Nov. 7, 2020 11:22 AM ET

The New York Times Company (NYT) CEO Meredith Kopit Levien on Q3 2020 Results - Earnings Call Transcript

New York Times Co (NYSE:NYT) Q3 2020 Earnings Conference Call November 5, 2020 8:00 AM ET

Company Participants

Harlan Toplitzky - Vice President of Investor Relations

Meredith Kopit Levien - President and Chief Executive Officer

Roland Caputo - Executive Vice President and Chief Financial Officer

Conference Call Participants

Thomas Yeh - Morgan Stanley

John Belton - Evercore ISI

Alexia Quadrani - JPMorgan

Doug Arthur - Huber Research Partners

Vasily Karasyov - Cannonball Research

Craig Huber - Huber Research Partners

Kannan Venkateshwar - Barclays

Operator

Good morning, and welcome to The New York Times Company's Third Quarter 2020 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions]

Please note this event is being recorded. I would now like to turn the conference over to Harlan Toplitzky, Vice President, Investor Relations. Please go ahead.

Harlan Toplitzky

Thank you, and welcome to The New York Times Company's Third Quarter 2020 Earnings Conference Call. On the call today, we have Meredith Kopit Levien, President and Chief Executive Officer; and Roland Caputo, Executive Vice President and Chief Financial Officer.

Before we begin, I would like to remind you that management will make forward-looking statements during the course of this call and our actual results could differ materially. Some of the risks and uncertainties that could impact our business are included in our 2019 10-K, as updated in subsequent quarterly reports on Form 10-Q.

In addition, our presentation will include non-GAAP financial measures and we have provided reconciliations to the most comparable GAAP measures in our earnings press release, which is available on our website at investors.nytco.com.

With that, I will turn the call over to Meredith Kopit Levien.

Meredith Kopit Levien

Thank you, Harlan. And good morning, everyone. As I said when I was named CEO in July, it's the honor of a lifetime to lead The New York Times Company and to support the work of our extraordinary newsroom.

Let me start by thanking our shareholders and the investor community for their confidence as we continue to evolve from a legacy print newspaper business into a growing subscription-first digital enterprise. I assumed my new role in the same quarter that our digital-only subscription revenue overtook print subscription revenue for the first time.

Digital subscriptions are now not just the company's fastest growing and most important revenue stream, but also well on the way to becoming our largest. That's a milestone many years in the making and a testament to the enduring nature of our strategy.

Since this is the first conversation I am leading with you, I am going to take a few minutes to reiterate our strategy and to share my view of our long-term opportunity. I'll also try and put that all in the context of this historic news moment.

Now you've heard us talk for some time about an addressable market of 100 million curious people worldwide who are likely to pay for the type of English language journalism The Times produces. We increasingly believe the market is at least that large, there are nearly a billion people around the world who read news digitally and more than 80 million who pay for news today.

It's easy to assume that more will do so in the future as people get more comfortable paying for digital subscriptions generally and as the supply of advertising-first alternative continues to face pressure. So we're confident that the market is there and also in our ability to penetrate a large portion of it.

Our model creates a virtuous cycle, a large newsroom made up of the world's best journalists, a widely recognized and trusted brand and a differentiated digital product enable us to attract and retain more subscribers. The larger our subscriber base becomes, the more we can invest in our journalism and standalone products and the more we can spread our fixed cost across a wider base of users.

That means strong unit economics that improve as we scale with further contributions from advertising, licensing and affiliate fees.

Now given that we are in the midst of a historic and, thus far, inconclusive election, I want to talk for a few minutes about our journalism and how its differential value fuels our strategy. Let me first say how proud I am of our newsroom and of the manner in which they are covering this election. They've reported deeply on the candidates, chronicled the key issues facing the country, illuminated the views and experiences of voters and they're tracking the race itself.

If you spent the last few days immersed in our App, You Are Not Alone, yesterday, our coverage brought 120 million readers to The Times and more than 75 million came the day before and they are coming not just to read, but also to experience live coverage in text, multimedia, interactive graphics and audio.

At the same time that we have reporters covering the election on the ground across the country, we've deployed a vast number of journalists to also report on the still surging pandemic. That effort continues to yield one of the most comprehensive datasets available to understand the virus' spread and in particular, its exacerbation of underlying inequality.

And while much of the world's attention remains focused on politics and the pandemic, The Times has worked to keep other important issues in the public consciousness, from hunger in America, which made up the entirety of a recent issue of our Sunday Magazine to the ongoing conflict between Armenia and Azerbaijan.

