Gannett Co., Inc.
Form 10-Q
May 04, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 27, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-36874

GANNETT CO., INC.
(Exact name of registrant as specified in its charter)

Delaware	47-2390983
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7950 Jones Branch Drive, McLean, Virginia	22107-0910
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (703) 854-6000.
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:
Large Accelerated Filer ý Accelerated Filer ¨

Non-Accelerated Filer ¨ Smaller Reporting Company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No ý
As of April 29, 2016, the total number of shares of the registrant's Common Stock, $0.01 par value, outstanding was 116,528,096.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS
Gannett Co., Inc. and Subsidiaries
In thousands

	Mar. 27, 2016 (Unaudited)	Dec. 27, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$190,872	$196,696
Accounts receivable, less allowance for doubtful accounts of $8,615 and $8,836, respectively	285,102	330,473
Other receivables	27,350	36,114
Inventories	28,619	25,777
Assets held for sale	9,741	12,288
Prepaid expenses and other current assets	35,257	28,188
Total current assets	576,941	629,536
Property, plant and equipment, at cost less accumulated depreciation of $1,629,024 and $1,645,984, respectively	878,863	896,585
Goodwill	567,550	575,685
Intangible assets, net	56,996	59,713
Deferred income taxes	191,339	201,991
Investments and other assets	60,969	64,289
Total assets	$2,332,658	$2,427,799
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$327,965	$393,026
Dividends payable	18,639	18,501
Deferred income	89,062	78,967
Total current liabilities	435,666	490,494
Income taxes	21,015	22,221
Postretirement medical and life insurance liabilities	86,307	87,594
Pension liabilities	549,781	612,443
Other noncurrent liabilities	157,595	156,471
Total liabilities	1,250,364	1,369,223
Equity		
Preferred stock of $0.01 par value per share, 5,000,000 shares authorized, none issued	—	—
Common stock of $0.01 par value per share, 500,000,000 shares authorized, 116,492,424 and 115,668,957 shares issued and outstanding, respectively	1,165	1,156
Additional paid-in capital	1,715,172	1,708,291
Retained earnings	35,207	22,553
Accumulated other comprehensive loss	(669,250)	(673,424)
Total equity	1,082,294	1,058,576
Total liabilities and equity	$2,332,658	$2,427,799

The accompanying notes are an integral part of these condensed consolidated and combined financial statements.

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF INCOME
Gannett Co., Inc. and Subsidiaries
Unaudited, in thousands, except share data

	Three months ended	
	Mar. 27, 2016	Mar. 29, 2015
Operating revenues:		
Advertising	$351,221	$397,266
Circulation	262,703	271,258
Other	45,444	48,836
Total operating revenues	659,368	717,360
Operating Expenses:		
Cost of sales and operating expenses	419,763	479,844
Selling, general and administrative expenses	166,325	178,329
Depreciation	23,959	24,428
Amortization	1,318	3,399
Facility consolidation and asset impairment charges	544	1,549
Total operating expenses	611,909	687,549
Operating income	47,459	29,811
Non-operating income:		
Equity income in unconsolidated investees, net	1,141	6,307
Other non-operating items, net	(4,223)	(1,458)
Total non-operating income (expense)	(3,082)	4,849
Income before income taxes	44,377	34,660
Provision for income taxes	13,085	1,413
Net income	$31,292	$33,247
Earnings per share – basic	$0.27	$0.29
Earnings per share – diluted	$0.26	$0.29

The accompanying notes are an integral part of these condensed consolidated and combined financial statements.

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME
Gannett Co., Inc. and Subsidiaries
Unaudited, in thousands

	Three months ended	
	Mar. 27, 2016	Mar. 29, 2015
Net income	$31,292	$33,247
Other comprehensive income, before tax:		
Foreign currency translation adjustments	(23,049)	(20,493)
Pension and other postretirement benefit items:		
Amortization of prior service credit, net	394	(723)
Amortization of actuarial loss	15,412	14,220
Other	21,308	18,539
Pension and other postretirement benefit items	37,114	32,036
Other comprehensive income, before tax	14,065	11,543
Income tax effect related to components of other comprehensive income	(9,891)	(8,524)
Other comprehensive income, net of tax	4,174	3,019
Comprehensive income	$35,466	$36,266

The accompanying notes are an integral part of these condensed consolidated and combined financial statements.

