishing real estate initiatives, which will generate about $4 million in annual operating cost savings, as well as ongoing digital price development, product integration, and enhancements at both CareerBuilder and Cars.com.

As we mentioned in our previous call, capital expenditures are expected to be in the range of $135 million to $140 million for the year, with the majority of our capital investment dedicated to the development of Digital products and platforms. As we announced in February, we resumed our share buyback program well ahead of the timeline we had previously anticipated, given the strength of our ongoing financial performance. As a result, we repurchased about 1.1 million shares during the quarter at an average price of $35.07 per share.

As Gracia mentioned, the separation of our Publishing business is quickly approaching. Last month, we filed our Form 10 registration statement with the SEC, which is an important step in the separation process. You can find that filing on Investor Relations page of Gannett's website or on the Securities and Exchange Commission's website on under Gannett Spinco. The Form 10 includes information regarding the transaction and the standalone Publishing company. As outlined in the Form 10, the Publishing company expects to pay a regular cash dividend of $0.32 per share annually and plans to commence $150 million share repurchase program, expected to be used over a three-year period.

The Broadcasting and Digital Company will also continue Gannett's focus on delivering strong returns to shareholders. We expect to pay a regular cash dividend of $0.56 annually which, combined with the Publishing Company's anticipated dividend, represents a 10% increase over the current Gannett dividend. The Broadcasting and Digital company also plans to replace its existing share repurchase program with a new $750 million authorization program, expected to be used over the three-year period after the separation. This expected new authorization, combined with the Publishing Company's authorization, represents more than a doubling of the current Gannett share repurchase program. In addition, under the current plan, both companies will have leverage levels well below peer companies and will maintain the flexibility to adjust repurchases based on business conditions, new opportunities, and other factors.

During the quarter, we carried slightly higher interest expense related to a higher average debt balance, due to the Cars.com acquisition, partially offset by a lower average interest rate. At the end of the quarter, our long-term debt stood at $4.4 billion and after utilizing cash for debt and interest payments, as well as share repurchases, we closed the quarter with $136 million of cash on the balance sheet.

With that, I'll turn the call back to Gracia for her closing remarks prior to Q&A.

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

Thanks, Victoria. It goes without saying that 2015 will be a turning point in Gannett's history.

As we entered the fourth year of our transformation journey this year, we started the year on a strong footing and we are incredibly pleased to have done just that with the terrific performance in the quarter. There's a tremendous amount of innovation happening in our Digital Segment, as both CareerBuilder and Cars.com explore new avenues of growth. Broadcast is performing well and the integration of our new stations is proceeding even better than we hoped and we are on track to achieve at least, if not more, than the goal for our synergies. In Publishing, our USA TODAY local content is really catching on; so much so that other publishers, as you heard Bob say, want our content in their publications, giving us access to previously untapped audiences and revenue sources.

As three years of hard work, relentless focus, and successful execution of our strategic transformation plan culminate in our separation into two independent, publicly traded companies, the momentum we are currently generating will serve us well as we embark on the next chapter of the Gannett story. As you just heard, all three of our business segments are on an upward trajectory and we are very excited about their future prospects. Gannett is exceptionally well-positioned and the progress and invention will only accelerate when we become two more nimble and more highly focused Companies.

As has always been the case, we have all of Gannett's dedicated and talented employees to thank for bringing us to where we are today. Their hard work and support has allowed us to produce must-see content for our audiences, offer best-in-class marketing solutions for our advertising partners, and generate significant value for our shareholders. With that, let's open the call up for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Alexia Quadrani, JPMorgan.

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

Thank you. I apologize if I missed this, but did you give a number for the benefit of the Super Bowl in the quarter? Any commentary, I guess, on just how the core advertising is pacing in the second quarter? Thank you.

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

Yes, Alexia, what I would say is that when you looked at how much political we had in the first quarter of 2014, it was about comparable to what we did in Super Bowl advertising in the first quarter; so, in that $10 million to $15 million range.