This journalistic range plays an important role in our business, which brings me to one of the biggest questions I hear from many of you. What do we believe happens to the business if or when the news cycle changes?

First, let me say, it's hard to imagine that we're entering a quieter period for news anytime soon nor do we expect a change of pace in the fundamental issues that demand understanding from technology reshaping our lives to racial and wealth inequality, to the rise of China and the effects of climate change.

People will continue to turn to The Times for understanding when things feel less certain. We are also not reliant on any single story or topic to drive our growth. In fact, the breadth of our core news report is both a differentiator and a driver of our business. Our App this week offered both the best real-time view of the election and the virus and also a guide for how best to distract oneself from both.

Our user data tells us that each additional topic that someone engages with increases their likelihood of subscribing by 50% and while politics is an important topic for our readers, around 80% go beyond politics to read other subjects each week.

We've also begun to prove that The Times has a bigger role to play in people's lives, games and cooking together have nearly 1.4 million subscriptions and we'll continue to invest significantly in those products and other efforts like Wirecutter and audio. And it's also worth noting that over time, the model is becoming more resilient to big swings in the news cycle.

We saw that after the 2016 election, and we see it after other big news events, net subscription additions go up significantly and after they crest, they settle in at a higher point than before, in part, because with each passing quarter and year, we get steadily better at executing.

With that said, a lot of hard work remains in order to make the product and our underlying tech platforms match our ambitions and at least some of that will require additional investment. This has been an extraordinary year so far for net subscription additions.

We ended the third quarter with approximately 6.9 million total subscriptions and we crossed the 7 million mark already in the month of October, which means we've added more than 2 million digital subscriptions in the last year.

Although we have a lot of confidence in our ability to continue to grow, 2020 is an unprecedented year, and we don't expect to repeat its results. That said, we are well on our way to surpassing the $10 million goal we had initially targeted to hit by 2025.

Turning to advertising, our Digital results was down or slightly better than we expected. As we've told you for the last year or so, we've been steadily tilting the business back to the unique value of our media. Our first-party audience data used in privacy-forward ways has enabled pockets of growth in direct sold media and it's also now the foundation of a new thought leadership platform called Pivotal, which our Ad team launched during the quarter to help marketers consider their creative and brand strategies in the context of broad consumer insights.

Audio advertising has also been an area of continued resilience, driven by The Daily and in the third quarter, we entered into a multi-year augmented reality collaboration with Facebook and we also advanced our work with Verizon on 5G with the launch of our first 5G franchise from here.

As we said in previous quarters, the advertising business continues to be important to the company's economics, but we do not expect it to be a significant driver of growth in the near-term.

Before I hand it off to Roland, I want to take a moment to thank my Times colleagues, working across news and business. I've told you what makes us confident in our strategy, but I'd be remiss if I didn't say that our ability to execute that strategy lies in the talent, passion, and commitment of the 4,600 plus Times people who've been working tirelessly in unprecedented circumstances.

I couldn't be prouder of how they've shown up for the mission for our business and for one another in this intense year.

Over to you, Roland.

Roland Caputo

Thank you, Meredith, and good morning. As Meredith said, we remain pleased with the progress we are making as we continue to execute against our strategy and Q3 was yet another strong quarter for the company.

Adjusted diluted earnings per share was $0.22 in the quarter, $0.10 higher than the prior year. We reported adjusted operating profit of approximately $57 million, which is approximately $13 million higher than the same period in 2019.

We added 275,000 net new subscriptions to our core digital news products and 118,000 net new subscriptions to our standalone digital products for a total of 393,000 net new digital-only subscriptions. Each of these figures represents the highest third quarter net add numbers ever. Those net adds brought us to over six million digital-only subscriptions at the end of the quarter including 775,000 Games subscriptions and nearly 600,000 Cooking subscriptions.

We made two significant changes to our model from the prior two quarters. We restored the paywall to the vast majority of the site, leaving only the most critical coronavirus coverage outside of it and we returned to our normal promotional cadence of $2 per week during non-sale periods and $1 per week when on sale.

Total subscription revenues increased approximately 12.5% in the quarter with digital-only subscription revenue growing 34% to $155 million, making Q3 the first full quarter that digital-only subscription revenue exceeded Print subscription revenue. The acceleration in the rate of sequential quarterly digital subscription revenue growth from 30% in the second quarter to 34% in the third quarter is largely a result of three factors.