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
Gannett Co., Inc. and Subsidiaries
Unaudited, in thousands

	Three months ended Mar. 27, 2016	Three months ended Mar. 29, 2015
Cash flows from operating activities:		
Net income	$31,292	$33,247
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	25,277	27,827
Facility consolidation and asset impairment charges	544	1,549
Pension and other postretirement expenses, net of contributions	(35,953)	(7,682)
Equity income in unconsolidated investees, net	(1,141)	(6,307)
Stock-based compensation	5,145	4,644
Change in accounts receivable	42,513	54,508
Change in accounts payable and accrued liabilities	(66,247)	(24,966)
Change in other assets and liabilities, net	12,606	(5,067)
Net cash flow from operating activities	14,036	77,753
Cash flows from investing activities:		
Capital expenditures	(10,153)	(6,658)
Payments for investments	(3,111)	(2,000)
Proceeds from investments	—	7,883
Proceeds from sale of certain assets	3,616	5,655
Net cash flow from (used for) investing activities	(9,648)	4,880
Cash flows from financing activities:		
Dividends paid	(18,501)	—
Deferred payments for acquisitions	—	(1,218)
Proceeds from issuance of common stock upon settlement of stock awards	8,943	—
Transactions with former parent, net	—	(79,429)
Net cash flow used for financing activities	(9,558)	(80,647)
Effect of currency exchange rate change on cash	(654)	(393)
Increase (decrease) in cash and cash equivalents	(5,824)	1,593
Balance of cash and cash equivalents at beginning of period	196,696	71,947
Balance of cash and cash equivalents at end of period	$190,872	$73,540
Supplemental cash flow information:		
Cash paid for taxes, net of refunds	$3,873	$—
Cash paid for interest	$1,551	$—
Non-cash investing and financing activities:		
Accrued capital expenditures	$2,714	$2,018
Dividends payable	$18,639	$—

The accompanying notes are an integral part of these condensed consolidated and combined financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
NOTE 1 — Basis of presentation and summary of significant accounting policies
Description of business: Gannett Co., Inc. (“Gannett,” “our,” “us” and “we”) is a leading international, multi-platform news and information company that delivers high-quality, trusted content where and when consumers want to engage with it on virtually any device or platform. As of March 27, 2016, our operations comprise 112 daily publications and related digital platforms in the U.S. and the U.K., more than 400 non-daily local publications in the U.S. and more than 150 such titles in the U.K. Our 93 U.S. daily publications include USA TODAY.

Separation from former parent: On June 29, 2015, the separation of Gannett from our former parent, TEGNA, Inc., was completed pursuant to a Separation and Distribution Agreement (the “Separation Agreement”) dated June 26, 2015. On the distribution date of June 29, 2015, our former parent completed the pro rata distribution to its stockholders of 98.5% of the outstanding shares of Gannett common stock (also referred to herein as the “spin-off” or “separation”), and Gannett common stock began trading “regular way” on the New York Stock Exchange. Each holder of our former parent’s common stock received one share of Gannett common stock for every two shares of our former parent’s common stock held on June 22, 2015, the record date for the distribution. Following the distribution, our former parent owns 1.5% of Gannett’s outstanding common stock and our former parent will continue to own our shares for a period of time not to exceed five years after the distribution. Our former parent structured the distribution to be tax free to its U.S. stockholders for U.S. federal income tax purposes.

Basis of presentation: Our accompanying unaudited condensed consolidated and combined financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and the instructions for Form 10-Q and, therefore, do not include all information and footnotes which are normally included in the Form 10-K and annual report to shareholders. These unaudited condensed consolidated and combined financial statements should be read in conjunction with the combined financial statements and combined notes thereto included in our annual report on Form 10-K for fiscal year 2015 (“2015 Annual Report on Form 10-K”). In our opinion, the financial statements reflect all adjustments of a normal recurring nature necessary for a fair presentation of results for the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. All intercompany accounts have been eliminated in consolidation.

Prior to the spin-off, we did not prepare separate financial statements. The accompanying unaudited condensed consolidated and combined financial statements for periods prior to the spin-off were derived from the condensed consolidated financial statements and accounting records of our former parent and present our combined financial position, results of operations and cash flows as of and for the periods presented as if we were a separate entity.