And then, with respect to the other businesses, we provided guidance for broadcasting this morning. As we said, we expect total revenues for the segment to be up in the mid-single digits. As Victoria pointed out, we'll be absent about $17 million of political.

On the publishing side, on a pro forma constant-currency basis -- because currency is really starting to have an impact, as I'm sure we're going to hear on lots of earnings calls -- if you look at the ad revenues, it looks like, Bob, I'd say they're about 1 percentage point or so better than what we saw in the first quarter, which was 1 percentage point or so better than what we saw in the fourth quarter.

Currency: Just to put it in perspective, the currency rate was down about 8% in the first quarter. Looking at where the pound is right at the moment, it looks like currency would be down around 11% or so in the second quarter. So, obviously that will have -- it cost us about $0.01 in EPS in the first quarter, so it will probably cost us a bit more than that in the second quarter.

Cars.com, I think we would expect to see, Jack, sort of the same range of revenue growth as we saw in the first quarter, 25%-ish.

CareerBuilder looks like it's about the same as what we saw. Now, they've got a little impact from currency as well, because they're in a number of countries, and that cost us some millions of dollars in the first quarter. And we would expect we'll have a similar, if not slightly more meaningful, impact in the second quarter.

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

I know it's early days, but some folks are throwing out numbers. Do you have any rough estimate of political benefit next year for you guys?

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

Oh, gosh, if there's one thing we've learned, we never forecast numbers before we allow our folks in the field to tell us how they feel about them. The only thing I can tell you is that, from a Presidential standpoint, there's no incumbent candidate, looks like a lot of people are going to be spending a lot of money to make sure that their candidate becomes the President. We are incredibly well positioned with our footprint in places like Florida and Colorado and Ohio, and also the strength of our stations where we will disproportionately gain political revenues.

Dave, you might mention the Senate footprint we have this year.

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

We've got -- Florida is going to have a race now with Rubio; Colorado's going to have a race, where we have a very big footprint. Ohio's going to have a race. So, we've always had a relatively good House footprint, but the Senate has tended to have puts and takes. Next year looks to be among the best Senate footprint we've ever seen, from a portfolio standpoint.

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

We'll go out on a limb, and think that it will be a record year for Presidential dollars.

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

Absolutely.

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

Thanks.

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

Thanks, Alexia.

Operator

Bill Bird, FBR Capital.

Bill Bird - ***FBR Capital - Analyst***

Good morning. Gracia, at Cars.com, what was the growth rate in direct sales? Separately, on your capital return plan, is some form of real estate monetization captured in that plan, or could such a monetization create upside? Thank you.

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

Yes, with respect to direct sales, that was double-digit growth for Cars.com. And as you know, direct sales by the Cars.com sales force is about 75% or so of the total. So, double-digit growth, teens, low- to mid-teens on growth there.

With respect to our capital allocation plans, no, those capital allocation plans really assume what we anticipate from a pure cash flow from operations. So, any additional monetization of -- significant monetization of real estate, for instance, such as our headquarters building here in McLean, that certainly wouldn't be part of that current plan.

Bill Bird - ***FBR Capital - Analyst***

Great. Thank you.

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

Thanks, Bill.

Operator

John Janedis, Jefferies.

John Janedis - ***Jefferies - Analyst***

Hi. Thank you. Maybe just two quick short ones: First, Gracia, you've enjoyed, really, a six-year run of strong double-digit growth in retrans. And I know you tend to not get too specific on individual deals, but can you tell us how many of the top 5 or 10 distributors come up at the end of 2015 and 2016?

Separately, there was a pickup in corporate; was there something in there related to the spin, or is that the run rate going forward? Thanks.

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

Yes, let me answer the first question with respect to retrans. Towards the end of this year, we have well north of a third of our subs coming up. So, once again, as we've said, we still believe there is a significant gap between what we are being paid and the value that we're bringing. When we look at sports programming, and what that is able to achieve, and given the substantially greater audience that we bring to the table, we think there's still a lot of room to grow there.