First, the number of new subscriptions we added in the past year; second, ongoing strength in retention of the dollar per week promotional subscriptions who have graduated the higher prices; and finally, the positive impact from our first-ever digital subscription price increase, which began late in the first quarter.

Digital news subscription ARPU for the quarter declined approximately 11%, compared with the prior year and approximately 3%, compared to the prior quarter, largely consistent with the quarterly rates of decline we reported for the last year.

The newly acquired subscriptions, mostly on the dollar per week promotion domestically and a deeper promotional rates in many areas outside of the U.S. continued to more than offset the benefits from both subscriptions graduating from the introductory promotion, as well as from price increases on our more tenured full price subscriptions.

ARPU related solely to domestic new subscriptions declined close to 9% versus the prior year and 3% versus the prior quarter. Our digital pricing strategy is yielding strong results and we expect this to continue over time. This strategy utilizes the dollar per week year-long introductory price point to stimulate demand and increase conversion among more casual readers whose willingness to pay is initially lower.

At the conclusion of the promotional period, these subscribers moved to one of two higher price points, either full price or in cases where data suggests their willingness to pay remains lower, a midpoint increase before moving to a full price at the end of the second year.

As we said in the past, the dollar per week subscriptions continue to retain at nearly the identical rates as our historical 50% off promotion now more than 25 months after introduction. Our digital pricing strategy also includes a price increase for our most tenured subscriptions.

In September, we resumed rolling out this price increase on our most engaged and tenured subscribers who garner the most value from the product and whose willingness to pay is highest. Churn on the initial 690,000 long-tenured subscriptions who received the rate increase earlier this year has been significantly lower than we expected and has generated more than $11 million in incremental revenue for the company through the third quarter, almost all of which falls directly to the bottom-line.

Given the price increase on our tenured digital subscriptions and the impact from subscriptions graduating from discounted promotions, we should begin to see a slight moderation in the rate of ARPU decline in the fourth quarter.

As we look forward, we expect our digital pricing strategy to provide a tailwind to ARPU throughout 2021 as approximately 1.6 million digital new subscriptions graduate from $1 a week promotional discount. Additionally, we expect approximately 650,000 newly tenured subscriptions will see a price increase.

On the print subscription side, revenues were down nearly 4%, largely due to a decline in single copy and international bulk sales. Revenue from domestic home delivery print subscriptions grew 2.5% in the quarter as a home delivery price increase implemented early in the year more than offset year-over-year subscription declines.

Total daily circulation declined 16% in the quarter, compared with the prior year, while Sunday circulation declined 6.2%. The widespread business closures, increased remote working and reductions in travel as a result of the pandemic contributed approximately seven percentage points to The Daily copy decline and two percentage points to Sunday.

Total advertising revenues declined approximately 30% in the quarter as both digital and print were severely impacted by lower marketer demand during the pandemic. Digital advertising declined approximately 13% in the quarter, compared with the prior year. This result is somewhat better than the guidance we gave on our second quarter earnings call, largely as a result of higher levels of spending from our large deals with Verizon, Facebook, and Mastercard.

Print advertising declined approximately 47% with luxury, entertainment, media and home furnishing categories hit hardest. Other revenues declined approximately 2%, compared with the prior year to $47 million, primarily as a result of fewer television episodes, as well as lower revenues from commercial printing and live events.

These declines were partially offset by licensing revenue related to Facebook News and an increase in affiliate referral revenue from Wirecutter. Adjusted operating costs decreased nearly 4% in the quarter.

Cost of revenue also decreased approximately 4%, as lower print production and distribution costs and advertiser servicing costs more than offset higher digital content delivery and journalism costs. Sales and marketing costs decreased approximately 21%, largely driven by lower media spend and advertising sales costs.

Please note that we do not view third quarter marketing expense as representative of future spend given the special circumstances under which we were operating in the quarter. In fact, we've already begun restoring marketing spend to more normalized levels as we entered the fourth quarter. Product development cost increased by approximately 28%, largely due to growth in the number of engineers employed.

We plan to continue adding to headcount in this area over the next 12 to 18 months as we expect to continue to lean into our investments here and in our journalism to drive further growth. Our effective tax rate for the third quarter was 17.8%, which included tax benefit from stock price appreciation on stock-based awards that settled in the quarter.

On a going-forward basis, we continue to expect our tax rate to be approximately 26% on every dollar of marginal income we record with significant variability around the quarterly effective rate.