Through the date of the spin-off, in preparing these unaudited condensed consolidated and combined financial statements, management has made certain assumptions or implemented methodologies to allocate various expenses from our former parent to us and from us back to our former parent in the form of cost recoveries. These allocations represent services provided between the two entities and are more fully detailed in Note 13 — Relationship with our former parent. All such costs and expenses are assumed to be settled with our former parent through “Former parent’s investment, net” in the period in which the costs were incurred. Current income taxes are also assumed to be settled with our former parent through “Former parent’s investment, net” and settlement is deemed to occur in the year following recognition in the current income tax provision. We believe the assumptions and methodologies used in these allocations are reasonable; however, such allocated costs, net of cost recoveries, may not be indicative of the actual level of expense that would have been incurred had we been operating on a stand-alone basis, and, accordingly, may not necessarily reflect our combined financial position, results of operations and cash flows had we operated as a stand-alone entity during the periods presented.

Subsequent to the spin-off, our financial statements are presented on a consolidated basis as we became a separate consolidated entity.

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Use of estimates: The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the condensed consolidated and combined financial statements and footnotes thereto. Actual results could differ from those estimates. Significant estimates inherent in the preparation of such financial statements include accounting for asset impairments, reserves established for doubtful accounts, equity-based compensation, depreciation and amortization, business combinations, income taxes, litigation matters and contingencies.

Business combinations: We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair value of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets.

Critical estimates in valuing certain identifiable assets include but are not limited to expected long-term revenues, future expected operating expenses, cost of capital and appropriate discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Revenue recognition: Our revenues include amounts charged to customers for space purchased in our newspapers, digital ads placed on our digital platforms, advertising and marketing service fees, online subscription, advertising products and commercial printing.

- Revenues also include circulation revenues for newspapers, both print and digital, purchased by readers or distributors, reduced by the amount of any discounts taken. Circulation revenues, including online subscriptions, are recognized when purchased newspapers are distributed or made available on our digital platforms.
- Advertising revenues are recognized, net of agency commissions, in the period when advertising is printed or placed on digital platforms.
- Marketing services revenues are generally recognized when advertisements or services are delivered.
- Commercial printing revenues are recognized when the product is delivered to the customer.

We have various advertising and circulation agreements which have both print and digital deliverables. Revenue from sales agreements that contain multiple deliverable elements is allocated to each element based on the relative best estimate of selling price. Elements are treated as separate units of accounting if there is standalone value upon delivery.

Amounts received from customers in advance of revenue recognition are deferred as liabilities.

Recent accounting standards: In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for a cloud computing arrangement as a service contract. ASU 2015-05 is effective for annual and interim periods beginning after December 15, 2015. We have adopted the provisions of ASU 2015-05 and the impact was not material to our consolidated financial results.

In July 2015, the FASB delayed the effective date for ASU 2014-09, Revenue from Contracts with Customers ("Topic 606"). The core principle contemplated by ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. New disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. We are required to adopt the standard in the first quarter of 2018 and retroactively apply it to our 2016 and 2017 financial results at the time of adoption. Under the new rules, we are permitted to adopt the new standard in 2017. We can also choose to apply the standard using either the full retrospective approach or a modified retrospective approach, which recognizes a cumulative catch up adjustment to the opening balance of retained earnings. We have not yet selected a transition method and we are currently evaluating the effect that the updated guidance will have on our consolidated financial results and related disclosures.

In July 2015, the FASB issued ASU 2015-11, Inventory (“Topic 330”): “Simplifying the Measurement of Inventory,” which requires entities using the first-in, first-out (“FIFO”) inventory costing method to subsequently value inventory at the lower of cost and net realizable value. Topic 330 defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Topic 330 is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the provisions of Topic 330 and assessing the impact on our consolidated financial results.

In September 2015, the FASB issued ASU 2015-16, Business Combinations ("Topic 805"): "Simplifying the Accounting for Measurement-Period Adjustments," which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Under Topic 805, acquirers must recognize measurement-period adjustments in the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. This guidance is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. We have adopted the provisions of Topic 805 and the impact was not material to our consolidated financial results.

In February 2016, the FASB issued ASU 2016-02, Leases ("Topic 842"), which modifies lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and disclosing key information about leasing arrangements. This guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the provisions of Topic 842 and assessing the impact on our consolidated financial results.

In March 2016, the FASB issued ASU 2016-09, Stock Compensation, which simplifies certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification in the statement of cash flows. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the provisions of ASU 2016-09 and assessing the impact on our consolidated financial results.

