The Washington Post Company Reports Second Quarter Earnings

July 23, 1999 at 12:00 AM EDT

WASHINGTON - The Washington Post Company (NYSE: WPO) today reported net income of $67.9 million ($6.67 per share) for its second quarter ended July 4, 1999, a 6 percent increase from net income of $63.8 million ($6.27 per share) for the second quarter of 1998.

Revenue for the second quarter of 1999 was $557.2 million, up 6 percent from $525.8 million in 1998. Operating income of $106.7 million for the second quarter of 1999 remained essentially unchanged compared to the second quarter of 1998. Second quarter 1999 operating results were affected positively by operating income growth at the company's cable division, a 20 percent decrease in newsprint expense at the newspaper publishing division, and an increase in the company's pension credit. These improvements were offset by a decline in national advertising revenues at the broadcast division, increased spending for internet-related operations, and higher depreciation and amortization expense arising from increased capital expenditures over the past two years and acquisitions completed after June 1998.

For the first six months of 1999 net income was $113.1 million, compared with net income of $271.7 million for the same period of 1998. The company's 1998 net income includes $162.8 million ($16.07 per share) from the March 1998 disposition of its 28 percent interest in Cowles Media Company. Excluding the effect of the prior year's disposition, net income for the first half of 1999 increased $4.2 million, or 4 percent; earnings per share also increased 4 percent to $11.08, from $10.67 in the first half of 1998.

Revenue for the first half of 1999 was $1,077.6 million, up 7 percent over revenue of $1,009.7 million for the first half of 1998. Operating income for the first six months of 1999 increased 1 percent to $184.0 million, from $181.8 million in 1998. The 1 percent increase in operating income is attributable to operating income growth at the cable division, lower newsprint expense and increased pension credits. These operating income improvements were tempered by increased spending for internet-related operations and new business initiatives at the company's education and career services division, higher depreciation and amortization expense, and reduced national advertising revenues at the broadcast division.

The company's operating income for the second quarter and first six months of 1999 includes $21.5 million and $43.0 million of pension credits, respectively, compared to $16.5 million and $28.5 million for the same periods of 1998.

Divisional Results

Newspaper Publishing

Newspaper division revenue increased 2 percent to $219.0 million and $427.5 million for the second quarter and first six months of 1999, respectively. Division operating income for the second quarter increased 12 percent to $50.1 million; operating income increased 3 percent to $89.6 million for the first six months of 1999.

The 12 percent increase in operating income for the second quarter resulted mostly from an improvement in the operating results of The Washington Post, where revenue grew by 2 percent and operating expenses were flat. The Post's operating expenses for the second quarter of 1999 benefited from a 20 percent decline in newsprint expense and additional pension credits. These expense reductions were offset by higher depreciation expense (arising from the recently completed expansion of The Post's printing facilities) and other general expense increases including increased promotion and marketing expenses.

Advertising volume at The Washington Post totaled 807,400 inches in the second quarter of 1999, down 1 percent from 814,600 inches in the second quarter of 1998. During the first six months of 1999 Post advertising volume totaled 1,559,400 inches, a 1 percent decline from 1,578,200 inches in the first half of 1998. For the first six months of 1999 daily circulation at The Post remained essentially unchanged and Sunday circulation declined 1 percent compared to the same period of the prior year. Newsprint expense at the newspaper publishing division decreased 20 percent and 14 percent in the second quarter and first six months of 1999, respectively, over the comparable periods of 1998 due to a decline in newsprint prices.

Broadcasting

Second quarter revenue at the broadcasting division totaled $91.0 million, a 5 percent decline from the second quarter of 1998. For the first six months of 1999 revenue decreased 2 percent to $171.3 million. Operating income for the second quarter of 1999 totaled $45.9 million, a 6 percent decline from the second quarter of 1998; operating income for the first six months of 1999 declined 3 percent to $80.4 million. The decline in second quarter 1999 operating income is primarily attributable to softness in national advertising revenues offset in part by growth in local advertising revenues.