Moving to the balance sheet, our cash and marketable securities balance ended the quarter at $800 million, an increase of $43 million, compared with the second quarter. Company remains debt-free with a $250 million revolving line of credit available.

Consistently conservative approach we have taken in managing our balance sheet in tandem with the continued strong results produced by our subscription-first business provides the financial flexibility and confidence to continue pursuing our growth strategy even as we manage through the economic fallout of the COVID-19 crisis.

Subsequent to the quarter close, as part of our continued effort to reduce the size and volatility of our pension obligations, we entered into a transaction with an insurance company to transfer a portion of our future benefit obligations and annuity administration allowing us to reduce our overall qualified pension plan obligations by $235 million.

With this transaction, which was funded from planned assets, we expect to record a non-cash pension settlement charge of approximately $80 million to $85 million in the fourth quarter.

Let me conclude with our outlook for the fourth quarter of 2020, which is based on our current knowledge and assumptions and could be impacted by the evolving effects of the pandemic. Total subscription revenues are expected to increase approximately 14%, compared with the fourth quarter of 2019 with digital-only subscription revenue expected to increase approximately 35%.

Overall advertising revenues are expected to decrease approximately 30%, compared with the fourth quarter of 2019, and digital advertising revenues are expected to decrease in the mid-teens. Other revenues are expected to decrease approximately 15%, as a result of fewer television episodes and lower revenues from live events.

Both operating costs and adjusted operating costs are expected to be flat or decline in the low-single-digits compared with the fourth quarter of 2019, as we carefully manage non-essential spending, while continuing to invest in the drivers of digital subscription growth.

And with that, we'll be happy to open it up for questions.

Question-And-Answer Session

Operator

[Operator Instructions] The first question today comes from Thomas Yeh of Morgan Stanley. Please go ahead.

Thomas Yeh

Hi. Thanks and good morning. Meredith, you talked about in your prepared remarks the greater resilience of your subscriber base to slower news cycles and obviously, the news cycle is out of your control. What do you think are the key drivers heading into 2021 either in terms of more content or top of funnel or registered user conversion that could deliver the next leg of subscriber growth going forward?

Meredith Kopit Levien

Yes. Thanks. Good morning, Thomas and thanks for a good question. I'll say a couple things about that. The first one, something we've said before is, with every passing month and quarter, we are adding more registered users. So, the pool of people who we can then essentially engage and get to subscribe is growing.

So, I'd say, that's a really big driver and you should assume that the strong news cycle that we've essentially experienced all year means we're adding a lot of registered users and once they register, they're a lot more addressable to us. We have more opportunities to engage them directly and get them to the point of conversion.

I'll say a couple more words about some of the things I said in my prepared remarks. We know that subscribers who experienced The Times' breadth are much more likely to pay and stay. And so, we've got plenty of work under way to get people exposed to more breadth and we think that plays a really big role in the model. And then, I'll say we've gotten much better at – and with still sort of room ahead of us, at getting people to hit the regi well and hit the payroll.

So, we used to have sort of blunt instrument meter applied in the same way everywhere and now we run the meter in a much more customized way where we are able to account for the way someone comes to the site and based on those signals, based on signals of how they engage at the outset, we can do a better job of customizing when do we actually ask them to pay.

Some people may need – coming from one channel or another you may need to see more stories than someone else. So all of those things give us real confidence in the model going forward.

Thomas Yeh

Thanks. That's helpful. And then, maybe another one for me. As your subscriber growth base has grown over the past year, could you talk a little bit about how the demographic audience has evolved on the core news product in the U.S.? And there have been some reports about competitor efforts to kind of broaden out their younger – to get to an younger audience and would love to hear some color on what success you've been able to achieve on that front?

Meredith Kopit Levien

Yes. I would say, all year long, we've been saying a version of the same thing, which probably goes back to high news periods over the last several years. The audience tends to be younger that we're bringing in than prior cohorts of starts.

In this particular quarter, we had a higher number of people under 40. So, as we add a lot of net adds in a quarter and as we see these spikes in the news, we are just reaching to the outer edges of our propensity cycle and we've got a number of reasons for that.

The Daily has become a very significant way that people engage with The Times. And The Daily's audience, I think, has a vast majority under – certainly under 50 and many, many, many people under 40. So that tends to bring in a younger audience of people who now have an affinity for The New York Times.

So I'd say news is probably the biggest change we're seeing in the past quarter, given the significance of the domestic story is obviously, the election, also the effects of the pandemic domestically. We also had a disproportionate number of starts coming from the United States versus internationally.