So, we feel very good about what we ought to be able to accomplish. So, we'll have a good opportunity at the end of the year to grow that in another meaningful way. Last year, we had about 60%-plus growth. This year, with no real significant deals coming up at the end of 2014, we're going to be up 20%-plus on the retrans side.

I'm sorry, your second question again was --?

John Janedis - ***Jefferies - Analyst***

On corporate.

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

Corporate, yes.

John Janedis - ***Jefferies - Analyst***

There was a bit of a pickup; was there spin money in there?

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

Well, there's probably a little bit of spin money. There's probably some legal costs associated with some other activities this quarter, but we're pretty focused on that. Also, as we add to Bob's team, as we add to other things, there'll be some duplicative expenses for a short period of time here, particularly in the second quarter before we ultimately spin.

John Janedis - ***Jefferies - Analyst***

Okay. Got it. Thank you.

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

Thanks.

Operator

Craig Huber, Huber Research Partners.

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

Yes, hi. Two quick questions, please. Your pension, Gracia, can you just remind us what percent of your pension is going to go with the publishing company? Have your thoughts changed there at all on that percentage, given the performance of the operation?

Secondly, your core ad revenue for TV, excluding political, for the second quarter -- are you kind of thinking up low-single digits year over year? How's it tracking, please?

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

Let me start with the pension, and then I'll turn over the broadcast question to Dave Lougee, who knows those things inside and out.

On the pension side, as we indicated in our Form 10, we tend to have the liabilities follow where the employees will end up post-spin. So, given that the vast majority of our employees who are in the pension plan are retired, or our current actives, emanated from the publishing side, more of that pension plan clearly is going to go to publishing, and we've outlined those numbers in the Form 10.

Now, on the broadcasting and digital side, our digital businesses have never had a pension plan, so there's no pension liabilities there. On the broadcast side, with the acquisition of Belo, we picked up their plan, as well as a few hundred million dollars of liability on the remainder of the broadcasting and corporate employees that will be associated with the broadcasting and digital company going forward. So, have no real plans to change that.

Our pension fund is well over 80% funded. When you look at the fact that we have a frozen plan, and have had a frozen plan since 2008, with a return that is lower than the historical return we've ever generated on the plan, be it a 3, 5, 10, 20, or since inception in 1979, we have ample assets in the plan to pay out all of those liabilities, so, feel very good about where they will be.

I think, post-spin, it looks like at this point that the plan that will go to publishing will be even more funded than the 82% or so that it's funded currently, and similarly on the broadcast and digital side. So, we feel very good about where we are on both plans.

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

As for core in the second quarter, Craig, it's still very early, so we can't really see that far out. But right now, April is positive but choppy, as it has been up and down, so we'll see where it lands.

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

Great. Thank you.

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

Thanks, Craig.

Operator

Doug Arthur, [Huber Research].

Doug Arthur - ***Huber Research - Analyst***

Yes, thanks. Gracia, it seems like the story in the quarter is the surprising margins in digital. It's sort of a reset here. You're doing a lot of initiatives on the new product side at Cars.com. Is it realistic to expect pro forma costs to be flattish going forward in the year?

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

Part of that is a benefit that we get from the new affiliation agreements. And, Jack, you might want to just -- the more specific details of that.

Jack Williams - ***Gannett Co., Inc. - President of Gannett Digital Ventures***

Yes, Doug. The new affiliation agreements raised the wholesale rates on the former owners who continue to be affiliates. Most of that wholesale rate drops 100% to the bottom line, so the margin's pretty high on that for the remainder of that first period.

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

But that being said, Doug, before the change in the affiliation agreements at Cars.com, the margins were in the high-teens, low-20%s. And we would expect that business to, even with the investment we're making, to now be in the low-30%s, as we've sort of indicated when we announced the acquisition last year.

Doug Arthur - ***Huber Research - Analyst***

From your perspective, it's tracking as planned?

