The Washington Post Company Reports Second Quarter Earnings

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The Washington Post Company (NYSE: WPO) today reported net income of $41.2 million ($4.33 per share) for its second quarter ended July 2, 2000, a decrease of $26.7 million, or 39 percent, from net income of $67.9 million ($6.67 per share) in the second quarter of last year.

Revenue for the second quarter of 2000 was $591.5 million, up 6 percent from $557.2 million in 1999. Operating income for the quarter decreased 13 percent to $93.2 million, from $106.7 million in 1999.

The decline in second quarter earnings was primarily caused by increased costs associated with the development of new businesses (impact of $11.8 million or $1.34 per share), the absence of marketable security gains recorded in the second quarter of 1999 which did not recur in 2000 (impact of $7.2 million or $0.67 per share), higher interest expense (impact of $4.0 million or $0.44 per share), and a reduced pension credit (impact of $4.9 million or $0.43 per share). These declines were offset in part by higher operating income at the company's magazine publishing operations.

For the first six months of 2000, net income totaled $65.2 million ($6.82 per share), compared with net income of $113.1 million ($11.08 per share) for the same period in 1999. Revenue for the first half of 2000 was $1,138.3 million, up 6 percent over revenue of $1,077.6 million for the first six months of 1999. Operating income declined 10 percent to $165.4 million, from $184.0 million in 1999. Consistent with the company's results for the second quarter of 2000, the decrease in the company's six-month earnings is primarily attributable to new business development, the absence of non-recurring gains from the sale marketable securities which occurred in 1999, higher interest expense, and a lower pension credit. These factors being offset in part by increased operating income at The Washington Post newspaper and the company's magazine publishing division.

The increased spending for new business initiatives occurred mainly at Kaplan, Inc., and Washingtonpost.Newsweek Interactive. At Kaplan, new business spending was focused on the build-out of various distance learning websites (including kaptest.com and kaplancollege.com) and the marketing and expansion of Score! Educational Centers. In addition, Kaplan continued the development and marketing of eSCORE.com, an educational services website designed to help parents with the development of their children. At Washingtonpost.Newsweek Interactive, increased spending was dedicated principally to marketing and sales initiatives.

Also included in the quarterly impact of new business development activities quantified above is $2.9 million ($0.33 earnings per share) in incremental net losses arising from the company's development of web-delivered recruiting, career development, and hiring management services (BrassRing, Inc.). The company owns a 42 percent equity interest in BrassRing and records its percentage of BrassRing losses in the equity in losses of affiliates line. For the first nine months of 1999, prior to the formation of BrassRing, the company developed these activities through majority-owned subsidiaries, the results of which were included in the Education segment.

The company's operating income for the second quarter and first six months of 2000 includes $15.0 million and $30.0 million of pension credits, respectively, compared to $22.0 million and $43.0 million for the same periods of 1999.

Donald E. Graham, chairman and chief executive officer of the company, commented, "As we've been saying since last year, the company plans to spend approximately $130 million in 2000 developing a number of new businesses. We think each of these businesses is highly promising, though all are riskier than our traditional businesses. All our traditional businesses continue to meet expectations - with The Post, cable, and Newsweek doing particularly well. We're cautiously pleased by the results of the development efforts to date."

Divisional Results

Newspaper Publishing

Newspaper publishing division revenue totaled $228.2 million for the second quarter of 2000, an increase of 4 percent over revenue of $219.5 million in the second quarter of 1999; division revenue increased 6 percent to $452.8 million for the first six months of 2000. Division operating income for the second quarter declined 12 percent to $37.2 million, from $42.3 million in the second quarter of 1999; operating income decreased 3 percent to $73.5 million for the first six months of 2000. The decrease in operating income for the second quarter and first six months is due to increased spending for the marketing and advancement of washingtonpost.com and reduced pension credits, offset in part by higher operating income at The Washington Post newspaper.

Print advertising revenue at The Washington Post newspaper increased 2 percent and 4 percent for the second quarter and first six months of 2000, respectively. For the first six months of 2000, daily circulation at The Post increased 1 percent, while Sunday circulation declined 1 percent compared to the same period of the prior year. Newsprint expense at the newspaper publishing division increased 6 percent in the second quarter of 2000 due mostly to price increases. For the first six months of 2000, newsprint expense decreased 3 percent over the same period in the prior year.

Online advertising revenues increased approximately 140 percent for the second quarter and first six months of 2000 compared to the same periods in the prior year.

Broadcasting

Revenue at the broadcasting division declined 2 percent for the second quarter and first half of 2000 to $89.4 million and $168.2 million, respectively. Operating income for the second quarter of 2000 totaled $42.8 million, a 7 percent decline from the second quarter of 1999; operating income for the first six months of 2000 declined 7 percent to $75.1 million. General softness in advertising accounted for the declines in operating income.