Thomas Yeh

Great. Thank you so much.

Operator

The next question is from John Belton of Evercore ISI. Please go ahead.

John Belton

Hi. Thank you. I'll stay on the topic of subscribers. So, I think, Meredith, you said in your remarks that historically, the pattern you've seen is after big periods of subscriber growth you've been able to settle at higher rates of net additions in the future. Is this – so, if I take that comment, do you think, news cycle aside, could you add more subscribers in, say, 2021 than you added in 2019? And then, I have a follow-up.

Meredith Kopit Levien

So, I also said in my prepared remarks that, I think, in many ways 2020 is an outlier year. So, I don't think you should expect us to get to the same place where we're getting in 2020 given the extraordinary nature of the news cycle. That said, we are very optimistic that we can continue to grow the model in subs.

And I'll go back to the answer that I gave Thomas a minute ago, which is, with every passing day, week, month, we are adding many, many more registered users and those registered users are a new pool from which we can drive subscription, and registered users convert at a substantially higher rate than anonymous users.

So, that's a big part of why our expectation is, even if and as the new cycle changes, and audience comes down to some degree, you've got a pool of people right there who are easier to convert than anonymous users. So, I think you should expect to see real growth. But I think this particular news cycle is an extraordinary one and I don't think it will repeat exactly as it did this year.

John Belton

And I guess, the follow-up would be, what about this new cycle? What about the subscribers you've added over the last several months makes it different? Is there anything in terms of engagement or churn characteristics that you are seeing on those recent cohorts that's different than before?

Meredith Kopit Levien

Yes. Those are both good questions. Let me actually address churn in that, because I think that, as the base gets larger, that's even more important. Roland and I have both said over the last few years that churn has been a great story and one we probably haven't said enough.

Even as we are scaling the base of subscribers, we've been able to hold churn within a sort of limited range, but we've been able to keep churn stable, which I think is a very big achievement and we're able to do that because with every passing quarter, we get better at two things, the sort of mechanical aspects of churn, how do you keep people through the step-up moment, how do you actually deal with the - like very straightforward commercial parts of it.

But far more importantly, we're just able to engage them better, right? So we're getting people to use the product, getting people to form a daily habit with the product. We get better and better at that as we go. And then, it's worth saying because I think this is also in your question, it's worth saying that the cohorts of people who come in around, particularly big news events, tend to retain even better, at least as well, if not even better.

So, for example, we've tracked really closely the original surge cohort around the 2016 election in early 2017. That was an extraordinarily high retaining cohort and we are now, what, 7.5 months into the global pandemic driving the news cycle and that cohort is also retaining at a really high level. So, we're optimistic that you come in on the peak news event and that has a relationship to the affinity you then have for the brand, and we are also optimistic about our technical ability to get better and better at engaging people.

John Belton

Got you. That's helpful. Thanks. I also want to just mention, I loved following the upshot needle the other night. That was quite a good tool.

Meredith Kopit Levien

Great. Happy to hear you say that and props to Nate Cohen and the whole team who have really worked tirelessly on all of that. Thank you.

John Belton

Thanks.

Operator

The next question comes from Alexia Quadrani of JPMorgan. Please go ahead.

Alexia Quadrani

Thank you, so much. I just wanted to follow-up, I think, on a comment you made in your opening remarks about pulling back a bit on the $1 a week, meaning having more of a mix of the $1 a week or the $2 a week. One, did I hear that correct? And then, if so, what is your thought process behind maybe becoming a little less promotional, if that's what I am reading into during this period? And then I have a follow-up.

Meredith Kopit Levien

Yes. Good morning, Alexia. On $1 a week, I think Roland mentioned that, in the quarter, we did go back to our $1 a week only on sale periods. What I'll say is, that's an instrument that's really working for us and particularly the promotional pricing and particularly in very big news moments. We think it helps us reach to the outer edges of our propensity circle and I got asked the question earlier about how the demo has changed.

We are reaching more and more younger people, and I think that promotional price plays a role in it. It's also worth saying, and Roland said this in his prepared remarks, we are getting more confident with each passing quarter about our ability to step people up effectively and so, as we do that, our algorithms are getting better on how to step up.

Our mechanics of when we ask, and how we sort of monitor engagement and when we do and when we make the App, all of that is improving. So what I would say is, we're going to continue to use the promotional price where we see an opportunity to really scale the base in a moment of intensity in the news cycle or otherwise. And we are confident that we can step those folks up as we go.