Magazine Publishing

Revenue for the magazine publishing division was $100.6 million for the second quarter of 1999, a 7 percent decline from the second quarter of 1998. Revenue totaled $191.3 million for the first six months of 1999, a decrease of 4 percent compared to the same period in the prior year. Division operating income totaled $17.7 million for the second quarter of 1999, a 4 percent increase over the same period in the prior year; operating income totaled $26.7 million for the first six months of 1999, an increase of 15 percent. The 4 percent increase in second quarter operating income is due to improved results at the company's trade periodicals unit as well as additional pension credits at Newsweek, which combined to offset the effects of one less special issue in the second quarter of 1999 at the domestic edition of Newsweek compared to the second quarter of 1998 and lower revenues from the international editions of Newsweek.

Cable

Cable division revenue of $83.1 million for the second quarter of 1999 represents a 17 percent increase over 1998 second quarter revenue; for the first six months of 1999 revenue increased 19 percent to $163.9 million. Cable division operating income before amortization expense rose to $23.0 million for the second quarter, an increase of 15 percent over the second quarter of 1998. For the first six months of 1999 operating income before amortization expense increased 23 percent to $45.3 million. Operating income after amortization expense increased 3 percent and 12 percent for the second quarter and first six months, respectively. Second quarter operating results reflect higher subscriber levels and a slight increase in rates, offset partially by increased depreciation and amortization arising from capital improvements and acquisitions.

At the end of the second quarter of 1999 there were 735,200 basic subscribers, an increase of 7 percent compared to 686,000 basic subscribers at the end of the second quarter of 1998. Most of the basic subscriber increase resulted from acquisitions completed after June of 1998.

Education and Career Services

The company provides education and career services through its subsidiary Kaplan Educational Centers. Kaplan provides test preparation programs in the U.S. and abroad for individuals taking admissions and professional licensing exams. Kaplan also provides on-site educational programs to students and teachers at elementary, secondary and post-secondary institutions, and offers a growing number of distance learning programs. In addition, Kaplan publishes books, software and other materials. For career services, Kaplan is the leading provider of career fairs in North America, bringing together technical, sales and diversity candidates with corporate recruiters.

Completing the business offerings of Kaplan are two subsidiaries that are in the early growth phase of their operations. Score! Educational Centers is a provider of after-school learning opportunities for students in kindergarten through the eighth grade. Score! presently operates 72 Score! centers (most opened within the last two years) and plans to open an additional 28 centers in the remainder of 1999. HireSystems provides corporate clients with Web-based tools to streamline the recruitment and hiring process. HireSystems established its products during 1998 and plans to spend significant resources in 1999 developing its customer base.

Education and career services revenue in the second quarter of 1999 totaled $61.0 million, a 77 percent increase over the same period in the prior year; revenues increased 60 percent to $118.5 million for the first six months of 1999. Most of the increase is attributable to businesses acquired subsequent to the second quarter of 1998. Classroom test preparation revenue grew over 30 percent in the second quarter of 1999 (approximately 12 percent on a comparable basis excluding acquisitions). Growth in Score! revenues also contributed to the revenue increase.

Division operating losses of $7.0 million in the second quarter of 1999 were in line with management's expectations and include approximately $4.4 million in losses arising from the opening of new Score! centers and HireSystems' expansion of its customer base. Operating results were also adversely affected by amortization expense arising from acquisitions.

Test preparation revenues, which comprise approximately half of Kaplan's annual revenues, are seasonally strongest in the third and fourth quarters while test preparation operating expenses are relatively constant throughout the year.