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

It is tracking better than what we planned, as you can appreciate. I have a conservative CFO who won't let me get ahead of things, but we feel very good about the way Cars.com is tracking.

We feel extraordinarily good about the way the Belo transaction has worked out for us. That has exceeded our expectations, and we will -- very comfortably exceed what we anticipated our third-year run-rate synergies will be.

I'd also give a nod to our broadcast segment because, to have $51 million of Olympics and political spending in the first quarter, and to overcome that through a lot of the good work that they've done, I think is a real testament to the strength of our stations and the strength of our management team there, led by Dave.

Doug Arthur - ***Huber Research - Analyst***

Great. Thanks.

Operator

Amit Kapoor with Loomis, Sayles and Company.

Amit Kapoor - ***Loomis, Sayles and Company - Analyst***

Hi, good morning. Thank you for taking my question.

Just a quick question about the publishing side: Revenues were down 5%, and actually able to contain costs down 4%. How much room do you have to create efficiencies in the PubCo going forward, managed costs, especially given that it will be an independent company? Then I have a follow-up, please.

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

Bob will do his great job, as always. Bob, go ahead.

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

Actually, I think there's -- we have a team of folks right now that are reviewing additional efficiencies based on the fact that we will be operating under one Company. I'm confident that we'll continue to find those efficiencies, and in no way damage the quality of the products or the services we provide.

Amit Kapoor - ***Loomis, Sayles and Company - Analyst***

Thank you. Just follow-up to Doug's question there: So, in the digital business, you have a business that's almost high-30%s, close to 40% incremental margins. It might, on a run-rate basis, be a $350-million, $400-million EBITDA business. Will the digital business have the autonomy it needs to operate within the broadcast segment and thrive there, given the pace and the D&A it's showing in terms of growth?

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

Yes. First of all, it's the broadcasting and digital ventures segment. I think if you talk to the leadership team at Cars.com, Jack and I and others here were just out for their sales kickoff for 2015, and one of the questions we were asked was about autonomy. We talked a lot about the fantastic culture that Cars.com has; the fact that they are running on all cylinders, no pun intended.

The one area that I think we have -- with just one owner rather than five owners that had different strategic needs -- I think bringing that one strategy, one strategic focus to them actually is a benefit. I think the one thing we've obviously encouraged them on is to actually accelerate their product roadmap, and to do more investment in their product roadmap. So, if you talk to the folks at Cars.com, you would hear, I hope, that actually we want to continue to allow them -- we're here to help them fulfill their mission, and to retain the great culture that they have there.

So, I think they feel very good about the way -- and, frankly, that's been our history of dealing with these various businesses. So, feel very good that Cars.com has lots of room and lots of autonomy to continue to be an incredibly successful company.

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

Just to quantify that a little bit for you, I talked about the $19 million or so in CapEx that we spent during my prepared remarks and about a third of that was CareerBuilder and Cars.com on their new product development, accelerating their pipeline.

Amit Kapoor - ***Loomis, Sayles and Company - Analyst***

That's very helpful, Victoria. Thank you.

Operator

Kannan with Barclays.

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

Thank you. Just a couple questions: On the publishing side of it, Bob, how important is scale, post the spin? Is that -- especially looking at so many print companies now being listed -- is there an opportunity to basically roll up some of these entities and benefit on the cost side of it?

Secondly, Gracia, just on the retrans side of it, once the whole process is done, which is all the upcoming deals, as well as your reverse retrans deals over the next couple of years, is it fair to expect that your margins will be more in line on the broadcast side compared to the rest of the industry, in the 50% kind of margins?

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

Bob, why don't you start with publishing, and I'll be happy to finish up on the broadcasting side.

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

Absolutely. We see tremendous opportunity as a consolidator. We believe, with our national to local strategy, with our strong USA TODAY brand, our terrific local community publications currently, that our scale and scope puts us in a position to be a leader, and we intend to do that. We also think, over the last three, four years, the various initiatives we put in place for US Community Publishing and USA TODAY can be leveraged across those markets as we start to look at opportunities. So, it's not only an opportunity to generate synergies and cost savings, but we also believe we have some very good revenue initiatives that we can leverage as well.