Roland Caputo

Hey, Alexia, I just want to maybe add a little bit of detail here. So, what you may recall is that, in Q2, we had open access, because of the coronavirus. And when we did that, we also as a little bit of a counter to that, we remained on sale all days of the quarter, that is very atypical for us. We typically have a cadence where we're on sale at certain points and we're not on sale at other points.

And what my point is, is that, we've gone back to our normal cadence. So Q2 was an outlier in terms of having it always on. Prior to Q2, we did not and we've just gone back to our normal cadence.

Alexia Quadrani

Okay. That's very helpful. And then, just my second question is on the margin expansion. I know further out 2021 or when do we start seeing it really hit? I am curious if you can elaborate really on the thought of how you see that being driven. Is it really largely a reduction in this tightened investment spending you guys have been in the middle of for a few years? Or do we expect to see some natural sort of leverage in the business that I know you guys have talked about for a while.

Meredith Kopit Levien

Yes. I'll take that, and Roland can add as he sees fit. I would say, within our core news product, we're reaching a scale where we're starting to see operating leverage and improvement. I will caution you that we still have a print product in decline and I'll say we don't rule out investing into this very significant opportunity in front of us for the kind of once-in-a-generation opportunity.

And we have a lot of ambition around what we want to accomplish. So, we don't rule out further investment. But we are reaching a scale in the core news product where we're starting to see it improve.

Alexia Quadrani

Thank you.

Operator

The next question is from Doug Arthur of Huber Research Partners. Please go ahead.

Doug Arthur

Yes. Thanks. Just wanted to sort of explore the sequential change in digital news adds. I mean, typically, the third quarter is a seasonal uptick for you. You get back to college contracts kicking in. I think there is probably people going away for the summer in adding digital subs while they're away. So, I mean, obviously, you front ran a lot of strength in Q1 and Q2. Was there anything unusual about this third quarter that kind of caused a drop-off in ads this quarter?

Meredith Kopit Levien

Hi, there. I think the unusual thing to consider the outlier is really Q1 and Q2. And I would say, Q3 represents a step function increase over last year and every other Q3. And if you annualize the number from this past quarter, that's a pretty decent number and that reflects the kind of step function improvement in the business that I highlighted in my prepared remarks and in an answer to some of these questions.

And I'll just – like the sort of coronavirus story at its peak, which was mostly in the end of the first quarter and then throughout the second quarter. I would consider that an outlier even to a news cycle that we think will continue to be strong.

Doug Arthur

And on the digital advertising, you were guiding down 20%, you came down – you were down 12.6% or so, so better. Are you seeing – and obviously, you cited some big projects you did - are you seeing a little bit of light at the end of the tunnel there in terms of going into 2021?

Meredith Kopit Levien

I'll say that there – I touched each of these briefly in my prepared remarks that there is three things that are working well in advertising and proving to be quite resilient. One is the first-party data strategy. So essentially, selling our high margin media with superior ability for marketers to target audiences in privacy-forward ways using our first-party data.

There seems to be real demand for that. That is an area that we'll continue to focus on. And I think, over time, will be a really important driver of the ad business and gave us some resilience within certain categories and sort of pockets in the third quarter. We're still doing big partnerships. So I talked about two that one new one with Facebook that launched in the quarter and then an expansion of the Verizon partnership.

So that will continue to be a driver. And then, I mentioned audio, and what I would say on audio is that's a place where we think there is going to be real demand at high CPM for some time to come, and our product set is expanding and it's expanding because The Daily keeps expanding, the audience keeps growing, and it's a media product as the audience grows, there is more high CPM advertising to sell.

And obviously, we acquired Serial Productions and have a multiyear partnership now into – with the rights to This American Life. And that's obviously coming online next year. And then a number of other shows launching. So, I think audio will be something to watch in our ad business for some time to come.

Doug Arthur

Great. Thank you.

Meredith Kopit Levien

You are welcome.

Operator

The next question comes from Vasily Karasyov of Cannonball Research. Please go ahead.

Vasily Karasyov

Thank you. Meredith, I wanted to go back to a question that you were answering a little bit – a little earlier today about the level of net adds. Do you think 2019 level of net adds is sustainable or reachable for you? So that's number one. And number two, I think you touched on it, but I wonder if you could talk a little more details. Do you think the fact that the schools are not open is a big headwind in Q3 for net adds?