Other Businesses and Corporate Office

Revenues for other businesses totaled $2.4 million and $2.6 million in the second quarter of 1999 and 1998, respectively. For the first half of 1999 and 1998, revenues totaled $5.1 million and $4.9 million, respectively. Operating losses for other businesses and corporate office were $15.7 million for the second quarter of 1999 and $28.7 million for the first six months of 1999; operating losses were $12.1 million and $27.5 million for the comparable periods of 1998. The increase in operating losses in the second quarter of 1999 is due to additional spending for internet-related operations.

The 1998 operating results include Moffet, Larson & Johnson, which was sold in July 1998. In June 1999 the company sold Legi-Slate. No significant gain or loss arose from the sale of these businesses.

<u>Equity in Earnings (Losses) of Affiliates</u>

The company's equity in earnings of affiliates for the second quarter of 1999 was $0.7 million, compared to losses of $0.1 million for the second quarter of 1998. The company's affiliate investments consist primarily of a 50 percent interest in the International Herald Tribune (IHT) and a 49 percent interest in Bowater Mersey Paper Company Limited. For the first six months of 1999 the company recorded equity in losses of affiliates of $1.8 million, compared with earnings of $0.9 million in the comparable period in 1998. Improved results at the IHT contributed to the increase in second quarter equity earnings.

<u>Net Interest Expense</u>

For the second quarter of 1999 the company incurred net interest expense of $5.2 million. The company did not incur net interest expense in the second quarter of 1998. For the first six months of 1999 the company incurred net interest expense of $11.8 million, compared to $2.0 million for the same period of 1998. The second quarter 1999 increase in interest expense is attributable to borrowings executed by the company after June 1998 to fund capital improvement and acquisition activities. At July 4, 1999, the company had approximately $430.7 million in borrowings outstanding.

<u>Earnings Per Share</u>

The calculation of diluted earnings per share for the second quarter and first half of 1999 was based on 10,140,000 and 10,141,000 weighted average shares outstanding, respectively, compared to 10,136,000 and 10,132,000 shares in 1998. During the first half of 1999 the company repurchased 15,318 shares of its Class B common stock at a cost of approximately $8.4 million.

THE WASHINGTON POST COMPANY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Second Quarter			Twenty-six Weeks		
	1999	1998	% Change	1999	1998	% Change
Operating revenues	$557,195	$525,757	+6	$1,077,592	$1,009,712	+7
Operating costs and expenses						
Operating expenses	(410,586)	(387,404)	+6	(814,166)	(764,921)	+6
Depreciation	(25,305)	(20,731)	+22	(50,423)	(41,113)	+23
Amortization	(14,619)	(11,129)	+31	(29,044)	(21,868)	+33
Operating Income	106,685	106,493	--	183,959	181,810	+1
Equity in earnings (losses) of affiliates, net	731	(71)		(1,779)	917	
Interest income	213	385		459	592	
Interest expense	(5,441)	(330)		(12,254)	(2,574)	
Other income, net[1]	9,471	(1,594)		15,613	256,512	
Income before income taxes	111,659	104,883	+6	185,998	437,257	-57
Provision for income taxes	(43,750)	(41,100)	+6	(72,900)	(165,600)	-56
Net income	67,909	63,783	+6	113,098	271,657	-58
Redeemable preferred stock dividends	(237)	(239)		(712)	(717)	
Net income available for common stock	$ 67,672	$ 63,544	+6	$ 112,386	$ 270,940	-59
Basic earnings per share	$ 6.70	$ 6.30	+6	$ 11.13	$ 26.86	-59
Diluted earnings per share	$ 6.67	$ 6.27	+6	$ 11.08	$ 26.74	-59
Basic average shares outstanding	10,098,000	10,088,000		10,098,000	10,086,000	
Diluted average shares outstanding	10,140,000	10,136,000		10,141,000	10,132,000	

---

[1]Other income, net for the first half of 1998 includes a $258.4 million gain related to the disposition of the Company's 28 percent investment interest in Cowles Media Company. This gain added $162.8 million to net income for the first half of 1998 and $16.07 to diluted and basic earnings per share.