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

Kannan, with respect to margins in the broadcast side, what I would point to is -- long before retrans was a glimmer in anyone's eyes, Gannett always had the best margins in the broadcast industry. So, when all is said and done, and when all of the dust settles on retrans and reverse retrans -- which, by the way, on retrans, I don't think the dust is going to settle for a very long time because there's still a long way to go in getting our value reflected. We will continue to have superior margins in the industry.

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

All right. Thank you.

Operator

Barry Lucas, Gabelli and Company.

Barry Lucas - ***Gabelli and Company - Analyst***

Thank you and good morning. Gracia, you still have a fair amount of room under the broadcast cap to make additional acquisitions. So, maybe you could comment on your appetite for more stations, and maybe what the M&A pipeline would look like?

Finally, how is that impacted, if at all, by the upcoming incentive auction?

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

Yes, what I would say, Barry, is that you're right; the cap is 39%. We're on an undiscounted basis, about 31%; on a discounted basis about 24%.

What I would say is that we are always open to looking at great opportunistic transactions. Belo came along; it fit every criteria we had. And we knew that they were fantastic stations, but we could do, with the scale we had, a great job in continuing the great heritage of those stations. So, we are always looking at potential opportunities for great acquisitions that create shareholder value.

That being said, I think, given, as you mentioned, the spectrum auction and the uncertainty around the timing, etc., I think that has probably put a little bit of a damper on M&A activity right now, as I think everybody is trying to figure out ultimately what that auction will mean to them; whether, in fact, their stations will have value or not. Frankly, when you look at what we think about, where the highest congestion is, it really is in that I-95 corridor from Boston down to Washington, up in LA, San Francisco, and some other areas.

So, I don't think the auction's going to treat everybody the same. But I think that's certainly out there and is creating some hesitancy for folks to look at either selling their stations until they have a better grasp on how the auction is going to be run, when it's going to be run, what the rules are going to be, and whether there is an opportunity or not for their stations.

But we continue to be very bullish on the broadcast industry. And with the right opportunity that we can see a clear path to creating shareholder value, we would be a buyer.

Barry Lucas - ***Gabelli and Company - Analyst***

Great. Thanks very much.

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

Thank you.

Operator

Marci Ryvicker, Wells Fargo Securities.

Jon Huh, *Wells Fargo Analyst*

Hi, guys, it's John stepping in for Marci. I'm trying to get a better handle on core trends. Can you tell us maybe what the core revenue contributions from London was in the quarter and what does then the mid-single-digit TV revenue growth look for Q2 without London..

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

Yes. London -- we haven't given out specific numbers, but, frankly, it is very, very modest -- their contribution. While they are wonderful, wonderful stations, they are very, very small stations, but terrific stations. So, the contribution is very small.

Unidentified Participant *Analyst*

Okay. Is April still up (inaudible) for London?

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

Yes. On a pro forma basis, yes.

Unidentified Participant *Analyst*

Okay. I'm sorry, Victoria, can you break down that $37 million publishing impact again? How much was from the Healthcare Group, USA Weekend, and currency changes?

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

Victoria will lead us through that.

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

Yes. Actually, we've got about -- between USA Weekend and the sale of Gannett Healthcare Group, they were about $20 million of the total. And the remainder was Apartments.com and the commercial printing business. Then, we had $10 million on top of that, getting us to the $37 million, which was currency.

Unidentified Participant ***Analyst***

Okay. Perfect.

Operator

Tracy Young, Evercore ISI.

Tracy Young - ***Evercore ISI - Analyst***

Yes. First quarter -- could you give us some sense of how local did versus national? Also, the auto business -- how that performed during the quarter? Thanks.

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

Are you speaking specifically about broadcasting?

Tracy Young - ***Evercore ISI - Analyst***

Oh, sorry. Yes.

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

Great. Dave, would you pipe in there?