Meredith Kopit Levien

So, on the first question, let me – I think you're essentially my – the shortest answer I can give you, we don't give forward-looking guidance. But the - I've already suggested that when there is a peak moment in net adds, we settle in at a higher place than where we come off, but we settle in at a higher place than before.

And I've shared in my prepared remarks, all the reasons we continue to feel optimistic that we can grow net adds if you essentially assume 2020 has been an outlier. And on your second question, I think you are asking – say that one more time, just did schools closing...

Vasily Karasyov

Yes. The fact that it's an unusual quarter in terms of going back to schools, colleges, all that kind of stuff. Do you think that was a headwind for net adds in Q3 for you?

Meredith Kopit Levien

I don't think so. I don't think so. And again, I gave this answer before, but Q3 annualized, we'd be very happy with that result and it's a step function increase over every other Q3 that we've had.

Vasily Karasyov

All right. Thank you very much. Have a good day.

Meredith Kopit Levien

You, too.

Operator

The next question is from Craig Huber of Huber Research Partners. Please go ahead.

Craig Huber

Yes. Thank you. Meredith, maybe you could first just talk a little bit further about the size of the newsroom, if you could size that for me, please. I assume it hasn't changed much this year, but maybe just talk a little bit about further. Are you planning on investing, meaning add headcount in a fairly material way next year? What's the game plan there, please?

Meredith Kopit Levien

So I would say – and Roland and I have said this for some time, we are going to continue to invest in the newsroom. That is central, the differential value of the journalism is central to the strategy. So we will continue to invest there. We've also said in the past that, that investment – so we still grow the newsroom, but that investment does not have to scale with the opportunity.

So, we can add journalists and add subscribers at a higher rate, right? The other thing I would say is, the – nothing drives a model more than the things that I cited in my prepared remarks, which are the range of our journalism, the breadth of the report and the differential value we're able to produce with it. So you should assume we'll keep investing. But again, not at the same scale that we expect to get results from the model.

Craig Huber

And then also, can you size for us – you kept talking about in a good way the number of registered users are very happy with that number. But what – how many millions is that right now, the registered users?

Meredith Kopit Levien

We have not and are not prepared to share that number publicly. What I can tell you is, we're adding millions of registered users every quarter and registered users convert at a higher rate, substantially higher rate, than anonymous users. And what's remarkable about it, it shouldn't be remarkable, but it's been satisfying to see that that's not just an in the moment opportunity. Two, three, five months after they register, they are still more likely to convert than an anonymous user.

Craig Huber

And then my final question, maybe if you could just touch on your podcast product, The Daily. Maybe size that for us number of users, and what sort of the game plan going forward. And also, how helpful is that product to helping to drive folks to sign up for your news-only product?

Meredith Kopit Levien

Yes. Great, great question. I would say, The Daily is very helpful to a number of things. It's helpful to driving affinity to the brand. We – it's harder to track directly how it drops people into the core news subscription funnel.

But we have every reason to believe it does, given how our results have improved with – in the four years now that we've had The Daily. We also know that the ads that we run on The Daily are our own journalists talking about the work that they do, are quite performative. So, even just The Daily, the program drives affinity. The ads within it drives – do drop people in the – as best as we can tell do drop people into the funnel.

And then I would say, it remains, and I said this in my prepared remarks, a very strong ad business, and we think it will continue to be a growing ad business. I think you asked me about where audience is. I may get a correction on this from Roland, but I think we're close to 4 million users a day.

So huge audience and the thing that's remarkable to me about The Daily's audience is that's like almost twice as large as the paper was at its peak and it's only four years old and it's got an audience with the vast majority, much younger than, say, the traditional audience of the newspaper, The New York Times.

So, I'll say one more thing, which is The Daily has also proved to be a distribution mechanism for other audio products from The Times. We are really excited about that. So we can – the speed of The Daily as a way to launch new things into the world, and we think that's going to have real value, both to the ad business and the subs business over time.

Roland Caputo

Just one maybe add even a little more context to that four million daily downloads number. That's more than two times what it was a year ago. So the growth is still exploding there as far as audience is concerned.

Meredith Kopit Levien

That's right. It's also a highly, highly engaged audience. I think most people listen four or five times a week which is amazing.

Roland Caputo

Great. Thank you both.

Meredith Kopit Levien

Thank you.

Operator

The next question comes from Kannan Venkateshwar of Barclays. Please go ahead.