NOTE 2 — Acquisitions and dispositions

Texas-New Mexico Partnership: On June 1, 2015, we completed the acquisition of the remaining 59.4% interest in the Texas-New Mexico Partnership ("TNP") that we did not own from Digital First Media. We completed the acquisition through the assignment of our 19.5% interest in the California Newspapers Partnership ("CNP"), valued at $34.4 million, additional cash consideration, net of cash acquired, of $5.2 million, and $1.9 million in deferred consideration. As a result, we own 100% of TNP and no longer have any ownership interest or continuing involvement in CNP. Through the transaction, we acquired news organizations in Texas (El Paso Times), New Mexico (Alamogordo Daily News; Carlsbad Current-Argus; The Daily Times in Farmington; Deming Headlight; Las Cruces Sun-News; and Silver City Sun-News) and Pennsylvania (Chambersburg Public Opinion; Hanover Evening Sun; Lebanon Daily News; and The York Daily Record).

The purchase price was allocated to the tangible assets and identified intangible assets acquired based on their estimated fair values. The allocation of the purchase price is based upon management's preliminary estimates as the pre-acquisition partnership tax returns have not been finalized. As of the acquisition date, the purchase price assigned to the acquired assets and assumed liabilities is summarized as follows:

In thousands	
Current assets	$12,310
Property, plant and equipment	20,792
Intangible assets	28,440
Goodwill	30,118
Total assets acquired	91,660
Current liabilities	10,860
Noncurrent liabilities	13,746
Total liabilities assumed	24,606
Net assets acquired	$67,054

On the acquisition date, the fair value of our 40.6% interest in TNP was $26.6 million and the fair value of our 19.5% interest in the California Newspapers Partnership (“CNP”) was $34.4 million. The pre-acquisition carrying value of TNP and CNP was $39.2 million. We recognized a $21.8 million pre-tax non-cash gain on the transaction in the second quarter of 2015.

Acquired property, plant and equipment will be depreciated on a straight-line basis over the assets' respective estimated remaining useful lives. Goodwill is calculated as the excess of the consideration transferred over the fair value of the identifiable net assets acquired and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce and non-contractual relationships, as well as expected future synergies. We expect the purchase price allocated to goodwill and mastheads will be deductible for tax purposes.

Romanes Media Group: On May 26, 2015, Newsquest paid $23.4 million, net of cash acquired, to purchase 100% of the shares of Romanes Media Group ("RMG"). RMG publishes local newspapers in Scotland, Berkshire and Northern Ireland and its portfolio comprises one daily newspaper, 28 weekly newspapers and their associated websites.

NOTE 3 — Restructuring activities

Severance-related expenses: We have initiated various cost reducing actions that are severance-related.

In second quarter of 2015, we had an Early Retirement Opportunity Program ("EROP") for our USA TODAY employees. Since its announcement, we have recorded severance-related expenses of $7.8 million in accordance with Accounting Standards Codification ("ASC") Topic 712. Related to this action, there was no expense recorded in 2016 and there was no expense recorded for the three months ended March 29, 2015.

In August 2015, we announced an EROP for employees in certain corporate departments and publishing sites. Since its announcement, we have recorded severance-related expenses of $35.4 million in accordance with ASC Topic 712. Related to this action, there was $1.1 million of additional expense recorded in 2016 and there was no expense recorded for the three months ended March 29, 2015.

We also had other employee termination actions associated with our facility consolidation and other cost efficiency efforts, including various one-time termination actions and terminations related to an ongoing severance plan. We recorded severance-related expenses of $2.6 million and $11.9 million for the three months ended March 27, 2016 and March 29, 2015, respectively, related to these actions.

We recorded $3.0 million in costs of sales and operating expenses and $0.7 million in selling, general and administrative expenses during the three months ended March 27, 2016 related to our employee termination actions. We recorded $9.6 million in costs of sales and operating expenses and $2.3 million in selling, general and administrative expenses during the three months ended March 29, 2015, respectively, related to such actions.

A summary of our liabilities related to employee termination actions is as follows:

In thousands	USA Today 2015 EROP	August 2015 EROP	Various One-Time Actions	Ongoing Severance Plan
Balance at Dec. 27, 2015	$3,337	$28,393	$ 9,818	$ 4,035
Expense	—	1,079	2,430	188
Payments	(1,496)	(10,881)	(4,397)	(693)
Adjustments	(692)	622	(1,798)	—