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

That's a difficult question for us a little bit, and it's muddy because of Olympics, because Olympics so disproportionately affects our year-to-year comparisons. On our non-NBC stations, it disproportionately makes national look better this year, and local artificially worse, and vice versa on our NBC stations.

Overall, what we see is not -- there wasn't much of a trend difference between the two. But our own particular numbers are jaded by the Olympics.

Tracy Young - ***Evercore ISI - Analyst***

Okay. Thank you.

How did auto do in first quarter for broadcast?

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

Auto was up, but, again, we had the Olympics.

Tracy Young - ***Evercore ISI - Analyst***

Okay.

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

In the first quarter last year.

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

I'm sorry. Auto was down on a pro -- if we do our own, what we would call, internal pro forma, but it's down on a pure basis to last year, all because of Olympics.

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

Yes. You've got to remember that when we have Olympics -- if you looked at our auto category last year, it was up dramatically because a lot of spending around Olympics is auto-related. So, when you compare against it the following year, you always have a distorted comparison because you don't have those same dollars being very concentrated on, in the quarter.

Tracy Young - ***Evercore ISI - Analyst***

Okay. Thank you.

Operator

Dan Kurnos, Benchmark Company.

Dan Kurnos - ***Benchmark Company - Analyst***

Great, thanks. Obviously, most of my questions have already been asked. So, let me just ask Gracia two high-level questions here. I know it's probably way too early, but we'd just love to hear your initial thoughts about Sinclair's audience aggregation efforts, especially given your own broad reach?

Then -- and I apologize if I missed this -- I know you've loved to highlight mobile in the past. So, can you possibly give us an update on how monetization is trending, particularly within the digital segment, given that mobile monetization is still lagging desktop pretty significantly on a broader basis, and how rapidly mobile is growing from both a traffic and revenue perspective? Thank you.

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

Let me ask Dave to take the audience aggregation question.

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

I think, the Sinclair initiative specifically, we don't know all the details on that, but I think the use of Visible World certainly works with over-the-air homes. How it works with MVPD homes is still to be understood. But we are looking at a number of topics like that but don't have any -- I really don't have any real comment on what their effort itself is going to look like.

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

Yes, and I'd say, with respect to mobile advertising, clearly that's a huge area of focus for us. The numbers are beginning to cross on mobile being more significant than desktop and other things.

We are seeing great mobile revenue growth percentages, but clearly off a smaller base. But that's a huge area of opportunity for us, and we're seeing very good growth. But we're going to be doing a lot of product development, a lot of investment around that area in every one of the businesses we've talked about.

Cars.com particularly, from a mobile perspective -- that's been a huge opportunity for them. And unlike a lot of the mobile advertising -- the mobile efforts you've seen, where there's been very little monetization, what I think we've found -- and, Jack, correct me if I'm wrong -- is that with Cars.com, because the mobile experience is really very close to the bottom of the sales funnel, we've actually seen a fair amount of monetization of that mobile traffic. But, Jack, if you want to add anything?

Jack Williams - ***Gannett Co., Inc. - President of Gannett Digital Ventures***

I think one of the things from the digital perspective to think about is for Cars and for CareerBuilder, the traffic and a lead is a lead. It's not the same as display advertising, and trying to convert from a desktop format to a smaller mobile format. Those translate very well. So, a car dealer doesn't really care if their lead comes from a mobile application or it comes from the desktop.

The things that are monetizing the best are those kinds of things, whether it's employment or any of those categories where it's transactional. Frankly, the other thing that's doing well is video kinds of advertising versus a traditional display.

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

And I think USA TODAY is having tremendous success, Bob, on the mobile side. You might want to --

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

Starting to see some real traction. Obviously, the growth -- we continue to work at monetizing it, and there is some good work going on at looking at some new advertising products as well, in mobile.

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

Great. Thank you all very much for joining us today. If you have any further questions, you can reach Jeff Heinz at 703-854-6917. Have a fantastic day.

Operator

This concludes today's conference. Thank you for your participation.