Kannan Venkateshwar

Thank you. So, Roland, on the ARPU front, when we look at next year, you mentioned in your prepared remarks that there are 1.6 million subs who are rolling off of promos and this year, you've had a much higher proportion of gross additions because of the news cycle and so on and so forth. So as you head into next year, from an ARPU perspective, that would suggest a significant pickup or a significant change in trajectory for ARPUs.

So, I just want to make sure I read that correctly and if that assumption is correct that versus the double-digit decline you've seen this year, you probably should be heading using that 1.6 million number somewhere in the mid-single-digit decline range for next year.

And secondly, on the cost front, one of the big tailwinds this year has been the reduced marketing spend and I think Meredith mentioned this in her prepared remarks that it's going to normalize when the environment normalizes. What's the normal level of marketing spend? Maybe if you could help us understand that as a proportion of revenues? Or maybe some other normalization metrics? Thanks.

Roland Caputo

So Kannan, on the ARPU question, directionally, you're correct. So, as I described our pricing strategy, if you couple that with the large number of new additions we've had over the last year, you get – you understand that those folks will be transitioned to higher prices next year, I cited 1.6 million. So that's an awful lot of folks who will be stepping up in price. And we'll also have some folks who hit the – they pass through the tenured gate and we'll get their $2 increase.

So, when you combine those two things, we think that certainly ARPU decline will slow down and potentially could start – will stabilize and could potentially start to head north. And again, that will be somewhat contingent on how many new subs we bring in next year. But we feel like, definitely have a good tailwind from our pricing strategy, from our step-up strategy. And that's going to firm things up on the ARPU front next year.

As far as your cost question, I don't have an exact number or metric I can give you on the marketing spend. I can say that we've already started to restore that. I would say if you wanted to in general, we think we would invest in marketing as in our other two areas, but at a much more modest rate than we will in product, and we will in journalism and what you're seeing in product in journalism.

But certainly get to levels that we've spent in the recent past, over the last two quarters, basically, you should ignore as far as indicating our level of spend in the future. We still believe there is good money to be spent, both in brand and direct marketing and you'll see us doing just that.

Kannan Venkateshwar

Got it. I guess, if I could just follow-up on that with a margin question, which is, you have a better ARPU trajectory, but costs potentially step up next year, compared to this year. So when we look at EBITDA margins going into next year, I mean, should they be significantly better, worse, or roughly comparable? I mean, obviously, you don't give forward guidance. But directionally, if you could help us think about where margins could be headed for next year? That would be useful.

Roland Caputo

Right. So, we don't guide that far advance and we don't guide on that metric. But what I can say is, the core part of the business, the core digital subscription business, we're seeing good leverage there. So we'll put some more money in there. But we'll get more money out of that than we're putting in.

But I think Meredith mentioned before, the Print business aside, I mean, we still reserve the right to make discrete investment where we see the ability to further accelerate our growth, and that may not come in the core of the business and they come in the form of our standalone businesses. So, I don't want to give a specific number there.

But again, as the business matures, as the scale improves, we're seeing better and better leverage from the core of the business and it's really going to really turn on how much opportunity we see elsewhere and what level of spending is there. But core of the business, big part of the business, we're going to see the margin expansion there.

Kannan Venkateshwar

Good. Sorry, one last question, if I could. On the balance sheet front, you are sitting on a huge amount of cash. And given the growth this year and the improvement in ARPUs next year and so on, you seem to be getting to a cycle where you have a lot more visibility into your underlying trend lines. So, Meredith, in your seat now as CEO, and Roland, from your perspective, as well, does this make you think more expansively about how to deploy that capital either towards capital returns or maybe something else from your perspective?

Meredith Kopit Levien

Yes. I mean I'll give you a broad answer, which is to say, we see a really big opportunity. We're thinking very hard about the best way to seize that opportunity and we're not afraid to use the balance sheet to invest where we think that's going to make sense for the long-term value of the company. And you saw us do that with serial productions and autumn in the last quarter.

And I would say, Roland and I have talked for some time about continued investment in journalism, continued investment in our digital product and underlying tech. And then, in marketing, to the extent that – and we both just mentioned, we're thinking very hard about the opportunity with our standalone products. So to the extent that it makes sense to the balance sheet to seize that opportunity faster or more effectively or in a way that's going to be more accretive to the business, we'll do it.

Kannan Venkateshwar

Got it. Thank you so much.

Operator

This concludes our question and answer session. I would like to turn the conference back over to Harlan Toplitzky for any closing remarks.

Harlan Toplitzky

Thank you for joining us this morning. We look forward to talking to you again next quarter.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.