Magazine Publishing

Revenue for the magazine publishing division totaled $115.6 million in the second quarter of 2000, a 15 percent increase from $100.6 million in 1999; division revenue increased 5 percent to $200.3 million for the first six months of 2000. Operating income totaled $20.8 million for the second quarter of 2000, a 17 percent increase over the same period in the prior year; operating income totaled $23.4 million for the first half of 2000, a decrease of 12 percent. The 17 percent improvement in second quarter operating results is due in part to the timing of a technology trade show conducted by the division's computer technology trade periodicals unit. The trade show was conducted in the second quarter of 2000 versus the first quarter of 1999. Improved operating results at Newsweek for the second quarter of 2000, offset in part by lower pension credits, also contributed to the division's positive second quarter operating income trend.

The 12 percent decline in operating income for the first six months was principally due to reduced pension credits, offset by improved operating results at Newsweek.

Cable

Cable division revenue of $89.5 million for the second quarter of 2000 represents an 8 percent increase over 1999 second quarter revenue; for the first six months of 2000, revenue increased 7 percent to $176.2 million. Cable division cash flow (operating income excluding depreciation and amortization expense) rose to $35.3 million for the second quarter of 2000, an increase of 5 percent over the second quarter of 1999. For the first six months of 2000, cash flow increased 3 percent to $69.1 million. Cable division operating income increased 3 percent and 1 percent for the second quarter and first six months of 2000, respectively. The increase in operating income is mostly due to higher rates, offset in part by an increase in programming expenses and higher depreciation expense.

The increase in depreciation expense is due to capital spending for system rebuilds and upgrades which will enable the cable division to offer new digital video and high-speed cable modem services to its subscribers. The cable division began its roll-out plan for cable modem services in the second quarter of 2000 and plans to launch its digital services program in the third quarter of this year.

Education

Excluding the operating results of the career fair and HireSystems businesses from 1999 (these businesses were contributed to BrassRing in the third quarter of 1999), education division revenue increased 22 percent to $68.8 million in the second quarter of 2000, compared to $56.4 million in 1999; revenue increased 31 percent to $140.8 million for the first six months of 2000. Operating losses for the quarter totaled $16.4 million, compared to operating losses of $2.1 million in the second quarter of 1999. For the first six months of 2000, operating losses totaled $26.0 million, compared to operating losses of $6.7 million for the same period of 1999. Approximately half of the second quarter and six-month revenue increase for 2000 is attributable to acquisitions. The remaining increase in revenue is due mostly to growth at the Score! and test preparation businesses. The decline in 2000 operating results is primarily attributable to marketing and expansion activities at Score!, start-up costs associated with eSCORE.com, and the development of various distance learning initiatives (including kaptest.com and kaplancollege.com), offset in part by operating income generated by acquisitions completed after the second quarter of 1999.

At the end of the second quarter of 2000, Score! operated 106 learning centers, compared to 72 centers at the end of the second quarter of 1999.

Including the operating results of the career fair and HireSystems businesses in 1999, education and career services revenue increased 13 percent to $68.8 million in the second quarter of 2000, compared to $61.0 million in 1999; revenue increased 19 percent to $140.8 million for the first six months of 2000. Operating losses for the second quarter totaled $16.4 million, compared to operating losses of $7.0 million in the second quarter of 1999; operating losses totaled $26.0 million for the first six months of 2000, compared to $14.3 million in 1999.

Other Businesses and Corporate Office

Operating losses for the second quarter of 2000 totaled $7.3 million, representing an 8 percent improvement compared to the second quarter of 1999. For the first six months of 2000 operating losses totaled $11.4 million, a 25 percent improvement from 1999. The reduction in 2000 losses is primarily attributable to the absence of losses generated by Legi-Slate (sold in June 1999) and reduced spending at the company's corporate office.

Equity in Losses of Affiliates

The company's equity in losses of affiliates for the second quarter of 2000 was $9.5 million, compared to earnings of $0.7 million in the second quarter of 1999. The company's affiliate investments consist of a 42 percent interest in BrassRing, Inc. (formed in late September 1999), a 50 percent interest in the International Herald Tribune, and a 49 percent interest in Bowater Mersey Paper Company Limited. For the first six months of 2000, the company's equity in losses of affiliates totaled $20.8 million, compared to losses of $1.8 million for the same period in 1999. The decline in 2000 affiliate results is primarily attributable to BrassRing, Inc., which is in the development and marketing phase of its operations. BrassRing accounted for approximately $9.3 million and $18.3 million of the total 2000 second quarter and first six-month equity in losses of affiliates.

Other Non-Operating (Expense) Income

The company recorded other non-operating income of $1.6 million for the second quarter of 2000, compared to $9.5 million in the second quarter of 1999. Non-operating expense totaled $5.4 million for the first six months of 2000, compared to non-operating income of $15.6 million for the same period of 1999. The 1999 non-operating income was comprised mostly of non-recurring gains arising from the sale of marketable securities (mostly various Internet-related securities).

Net Interest Expense

For the second quarter of 2000, the company incurred net interest expense of $12.3 million, compared to $5.2 million for the same period in the prior year. At July 2, 2000, the company had $797.9 million in borrowings outstanding.

Earnings Per Share

The calculation of diluted earnings per share for the second quarter and first six months of 2000 was based on 9,458,000 weighted average shares outstanding, compared to 10,140,000 and 10,141,000 for the second quarter and first six months of 1999, respectively. The company made no significant repurchases of its stock during the first six months of 2000.

Forward-Looking Statements

This earnings report contains certain forward-looking statements that are based largely on the company's current expectations. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results and achievements to differ materially from those expressed in the forward-looking statements.

THE WASHINGTON POST COMPANY
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)
(In thousands, except share and per share amounts)

	Second Quarter			Twenty-six Weeks		
	2000	1999	% Change	2000	1999	% Change
Operating revenues	$ 591,540	$ 557,195	6	$1,138,311	$1,077,592	6
Operating costs and expenses						
Operating expenses	(454,956)	(410,586)	11	(886,423)	(814,166)	9
Depreciation	(28,638)	(25,305)	13	(57,024)	(50,423)	13
Amortization	(14,755)	(14,619)	1	(29,493)	(29,044)	2
Operating income	93,191	106,685	-13	165,371	183,959	-10
Equity in (losses) earnings of affiliates, net	(9,471)	731		(20,775)	(1,779)	
Interest income	275	213		498	459	
Interest expense	(12,573)	(5,441)		(25,140)	(12,254)	
Other income (expense), net	1,556	9,471		(5,408)	15,613	
Income before income taxes	72,978	111,659	-35	114,546	185,998	-38
Provision for income taxes	(31,800)	(43,750)		(49,300)	(72,900)	
Net income	41,178	67,909	-39	65,246	113,098	-42
Redeemable preferred stock dividends	(263)	(237)		(763)	(712)	
Net income available for common stock	$ 40,915	$ 67,672	-40	$ 64,483	$ 112,386	-43
Basic earnings per share	$ 4.33	$ 6.70	-35	$ 6.83	$ 11.13	-39
Diluted earnings per share	$ 4.33	$ 6.67	-35	$ 6.82	$ 11.08	-38
Basic average shares outstanding	9,443,000	10,098,000		9,441,000	10,098,000	
Diluted average shares outstanding	9,458,000	10,140,000		9,458,000	10,141,000	

THE WASHINGTON POST COMPANY
BUSINESS SEGMENT INFORMATION

(Unaudited)
(In thousands)

	Second Quarter			Twenty-six Weeks		
	2000	1999	% Change	2000	1999	% Change
Operating Revenues:						
Newspaper publishing	$228,158	$ 219,542	4	$ 452,814	$ 428,752	6
Broadcasting	89,419	91,022	-2	168,160	171,319	-2
Magazine publishing	115,624	100,586	15	200,314	191,302	5
Cable television	89,536	83,120	8	176,190	163,919	7
Education and career services	68,803	61,045	13	140,833	118,457	19
Other businesses and corporate office	—	1,880	*	—	3,843	*
	$ 591,540	$ 557,195	6	$1,138,311	$1,077,592	6
Operating Income:						
Newspaper publishing	$ 37,211	$ 42,301	-12	$ 73,462	$ 75,991	-3
Broadcasting	42,769	45,942	-7	75,145	80,370	-7
Magazine publishing	20,751	17,719	17	23,435	26,689	-12
Cable television	16,084	15,573	3	30,729	30,391	1
Education and career services	(16,355)	(6,958)	-135	(25,982)	(14,336)	-81
Other businesses and corporate office	(7,269)	(7,892)	8	(11,418)	(15,146)	25
	$ 93,191	$ 106,685	-13	$ 165,371	$ 183,959	-10
Depreciation:						
Newspaper publishing	$ 9,452	$ 8,362	13	$ 19,056	$ 16,576	15
Broadcasting	3,230	2,825	14	6,341	5,613	13
Magazine publishing	1,288	1,244	4	2,577	2,507	3
Cable television	11,822	10,754	10	23,580	21,508	10
Education and career services	2,846	2,012	41	5,470	4,005	37
Other businesses and corporate office	—	108	*	—	214	*
	$ 28,638	$ 25,305	13	$ 57,024	$ 50,423	13
Amortization:						
Newspaper publishing	$ 388	$ 380	2	$ 781	$ 760	3
Broadcasting	3,534	3,559	1	7,067	7,119	-1
Magazine publishing	1,697	1,478	15	3,394	2,956	15
Cable television	7,388	7,446	-1	14,802	14,892	-1
Education and career services	1,748	1,756	-	3,449	3,317	4
	$ 14,755	$ 14,619	1	$ 29,493	$ 29,044	2

* Percentage not meaningful

CONTACT:

The Washington Post Company

John B. Morse, Jr., 202/334-6662